

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

INDUSTRIAL BUILDINGS CORPORATION LTD.

We have audited the accompanying consolidated financial statements of Industrial Buildings Corporation Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 25.2% and 25.4% of total consolidated assets as of December 31, 2006 and 2005, respectively, and whose revenues constitute approximately 56.8%, and 42.7% of total consolidated revenues for the years ended December 31, 2006 and 2005, respectively. Furthermore we did not audit the financial statements of a certain affiliate, the investment in which, at equity, amounted to NIS 102 thousand as of December 31, 2006 and the Company's share in its earnings amounted to NIS 37 thousand for the year then ended. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained, together with the reports of the other auditors, are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2006 and 2005, and of its financial performance and its cash flows for each of the two years in the period ended December 31, 2006, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 27, 2007

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

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>	
		<u>2006</u>	<u>2005</u>
<u>NIS in thousands</u>			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	532,674	120,614
Short-term investments	5	260,975	106,350
Trade receivables	6	61,346	42,873
Other accounts receivable	7	143,773	142,736
Inventories of buildings and apartments for sale	8	483,430	500,541
		<u>1,482,198</u>	<u>913,114</u>
NON-CURRENT ASSETS:			
Assets in respect of employee benefits		3,216	3,950
Long-term deposits and receivables	9	1,107,583	869,256
Advances on account of investments		4,198	85,958
Investments in affiliates	10	433,703	65
Inventories of land		125,512	120,136
Investment property	11	6,537,420	6,423,492
Fixed assets, net	12	7,907	7,886
Other assets, net	13	598	882
Deferred taxes	26d	24,664	4,305
		<u>8,244,801</u>	<u>7,515,930</u>
		<u>9,726,999</u>	<u>8,429,044</u>

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

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED BALANCE SHEETS

	<u>Note</u>	<u>December 31,</u>	
		<u>2006</u>	<u>2005</u>
<u>NIS in thousands</u>			
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	14	1,927,930	982,450
Trade payables	15	87,519	65,579
Other accounts payable	16	288,534	245,444
		<u>2,303,983</u>	<u>1,293,473</u>
LONG-TERM LIABILITIES:			
Loans from banks	17a, b	1,546,142	1,761,970
Other long-term liabilities	17c, d	387,484	437,523
Tenants' deposits	18	28,835	29,475
Debentures	19	2,108,834	1,937,515
Convertible debentures	19	196,412	249,435
Liabilities in respect of employee benefits	20	5,106	5,841
Deferred taxes	26d	648,709	607,084
		<u>4,921,522</u>	<u>5,028,843</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	28	1,006,663	1,005,976
Share premium		5,987	-
Retained earnings		1,331,320	943,116
Capital reserves		126,991	126,991
Capital reserve in respect of available-for-sale financial assets		3,352	(8,543)
<u>Total</u> equity attributable to equity holders of the parent		<u>2,474,313</u>	<u>2,067,540</u>
Minority interests		<u>27,181</u>	<u>39,188</u>
<u>Total</u> equity		<u>2,501,494</u>	<u>2,106,728</u>
		<u>9,726,999</u>	<u>8,429,044</u>

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

March 27, 2007			
Date of approval of the financial statements	Eliezer Fishman Chairman of the Board of Directors and Acting CEO	Ronit Enen Director	Ilan Giffman CFO

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31,	
		2006	2005
NIS in thousands (except per share amounts)			
Revenues:			
Rental income		505,744	465,053
Revenues from management fees		85,677	88,436
Revenues from sale of apartments and commercial spaces		205,085	14,270
Revenues from building management fees and development of infrastructures		6,449	6,719
<u>Total revenues</u>		802,955	574,478
Cost of maintenance and management costs	25a	186,462	181,781
Cost of apartments and commercial spaces sold		152,798	13,935
Cost of management of buildings and development of infrastructures		4,405	4,422
Gross profit		459,290	374,340
Increase in fair value of investment property		188,248	228,316
Selling and marketing expenses		13,717	5,497
General and administrative expenses	25b	65,316	42,083
Operating income		568,505	555,076
Financial expenses	25c	322,721	283,715
Financial income	25c	56,856	64,749
Other income, net	25d	302,640	336,110
		306,383	1,397
Income before taxes on income		609,023	337,507
Taxes on income (tax benefit)	26c	104,457	(7,119)
Income after taxes on income		504,566	344,626
Equity in earnings (losses) of affiliates		(1,783)	18
Net income		502,783	344,644
Attributable to:			
Equity holders of the parent		513,204	333,183
Minority interests		(10,421)	11,461
		502,783	344,644
Net earnings per share attributable to ordinary equity holders of the parent (in NIS):	29		
Basic net earnings		1.62	1.11
Diluted net earnings		1.52	1.08

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					Total	Minority interests	Total equity
	Issued capital	Share premium	Retained earnings	Capital reserves	Capital reserve in respect of available-for-sale financial assets			
	NIS in thousands							
Balance as of January 1, 2005	1,005,976	-	649,933	126,991	(8,329)	1,774,571	20,463	1,795,034
Loss in respect of available-for-sale financial assets, net				-	(214)	(214)	-	(214)
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	-	7,264	7,264
Total net income (loss) recognized directly in equity	-	-	-	-	(214)	(214)	7,264	7,050
Net income	-	-	333,183	-	-	333,183	11,461	344,644
Total net income	-	-	333,183	-	(214)	332,969	18,725	351,694
Dividend paid	-	-	(40,000)	-	-	(40,000)	-	(40,000)
Balance as of December 31, 2005	1,005,976	-	943,116	126,991	(8,543)	2,067,540	39,188	2,106,728
Gain in respect of available-for-sale financial assets, net	-	-	-	-	11,895	11,895	-	11,895
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	-	(2,961)	(2,961)
Total net income (loss) recognized directly in equity	-	-	-	-	11,895	11,895	(2,961)	8,934
Net income	-	-	513,204	-	-	513,204	(10,421)	502,783
Total net income	-	-	513,204	-	11,895	525,099	(13,382)	511,717
Issuance of share capital	687	5,987	-	-	-	6,674	-	6,674
Dividend paid	-	-	(125,000)	-	-	125,000	-	(125,000)
Acquisition of minority interest	-	-	-	-	-	-	4,954	4,954
Dividend paid to minority	-	-	-	-	-	-	(3,579)	(3,579)
Balance as of December 31, 2006	<u>1,006,663</u>	<u>5,987</u>	<u>1,331,320</u>	<u>126,991</u>	<u>3,352</u>	<u>2,474,313</u>	<u>27,181</u>	<u>2,501,494</u>

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

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
	NIS in thousands	
<u>Cash flows from operating activities:</u>		
Net income	502,783	344,644
Adjustments to reconcile net income to net cash provided by operating activities (a)	(400,218)	(277,637)
Net cash provided by operating activities	<u>102,565</u>	<u>67,007</u>
<u>Cash flows from investing activities:</u>		
Purchase of investment property	(621,583)	(526,850)
Proceeds from realization of investment in previously consolidated subsidiaries (e)	(9,881)	-
Purchase of fixed assets	(1,019)	(1,106)
Investment in long-term deposits	(265,461)	(765,000)
Proceeds from sale (purchase) of short-term investments, net	(147,223)	112,898
Proceeds from sale of investment property	572,938	72,169
Proceeds from sale of fixed assets	10	-
Investment in inventory of land	(74,983)	(121,269)
Advance on account of investment	2,353	(85,958)
Long-term debts	(31,362)	(8,506)
Acquisition of minority shares in subsidiary	(509)	(19,092)
Repayment of long-term debts	26,328	-
Acquisition of newly consolidated subsidiaries (b)	-	(57,526)
Investment in affiliates	-	(47)
Investment in companies previously consolidated by the proportionate consolidation method (c)	(869)	-
Investment in company proportionately consolidated for the first time (d)	(21,924)	-
Net cash used in investing activities	<u>(573,185)</u>	<u>(1,400,287)</u>
<u>Cash flows from financing activities:</u>		
Short-term credit from banks and others, net	831,717	(153,330)
Deposits from tenants, net	(471)	(4,084)
Dividend paid	(125,000)	(40,000)
Receipt of long-term loans from banks	132,690	893,341
Repayment of long-term loans from banks	(192,635)	(227,120)
Receipt of other long-term liabilities, net	39,316	18,780
Repayment of other long-term liabilities, net	(87,261)	(66,016)
Issuance of debentures, net	496,214	784,848
Redemption of debentures	(207,543)	(69,023)
Dividend paid to minority	(3,579)	-
Issuance of share capital to minority	-	2,481
Net cash provided by financing activities	<u>883,448</u>	<u>1,139,877</u>
Translation differences for cash balances of foreign operations	<u>(768)</u>	<u>417</u>
Increase (decrease) in cash and cash equivalents	412,060	(192,986)
Cash and cash equivalents at the beginning of the year	<u>120,614</u>	<u>313,600</u>
Cash and cash equivalents at the end of the year	<u><u>532,674</u></u>	<u><u>120,614</u></u>

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

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
	NIS in thousands	
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>		
Income and expenses not involving cash flows:		
Equity in losses (earnings) of affiliates	1,783	(18)
Gain from decrease in holding rate in affiliate	(303,651)	-
Deferred taxes, net	20,022	(31,876)
Loss (gain) from shore-term investments, net	2,201	(12,845)
Change in liabilities in respect of employee benefits, net	(48)	(480)
Increase in fair value of investment property	(188,248)	(228,316)
Depreciation and amortization	7,429	1,462
Revaluation of long-term loans and debentures	2,593	83,283
Erosion (revaluation) of long-term receivables and bank deposits	2,665	(19,056)
Gain from early redemption of debentures	-	(321)
	(455,254)	(208,167)
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(19,870)	2,997
Decrease (increase) in other accounts receivable and long-term receivables	38,944	(27,774)
Increase in inventories of buildings and apartments for sale less customer advances	(21,530)	(69,145)
Increase in trade payables	16,934	27,071
Increase (decrease) in other accounts payable	40,558	(2,619)
	55,036	(69,470)
	(400,218)	(277,637)
(b) <u>Investment in newly consolidated companies:</u>		
Assets and liabilities of the subsidiaries at date of acquisition:		
Working capital (excluding cash and cash equivalents)	-	39,536
Investment property	-	(99,823)
Long-term liabilities	-	2,761
	-	(57,526)

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

INDUSTRIAL BUILDINGS CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
	NIS in thousands	
(c) <u>Investment in companies previously consolidated by the proportionate consolidation method:</u>		
The jointly controlled entities' assets and liabilities at date of acquisition:		
Working capital (excluding cash and cash equivalents)	(1,311)	-
Fixed assets, net	(235)	-
Long-term liabilities	677	-
	(869)	-
(d) <u>Investment in company proportionately consolidated for the first time:</u>		
The jointly controlled entity's assets and liabilities:		
Working capital (excluding cash and cash equivalents)	(14,982)	-
Investment property	(22,241)	-
Long-term liabilities	15,299	-
	(21,924)	-
(e) <u>Realization of investment in company previously consolidated by the proportionate consolidation method:</u>		
The jointly controlled entity's assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	(136,943)	-
Long-term receivables	8,288	-
Fixed assets, net	210,893	-
Long-term liabilities	(73,969)	-
Investment account in affiliate	(18,150)	-
	(9,881)	-
(f) <u>Significant non-cash transaction:</u>		
Sale of fixed assets on credit	8,239	10,878
(g) <u>Additional cash flow information:</u>		
Cash paid during the year for:		
Interest	296,505	230,048
Taxes on income	30,212	24,179
Cash received during the year for:		
Interest	43,746	12,121
Taxes on income	822	382

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Company description:

The Company is engaged mainly in initiating, constructing and purchasing buildings in Israel and abroad intended for rental and sale in the fields of industry, workshops, commerce, high-tech, offices and residence, as well as in providing management, planning and supervision services for development and infrastructure works used for housing and industry. In addition, the Company is engaged in initiating and marketing apartments as well as in managing and maintaining buildings used by tenants in the fields of commerce, industry, offices, high-tech and residence.

b. The Company is a publicly traded company whose shares have been listed for trade on the Tel Aviv Stock Exchange since May 1993.

c. The Company's consolidated financial statements as of December 31, 2006 have been approved for publication pursuant to the decision of the Board of Directors of March 27, 2007.

d. Definitions:

In these financial statements:

The Company - Industrial Buildings Corporation Ltd.

The parent company - Jerusalem Economic Corporation Ltd.

The Group - Industrial Buildings Corporation Ltd. and its investees.

Subsidiaries - Companies over which the Company exercises control (as defined in IAS 27) and whose accounts are consolidated with the financial statements of the Company.

Jointly controlled entities - Companies held by a number of entities, among which contractual agreement exists for joint control and whose financial statements are consolidated with the financial statements of the Company according to the proportionate consolidation method.

Affiliates - Companies over which the Company exercises material control, which are not subsidiaries and the Company's investment in which is recorded according to the equity method.

Investees - Subsidiaries, jointly controlled entities or affiliates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

- Related parties - As defined in IAS 24.
- Interested parties - As defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993.
- Controlling shareholders - As defined in the Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996.

e. Disclaimer for English version of Annual Report:

This document is an English translation of the Hebrew version of the company's financial statements (the "reports"). The Hebrew version of the report is the binding version and the only version having legal effect. The English translation has been created for the purpose of convenience only. The Hebrew version was approved by the Company board of directors only the English translation was not yet approved. The English translation was not published and has not been submitted to the Israeli securities authority for its review.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of reporting:

The consolidated financial statements have been prepared on a historical cost basis, except for investment property, land and buildings and financial instruments that have been measured at fair value.

Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS).
- b) International Accounting Standards (IAS).
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Furthermore, the financial statements are prepared in accordance with the disclosure requirements in the Securities Regulations (Preparation of Annual Financial Statements), 1993.

These financial statements are the Company's first financial statements prepared in accordance with IFRS. The Company has adopted IFRS for the first time in 2006. The date of the transition to IFRS reporting is January 1, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"). The Company's latest annual financial statements prepared in accordance with Israeli GAAP were as of December 31, 2005 and for the year then ended.

Basis of consolidation:

The consolidated financial statements include the accounts of companies over which the Company exercises control. Control is normally evidenced when the Company is able, directly and indirectly, to govern the financial and operating policies of an enterprise so as to benefit from its activities. In the examination of the existence of control, the effect of potential voting rights exercisable as of balance sheet date is taken into consideration. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Significant intercompany balances and transactions among the group companies have been eliminated in the consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

b. Critical accounting judgments and estimates:

The following are the principal assumptions in the financial statements regarding uncertainties as of balance sheet date and the critical judgments used by the Group in respect of which any material change might modify the cost of assets and liabilities in the coming reporting year:

1. Investment property:

Investment property is presented at fair value as of balance sheet date. Changes in fair value of investment property are carried to the income statement. Fair value is determined by independent outside appraisers based on economic evaluations that are also performed according to the revenue capitalization method. This method consists of estimating the value of the asset by discounting the expected flow of revenues over the economic useful life of the asset. This calculation involves making assumptions, among other things, as to the capitalization rates, the continued lease of the assets by the existing tenants, including during the option periods, and the occupancy rates in the different assets. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the estimated asset. The fair value of investment property as of December 31, 2006 amounted to approximately NIS 6,537 million (2005 - approximately NIS 6,423 million). Additional information is provided in Note 11.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Inventories of buildings and apartments for sale:

Inventories of buildings and apartments for sale are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price during the ordinary course of business less estimated completion and selling costs.

3. Deferred tax assets:

Deferred tax assets are recognized for unutilized carryforward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Group's losses for tax purposes as of December 31, 2006 amount to approximately NIS 65.7 million (2005 - NIS 23.5 million). Additional information is presented in Note 26.

4. Pensions and other post-employment benefits:

The liability in respect of defined post-employment benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 20.

c. Functional and foreign currencies:

1. Functional currency:

The financial statements are prepared in New Israeli Shekels ("NIS"), which is the Company's functional currency and best reflects the economic environment in which the Company operates and conducts its transactions.

The functional currency is separately determined for each investee, including an affiliate which is presented at equity, and is used to measure the investee's financial position and operating results.

When the investee's functional currency differs from that of the Company, the investee represents a foreign operation whose financial statements are translated in order to be included in the Company's financial statements as follows:

- a) Assets and liabilities in all balance sheets presented (including comparative data) are translated at the closing rate as of each balance sheet presented. Goodwill and all adjustments of the assets and liabilities' fair value to their carrying amount on the date of acquisition of the foreign operation are treated as the foreign operation's assets and liabilities and are translated at the closing rate at each balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- b) Income and expenses in all statements of income (including comparative data) are translated at the exchange rates at the dates of the transactions or at average exchange rates for the periods during which the transactions were made if such exchange rates approximate the actual exchange rates.
- c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing as of the date of incurrence.
- d) Retained earnings are translated based on the opening balance at the exchange rate as of that date and other relevant transactions during the period are translated as described in b) and c) above.
- e) All translation differences are recorded as a separate item in shareholders' equity ("foreign currency translation adjustments of foreign operations").

Inter-company loans in the Group which are not intended to be settled and which are not expected to be repaid in the foreseeable future and therefore essentially represent part of the investment in the foreign operation are treated as a portion of the investment and the exchange rate differences in respect of these loans are recorded in the same component of shareholders' equity, as discussed in e) above.

Exchange rate differences in respect of a loan in foreign currency representing a hedge of net investment in a foreign operation are carried net of taxes to the same shareholders' equity item, as discussed in e) above. Upon the sale of the net investment, these translation differences are carried to financial expenses or income.

2. Foreign currency transactions:

The financial statements are prepared in NIS (the functional currency), which best reflects the economic environment in which the Company operates.

Transactions in foreign currencies are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into NIS at the exchange rates prevailing at balance sheet date. Exchange rate differences are carried to the income statement. Non-monetary assets and liabilities are translated into NIS at the exchange rates prevailing on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the date fair value is determined.

d. Cash equivalents:

The Company considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

e. Short-term deposits:

Short-term bank deposits are deposits purchased with original maturities of more than three months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired customer debts are written off only after all reasonable collection efforts have been exhausted.

g. Inventories of buildings and apartments for sale:

Inventories of buildings and apartments for sale are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price during the ordinary course of business less estimated completion and selling costs.

h. Financial instruments:

The accounting treatment of investments in financial assets is based on their classification into one of the following groups:

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

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

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit and loss.

2. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Available-for-sale financial instruments:

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the income statement as dividends received when the right of payment has been established.

4. Fair value:

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

5. Interest-bearing loans and borrowings:

Loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

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

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit and loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

7. Hybrid financial instruments:

Issued convertible debentures that are unlinked and not denominated in foreign currency, which consist of an equity component in respect of conversion options and a liability component are split into the equity component (net of taxes) and the liability component and each component is presented separately (net of the respective transaction costs of each component). This split is calculated by determining the liability component based on the fair value of a similar liability without the conversion option. The value of the equity component is determined as the residual value and is measured as the difference between the total proceeds from the convertible debentures and the amount attributed to the liability component, as above. Direct transaction costs are allocated between the equity component (net of taxes) and the liability component based on the allocation of the consideration into equity and liability components as discussed above.

Convertible debentures that are linked to the Israeli Consumer Price Index consist of two components: the conversion component and the liability component. The conversion component is classified as a liability. The debenture is split into two liability components whereby the liability component is initially calculated upon recognition as a financial derivative at fair value and the gap between the consideration received for the convertible debentures and the fair value of the conversion component is attributed to the debt component.

Transaction costs are attributed pro rata to the different components of the convertible debentures based on the relative portion of the consideration allocated to the components. The conversion component is treated as a financial derivative and is presented at fair value at each balance sheet date. Changes in fair value are systematically carried to the income statement under financial income (expenses), net.

8. Derecognition of financial assets and liabilities:

Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities:

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is immaterial, it is treated as a change in the terms of the original commitment and no gain or loss is recognized from the exchange.

9. Treasury shares:

Company shares held by subsidiaries are carried at cost and presented as a deduction from equity. Gains or losses from the purchase, sale, issuance or cancellation of treasury shares are carried directly to equity.

i. Impairment of financial assets:

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

1. Assets carried at amortized cost:

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Available-for-sale financial assets:

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

j. Contracts in progress:

Contracts in progress are presented at cost but not above estimated realizable value. The cost includes identifiable direct costs, joint indirect costs and borrowing costs. Joint indirect costs are allocated between the contracts based on burden rates.

When a loss is anticipated from contracts in progress, the full amount of the loss expected through the completion of the work is recorded.

Contracts in progress are presented at total accumulated costs with the addition of recognized earnings net of total recognized losses and received advances. If the balance is positive, it is recorded as an asset. If it is negative, it is recorded as a liability under advances from customers net of contracts in progress.

k. Business combinations and goodwill:

Business combinations are treated using the acquisition method. This method consists of identifying the assets and liabilities of the acquired business at fair value.

The acquisition of a company involves the temporary attribution of the cost of acquisition to the assets and liabilities acquired in the business combination. The value of the acquired assets and liabilities may be adjusted within 12 months from the date of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units. Gains or losses from the realization of part of the cash generating unit includes the part of goodwill that is measured according to the relative part that was realized out of the cash generating unit.

Upon the sale of subsidiaries, the difference between the consideration and the net assets with the addition of accumulated exchange rate differences and the unamortized goodwill balance is carried to the income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Investments in affiliate:

1. Investment in affiliate:

The investment in an affiliate is accounted for using the equity method of accounting. Under the equity method, the investment in the affiliate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets and the capital reserves of the affiliate.

Goodwill relating to the acquisition of an affiliate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the results of operations of the affiliate. Where there has been a change recognized directly in the equity of the affiliate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the affiliate are eliminated to the extent of the interest in the affiliate.

Losses of affiliates in amounts which exceed their shareholders' equity are recognized by the Company to the extent of its investment in the affiliates with the addition of any losses that the Company may incur as a result of a guarantee provided in respect of these affiliates.

The reporting dates of the affiliate and the Company are identical and the affiliate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

2. Investment in jointly controlled company:

The accounts of a jointly controlled company are consolidated with those of the Company using the proportionate consolidation method. The Company includes in its consolidated financial statements its share in the jointly controlled entity's assets, liabilities, revenues and expenses in the appropriate financial statement items.

The date of the jointly controlled company's financial statements is identical to the date of the Company's financial statements. The accounting policies applied in the Company's financial statements are consistently and identically applied in the jointly controlled company's financial statements. For that purpose, all the required adjustments to the jointly controlled company's financial statements are assumed.

Gains or losses from transactions between the Group and a jointly controlled company are eliminated to the extent of the Company's interest in the jointly controlled company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Investment property:

An investment property is property (land or a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, and not for use in manufacture or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are measured initially at cost, including direct transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise under other income (expenses). Investment properties are not systematically depreciated.

Transfers from fixed assets to investment property are made when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. The cost of the asset transferred from investment property to fixed assets or to inventories is the fair value upon the transfer.

The difference between the fair value and the cost of a property transferred from inventories to investment property is recognized in the income statement upon the transfer whereas the difference between the fair value and the cost of a property transferred from fixed assets to investment property is treated as a revaluation according to IAS 16 and is recognized in revaluation capital reserve.

When the Company completes the construction of the investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the income statement.

In order to determine the fair value of investment properties, the Group utilizes independent outside appraisals from expert real estate appraisers with the proper knowledge and experience.

Real estate rights held by a lessee in an operating lease from the Israel Lands Administration are classified as investment property. The Group has applied the fair value model in respect of these rights.

n. Fixed assets:

Offices, computers, motor vehicles and office equipment are stated at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment in value and investment grants in their respect, and excluding day-to-day servicing expenses. The cost includes spare and auxiliary parts that can be used only in connection with machinery and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	%
Offices	10
Motor vehicles	15
Computers, office furniture and equipment	6-33 (mainly 33%)

Components of fixed asset items with significant cost compared to the item's total cost are separately depreciated using the component method. Depreciation is calculated using the straight-line method in annual rates that are adequate for the depreciation of the assets over the term of their expected useful lives. The residual value and useful life of an asset are tested at least once at year end and the changes are accounted for as a prospective change in accounting estimate.

The Group recognizes the cost of replacing a part of a fixed asset item as part of the carrying amount of the fixed asset item when cost is incurred, if the economical benefits with respect to the item are expected to flow to the Group and if the cost of the item can be reliably measured. All other costs are carried to the income statement as incurred.

The depreciation of the assets is discontinued at the sooner of the date on which the asset is classified as held for sale and the date on which the asset is derecognized. An asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The transfer from fixed assets to investment property is done when the owner internalizes the assets by own use or with the beginning of a new operating lease agreement or when the construction work on the asset are terminated.

The cost of a fixed asset received in an exchange for another fixed asset will be measured at fair value unless the transaction lacks commercial substance or if the fair value of the fixed asset received or given up cannot be reliably measured. The Standard replaces the "similar assets" exception to fair value measurement with an exception based on a lack of commercial substance. An exchange transaction has commercial substance if it results in a change in the amount, timing and risk of future cash flows from the asset.

The cost of a fixed asset will also include an initial estimate of the costs of dismantling and removing the asset and restoring the site on which the asset is located, for which the Company has incurred an obligation when the asset is acquired or as a result of the use of the asset during a certain period not for the manufacture of inventories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- o. Capitalization of borrowing costs:

The Company capitalizes borrowing costs relating to the investment in fixed assets. The amount of capitalized borrowing costs during the reported period does not exceed the borrowing costs during the same reported period.

- p. Impairment of non-financial assets:

The Company assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognized if the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses are carried to the statement of income.

- q. Non-current asset and/or assets held for sale:

A non-current asset and/or a group of assets held for sale are assets which are available for immediate sale in their present condition, as to which the Company has a commitment to sell and it is highly probable that their sale will be completed within a year from the date of classification. These assets are not depreciated and are presented at the lower of their carrying amount or fair value less selling costs.

- r. Perpetual loans:

Perpetual loans are unlinked and are presented under long-term liabilities according to their fair value as of balance sheet date.

- s. Government grants:

Government grants are recognized when it is highly probable that the grant will be received and when all the respective terms of the grant have been met. A grant referring to an asset is presented as deferred income or net of the respective asset.

- t. Taxes on income:

Taxes on income in the income statement include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the income statement other than if they relate to items that are directly carried to equity. In such cases, the tax effect is also carried to the relevant item in equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Current income taxes:

Current income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2. Deferred income taxes:

Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes, other than a limited number of exceptions described in the Standard.

Deferred tax balances are measured using the enacted tax rates expected to be in effect when these taxes are carried to the income statement, based on the applicable tax laws at balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported year.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments is not expected in the foreseeable future.

Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability.

As it is not probable that there will be taxable income in the future, no deferred tax assets have been recorded in the financial statements.

Deferred taxes attributed to items carried directly to equity are also carried to equity.

Deferred tax assets and deferred tax liabilities are presented as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legal enforceable right that allows offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same taxpayer and the same tax authority.

u. Liabilities in respect of employee benefits:

1. Short-term employee benefits:

Short-term employee benefits include salaries and deposits in respect of national insurance rights and are presented as expenses as the services are rendered.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post-retirement benefits:

The Group has defined deposit plans pursuant to Section 14 to the Severance Pay Law according to which the Group makes current payments without incurring a legal or implied liability to pay additional amounts, even if adequate amounts did not accrue in the funds in order to settle all the employee benefits referring to services rendered by the employees in the current period and in prior periods. Deposits in the defined deposit plan are recorded as an expense upon the deposit simultaneously with receiving the employee's work services and no additional provisions is required in the books.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. Severance pay is computed at the employee's last monthly salary upon termination of employment multiplied by the number of years of employment.

The Company makes current deposits in respect of its severance pay liabilities to certain of its employees in pension funds and insurance companies ("the plan's assets").

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The liability for severance pay in the balance sheet reflects the current value of the liability in respect of the defined benefit plan at the assets' fair value. Assets arising from this calculation are limited to the cost of previous services rendered with the addition of the current value of available funds and any write down in future amounts deposited in the plans.

v. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Rental income:

Rental income is accounted for on a straight-line basis over the lease terms. Rental income where there is a rise in rental fees over the term of the contract are recognized using the straight-line method only when the collection of future rent differences is certain.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Rendering of services

Revenue from the rendering of services is recognized by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Revenues from sale of real estate:

Revenues from the sale of real estate are recognized when the principal risks and rewards relating to the ownership have been transferred to the buyer. Revenues are not recognized if there are significant uncertainties regarding the collection of the consideration and the related costs or if there is continuing managerial involvement of the Company with respect to the real estate sold. These criteria are usually met once the real estate is transferred to the buyer.

Interest income:

Interest income is recognized using the effective interest rate method.

w. Earnings per share:

Earnings per share are computed according to the number of Ordinary shares. Basic earnings per share only include shares that were actually outstanding during the period. Convertible securities (such as convertible debentures and warrants) are only included in the computation of diluted earnings per share. Furthermore, convertible securities that have been converted during the period are included in diluted earnings per share only until the conversion date and starting from that date in basic earnings per share. Convertible debentures and warrants are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

x. Provisions

Provisions are recognized in the balance sheet when the Group has a present legal obligation or an implied obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are discounted using a current pre-tax interest rate that reflects, where appropriate, the market's expectations of the time value of money and in certain cases, the risks specific to the liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- y. Transactions between the Company and a controlling shareholder:

Transactions between the Company and a controlling shareholder are presented in accordance with the Israeli Securities Regulations (Presentation in the Financial Statements of Transactions between an Entity and its Controlling Shareholder), 1996.

- z. Disclosure of the effects of new IFRS in the period prior to their adoption:

1. IFRS 7 - Financial Instruments: Disclosures and Amendment to IAS 1 - Presentation of Financial Statements:

Pursuant to these standards, comprehensive disclosures are required in respect of capital and the substance of financial instruments and their impact on the entity's financial position and results of operations as well as qualitative and quantitative disclosures of the nature and scope of risks. The standards will be adopted for annual financial statements for periods beginning on or after January 1, 2007. The effect of adopting the new Standard will require the Company to provide comprehensive disclosure, as discussed above.

2. IFRS 8 - Operating Segments:

IFRS 8 ("the Standard") discusses operating segments and replaces IAS 14. The Standard applies to companies whose securities are listed or undergoing listing for trade on any securities stock exchange. The Standard will be applicable to annual financial statements for periods commencing after January 1, 2009. The Standard can be applied early. The provisions of the Standard will be applied retrospectively, by restatement, unless the disclosure required is unavailable or impractical to obtain.

The Standard determines that an entity will adopt a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

Furthermore, disclosure is required regarding revenues deriving from the entity's products or services (or from a group of products and similar services), the countries in which these revenues are derived or the assets or principal customers are located, regardless of whether management uses this information for making operating decisions. The Company believes that the effect of the new Standard on its current presentation of segments is not expected to be material.

3. IFRIC 8 - Adoption of IFRS 2 discussing Share-based Payment:

IFRIC 8 discusses share-based payment transactions where part or all of the goods or services are not specifically identifiable. These goods or services are measured upon the date of grant as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company believes that IFRIC 8 will be adopted in the Group's financial statements for 2007 by way of restatement.

The Company estimates that the adoption of IFRIC 8 is not expected to have an effect on the financial statements.

4. IFRIC 9 - Reassessment of Embedded Derivatives:

In accordance with IFRIC 9, the reassessment of an embedded derivative has to be separated from the host contract only when there are significant changes in the contract.

The Company believes the effect of IFRIC 9, adopted in its financial statements for 2007, is not expected to be material.

5. IFRIC 10 - Interim Financial Reporting and Impairment:

IFRIC 10 prohibits the reversal of an impairment loss recognized in the past in the interim financial statements with respect to goodwill, investment in an equity instrument or financial asset presented at cost. IFRIC 10 will be adopted in the Group's financial statements as of 2007 and apply to goodwill, investments in equity instruments and financial assets presented at cost from the date on which the Company first adopts the measurement principles of IAS 36 and IAS 39 retrospectively.

The Company believes the effect of IFRIC 10, adopted in its financial statements for 2007, is not expected to be material.

6. IFRIC 11 - Group and Treasury Share Transactions:

IFRIC 11 ("the Interpretation") clarifies the adoption provisions of IFRS 2 regarding share-based payment transactions in respect of arrangements that include the Company's equity instruments and in respect of arrangements that include the parent company's equity instruments. This Interpretation will be adopted in the annual financial statements for periods commencing on March 1, 2007 and thereafter and can be adopted early.

The Interpretation will be adopted retrospectively by way of restatement, pursuant to the provisions of IFRS 2. Companies that adopt IFRS for the first time will act according to the provisions of IFRS 1.

The Company is examining the effect of the Interpretation on its financial statements but is unable, at this stage, to estimate such effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATIONS

Companies consolidated for the first time:

In the reported period, the financial statements of the following subsidiaries and jointly controlled entities were consolidated for the first time:

The financial statements of Canot Industrial Center Ltd., Nazareth Center Shopping Mall (Management) Ltd. and Mashar Shopping, Recreation and Leisure Centers Ltd., all acquired in the reported year.

The financial statements of Canot Industrial Center Ltd. were consolidated due to the increase in the holding rate from 50% to 100% (until September 30, 2006, the investment in this company was presented using the proportionate consolidation method).

The financial statements of Nazareth Center Shopping Mall (Management) Ltd. were consolidated due to the increase in the holding rate from 50% to 100% (until December 31, 2006, the investment in this company was presented using the proportionate consolidation method).

The financial statements of Mashar Shopping, Recreation and Leisure Centers Ltd. were consolidated due to the increase in the holding rate from 0% to 50%.

Minority interests:

- a. During 2006, the Company increased its stake in Industrial Buildings Ashdod Ltd. from 55% to 99.99% as follows:

During March 2006, the Company signed an agreement to purchase 25% of the shares of Industrial Buildings Ashdod Ltd. in consideration of approximately NIS 289 thousand.

In June 2006, Industrial Buildings Ashdod Ltd. issued 16,000 shares to the Company in consideration of NIS 16 thousand. As a result of this issuance, the Company's interest in Industrial Buildings Ashdod Ltd. increased by another 20%.

- b. During 2006, the Company increased its stake in Meimadim Investments Ltd. from 60% to 70% as follows:

During July 2006, Meimadim Investments Ltd. ("Meimadim Investments"), a subsidiary, reclassified 1,559,990 of its registered shares from Ordinary shares to Deferred shares (these shares included 1,554,200 issued shares) pursuant to the decision of the shareholders from July 4, 2006. Meimadim Investments also issued 40,000 Ordinary shares of which the Company purchased 28,000 shares in consideration of NIS 28 thousand and was assigned shareholders' loans totaling NIS 4,848 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- CASH AND CASH EQUIVALENTS

- a. Composition:

	December 31,	
	2006	2005
	NIS in thousands	
Cash and deposits for immediate withdrawal	102,360	42,012
Short-term deposits	430,314	78,602
	532,674	120,614

- b. As of balance sheet date, cash in banks bears floating interest based on interest rates on daily bank deposits.

- c. The deposits bear interest as determined according to the deposit periods (4.95% - 5%).

As for the linkage and interest terms of the cash and short-term deposits, see Note 24.

NOTE 5:- SHORT-TERM INVESTMENTS

- a. Available-for-sale securities:

	December 31,	
	2006	2005
	NIS in thousands	
Shares, debentures and Government loans (1)	221,920	60,549
b. Deposits:		
Deposits to secure future payments (1) (2)	37,942	31,094
Short-term deposits (3)	606	13,905
Restricted deposit	507	802
	260,975	106,350

- (1) As for charges, see Note 22a(2).

- (2) Including a total of approximately NIS 22.1 million in a trust deposit in Canadian dollars to secure the payment of future current expenses according to a non-recourse loan agreement, see Note 22b(5) (in 2005 - NIS 24.3 million).

Including approximately NIS 10.6 million in a restricted deposit in Euro to secure an acquisition transaction.

Including approximately NIS 4.6 million in a restricted deposit in U.S. dollars to secure future payments according to loan agreements (in 2005 - approximately NIS 6.1 million).

- (3) A deposit in Canadian dollars.

- (4) As for the linkage and interest terms of the short-term investments, see Note 24.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- TRADE RECEIVABLES

a. Composition:

	December 31,	
	2006	2005
	NIS in thousands	
Tenants (1):		
Open accounts	19,113	19,471
Checks receivable	17,518	8,209
	36,631	27,680
Less - allowance for doubtful accounts	13,504	12,924
	23,127	14,756
Customers	21,683	13,190
Buyers	16,484	13,408
Accrued income from apartments	52	1,519
	<u>61,346</u>	<u>42,873</u>

(1) As for charges, see Note 22a(2).

b. Customer debts do not bear interest. The average credit days for customers are 16-20 days.

c. As for linkage terms of trade receivables, see Note 24.

NOTE 7:- OTHER ACCOUNTS RECEIVABLE

a. Composition:

	December 31,	
	2006	2005
	NIS in thousands	
Current maturities of long-term bank deposits (1)	48,750	-
Current maturities of debts of the State of Israel through the Ministry of Defense and Rafael (1) (2)	21,501	20,822
Current maturities of other long-term buyers (1)	1,274	1,317
Government authorities	3,384	26,618
The State of Israel in respect of Evacuation Compensation Law (2)	-	23,509
Jointly controlled entities	38,734	35,303
Prepaid expenses	16,039	15,065
Interest receivable	12,218	9,305
Other receivables	1,873	10,797
	<u>143,773</u>	<u>142,736</u>

(1) See Note 9.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- OTHER ACCOUNTS RECEIVABLE (Cont.)

(2) The Company had rental properties in the Erez Industrial Zone. The Company also served as the manager of the industrial zone. During June 2004, the Israeli Government declared the evacuation of the Gaza Strip and the Erez Industrial Zone and compensation for the evacuees. Following the Government's resolution, the Minister of Industry, Trade and Labor decided to evict the Israeli enterprises in the Erez Industrial Zone. On November 3, 2004, the Israeli Parliament Plenum passed the "Evacuation and Compensation" bill at first reading. The bill was transferred to a joint committee of the Finance and Justice, Law and Constitution Committees for preparing it for second and third reading. On February 16, 2005, the Israeli Parliament passed the Evacuation Law at third reading. In August 2005, the Company evacuated the buildings owned by it. During 2006, the Company received compensation totaling NIS 30.5 million net of taxes. The Company is currently acting to obtain additional compensation which it believes it is entitled to according to the above Law.

(3) Regarding charges, see Note 22a(2).

b. As for linkage terms of other accounts receivable, see Note 24.

NOTE 8:- INVENTORIES OF BUILDINGS AND APARTMENTS FOR SALE

	December 31,	
	2006	2005
	NIS in thousands	
Buildings under construction:		
Cost of projects under construction (1)	59,312	435,633
Inventory of apartments	424,118	64,908
	483,430	500,541
(1) Composition:		
Land and taxes	33,264	304,457
Construction costs	26,048	121,347
Real financing costs	-	9,829
	59,312	435,633
Amount of sales contracts signed during the year	757,163	15,693
The portion of accrued amount of sales contracts, which was not recognized as revenue until the end of the reported year	552,078	1,423

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM DEPOSITS AND RECEIVABLES

a. Composition:

As of December 31, 2006:

	<u>Linkage basis</u>	<u>Principal amount</u> NIS in thousands	<u>Stated interest rate</u> %	<u>Effective interest rate</u> %	<u>Balance</u> NIS in thousands	<u>Balance net of current maturities</u> NIS in thousands
Bank deposits State of Israel through the Ministry of Defense and Rafael (1)	CPI	903,768	3.92	3.92	903,768	855,018
Other buyers less an allowance for doubtful accounts (2)	CPI	314,245	3.50	3.50	70,745	49,244
Long-term deposits	CPI Canadian dollar	21,333	3.90	3.90	8,957	7,683
Debts of partners in jointly controlled entities	U.S. dollar/CPI Canadian dollar	132,911	4.18	4.18	132,911	125,797
Other receivables	U.S. dollar	48,623	6.48	6.48	48,623	48,623
		<u>25,656</u>	6.00	6.00	<u>25,656</u>	<u>21,218</u>
		<u>1,446,536</u>			<u>1,190,660</u>	<u>1,107,583</u>

As of December 31, 2005:

	<u>Linkage basis</u>	<u>Principal amount</u> NIS in thousands	<u>Stated interest rate</u> %	<u>Effective interest rate</u> %	<u>Balance</u> NIS in thousands	<u>Balance net of current maturities</u> NIS in thousands
Bank deposits State of Israel through the Ministry of Defense and Rafael (1)	CPI	781,207	3.85	3.85	781,207	781,207
Other buyers less an allowance for doubtful accounts (2)	CPI	315,159	3.50	3.50	91,746	70,924
Debts of partners in jointly controlled entities	CPI	21,521	3.92	3.92	10,317	9,000
	U.S. dollar	8,125	5	5	8,125	8,125
		<u>1,126,012</u>			<u>891,395</u>	<u>869,256</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM DEPOSITS AND RECEIVABLES (Cont.)

- (1) Receivables from the State of Israel - through the Ministry of Defense and Rafael:

In February 1992, a settlement arrangement was reached between the Company and the State of Israel through the Ministry of Defense and the Weapons Development Authority ("Rafael"), regarding the payments due from Rafael to the Company in respect of buildings which the Company built for Rafael.

According to the terms of the arrangement, Rafael is to pay the Company all its debts in a total amount of approximately NIS 314 million, linked to the Israeli CPI. The amount will be paid over 18 years, in equal monthly payments linked to the Israeli CPI, plus linked annual interest of 3.5%. As of the balance sheet date, of the above amount, approximately NIS 243.6 million had been paid.

The settlement was validated by a court order.

- (2) Guarantees for other long-term receivables:

The guarantees that the Company maintains for approximately NIS 8.9 million of long-term receivables from other buyers are the transfer of rights to the buyers in respect of buildings that were sold only upon full payment of the debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM DEPOSITS AND RECEIVABLES (Cont.)

b. Maturity dates subsequent to balance sheet date:

2006:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Un- determined</u>	<u>Total</u>
	<u>NIS in thousands</u>							
Bank deposits	48,750	65,900	65,900	65,900	123,686	533,632	-	903,768
State of Israel through the Ministry of Defense and Rafael	21,501	22,266	23,058	3,920	-	-	-	70,745
Other buyers less an allowance for doubtful accounts	1,274	2,192	1,259	1,314	1,371	1,547	-	8,957
Long-term deposits	7,114	2,152	123,645	-	-	-	-	132,911
Debts of partners in jointly controlled entities	-	-	-	-	-	-	48,623	48,623
Other receivables	4,438	11,720	9,498	-	-	-	-	25,656
	<u>83,077</u>	<u>104,230</u>	<u>223,360</u>	<u>71,134</u>	<u>125,057</u>	<u>535,179</u>	<u>48,623</u>	<u>1,190,660</u>

2005:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Un- determined</u>	<u>Total</u>
	<u>NIS in thousands</u>							
Bank deposits	-	48,797	65,964	65,964	65,964	534,518	-	781,207
State of Israel through the Ministry of Defense and Rafael	20,822	21,536	22,330	23,125	3,933	-	-	91,746
Other buyers less an allowance for doubtful accounts	1,317	2,233	1,242	1,262	1,317	2,946	-	10,317
Debts of partners in jointly controlled entities	-	-	-	-	-	-	8,125	8,125
	<u>22,139</u>	<u>72,566</u>	<u>89,536</u>	<u>90,351</u>	<u>71,214</u>	<u>537,464</u>	<u>8,125</u>	<u>891,395</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM DEPOSITS AND RECEIVABLES (Cont.)

- c. As for charges, see Note 22a(2).

NOTE 10:- INVESTMENTS IN AFFILIATES

- a. Composition:

	Affiliates	
	December 31,	
	2006	2005
	NIS in thousands	
Cost of shares	128,813	47
Post-acquisition earnings	301,886	18
Foreign currency translation adjustments of investees	3,004	-
	<u>433,703</u>	<u>65</u>

- b. The change in investments in 2006:

	Affiliates
	NIS in
	thousands
Balance at the beginning of the year	65
Change during the year:	
Investments in shares	128,766
The Group's share in losses, net	(1,783)
Gain from change in holding rate in affiliate	303,651
Changes in capital reserves	3,004
Balance at the end of the year	<u>433,703</u>

- c. As for a commitment to invest in an affiliate, see Note 22c(3).

- d. Condensed financial statements of affiliates:

	December 31,	
	2006	2005
	NIS in thousands	
Equity in affiliates based on the interest therein:		
Current assets	329,258	268
Non-current assets	233,579	38
Current liabilities	(11,879)	(241)
Long-term liabilities	(117,255)	-
Net assets	<u>433,703</u>	<u>65</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- INVESTMENTS IN AFFILIATES (Cont.)

	Year ended December 31,			
	2006	2005		
	NIS in thousands			
Equity in the results of affiliates based on the interest therein:				
Revenues	48,591	606		
Earnings	35,467	18		
Carrying amount of investments in affiliates	433,703	65		
e. Investment in an affiliate listed for trade on the Stock Exchange:				
	December 31, 2006		December 31, 2005	
	Carrying amount	Market value	Carrying amount	Market value
	NIS in thousands			
Shares	433,601	1,148,772	-	-
f. Investment in jointly controlled entities:				
	December 31,			
	2006	2005		
	NIS in thousands			
Current assets	312	3,974		
Non-current assets	23,432	47,055		
Current liabilities	17,143	4,668		
Long-term liabilities	7,307	27,086		
	Year ended December 31,			
	2006	2005		
	NIS in thousands			
Revenues	1,672	4,666		
Expenses	602	4,141		

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- INVESTMENTS IN AFFILIATES (Cont.)

- g. List of subsidiaries, jointly controlled entities and affiliates:

	Percentage of ownership and control	
	Ownership	Control
	%	
Subsidiaries:		
The Company for Development of Work Ltd.	100	100
H.B.M.T. Properties Management and Building Maintenance Ltd.	100	100
Tel-Aviv Towers Ltd.	100	100
Houdstermaatschappij Vossius BV	100	100
Industrial Buildings Ashdod (1994) Ltd.	100	100
The Fishman Holdings Canada Property Investment Trust IX, X ,XI ,XX and XXI	100	100
Ramla Title Company Ltd.	75	75
Memadim Investments Ltd.	70	70
Mivnei Taasiya (Luxembourg) S.A. (formerly: Check Point Software Technologies (Luxembourg) S.A.)	100	100
Fishman Holdings North America Inc.	100	100
IBC Fifth Avenue Partnership	100	100
IBC FL Beach Partnership (consolidated as of January 2006)	100	100
Lake Placid Enterprises Inc.	100	100
Nazareth Center Shopping Mall (Management) Ltd. (50% proportionately consolidated until 31.12.05)	100	100
Canot Industrial Center Ltd. (50% proportionately consolidated until 30.09.06)	100	100
Jointly controlled entities:		
Ackerstein Towers Ltd.	50	50
Industrial Buildings Partnership - O'neil Project M.H.L.	50	50
A.M. Negev High-Tech Ltd.	50	50
Mashar Shopping, Recreation and Leisure Centers Ltd. (consolidated as of 30.06.06)	50	50
Affiliates:		
Fishman Holdings German GmbH	33.33	33.33
Mirland Development Corporation	28	28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- INVESTMENT PROPERTY

a. Composition:

	Buildings for rent	
	2006	2005
	NIS in thousands	
Balance as of January 1	6,423,492	5,849,663
Additions during the year:		
Foreign currency translation adjustments of foreign operations	(90,662)	100,203
Purchases	621,583	526,850
Additions for newly consolidated company	22,240	99,823
Increase in fair value	188,248	228,316
Total additions	741,409	955,192
Disposals during the year		
Disposals (1)	542,973	91,181
Reclassified to inventories	-	290,182
De-consolidation	84,508	-
Total disposals	627,481	381,363
Balance as of December 31	6,537,420	6,423,492

(1) Results from a large number of buildings. In 2006, a commercial center located in Canada was sold, see Note 22c(5). In addition, two apartment complexes in Magdeburg and Dresden were sold, see Note 22c(7).

b. Investment property is presented at fair value as determined in the evaluation performed by outside appraisers who are well-known and experienced professionals regarding the location and type of real estate appraised. The Company also utilized economic models to evaluate part of the investment property. These models were examined and approved by an independent appraiser. The fair value represents the amount determined on the date of appraisal according to which the properties will be exchanged between seller and buyer in an arm's length transaction after having acted wisely, prudently and willingly, according to international evaluation standards. The fair value is determined based on recent market transactions regarding properties with similar characteristics and location to those owned by the Company, if there are any, and based on estimated future cash flows expected to derive from the asset, taking into consideration their structured risk.

1. The Company's rights will be registered with the Land Registry Office once the land is divided into parcels.
2. The leasehold rights are for a period of 49 years with a renewal option for another 49 years. The Company is unable to assess the costs involving the extension of the lease period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- INVESTMENT PROPERTY (Cont.)

c. Investment grants:

Pursuant to the Law for the Encouragement of Capital Investments, 1959 ("the Law") the Investment Center has approved certain of the Company programs for the construction of buildings, including equipment and installations in buildings.

Pursuant to the Law, the Company is entitled to receive investment grants for its approved investments, to claim accelerated depreciation for tax purposes as well as to a reduced tax rate. For the calculation of depreciation, the amount of the grant is deducted from the cost of the assets.

Pursuant to the Law, the Investment Center is authorized to demand that the Company - should it fail to fulfill the terms of the approval - refund the grants that it received with the addition of interest and linkage differences from the date they were received. Furthermore, the Company would have to refund the entire tax benefits (accelerated depreciation and the reduced tax rate). See Note 26a.

As of December 31, 2006 and 2005, the Company is meeting the conditions of the letters of approval.

d. Regarding charges, see Note 22a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 12:- FIXED ASSETS**

a. Composition:

	Offices	Motor vehicles	Computers, office furniture and equipment	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2006	6,848	314	13,440	20,602
Additions during the year	191	-	828	1,019
Newly consolidated company	-	-	340	340
Disposals during the year	-	-	(25)	(25)
Balance at December 31, 2006	<u>7,039</u>	<u>314</u>	<u>14,583</u>	<u>21,936</u>
Accumulated depreciation:				
Balance at January 1, 2006	2,251	125	10,340	12,716
Additions during the year	538	45	640	1,223
Newly consolidated company	-	-	105	105
Disposals during the year	-	-	(15)	(15)
Balance at December 31, 2006	<u>2,789</u>	<u>170</u>	<u>11,070</u>	<u>14,029</u>
Depreciated cost at December 31, 2006	<u>4,250</u>	<u>144</u>	<u>3,513</u>	<u>7,907</u>
Depreciated cost at December 31, 2005	<u>4,597</u>	<u>189</u>	<u>3,100</u>	<u>7,886</u>

b. As for charges, see Note 22a.

NOTE 13:- OTHER ASSETS

	Expenses relating to commitments for long-term rental of building NIS in thousands
Cost	2,810
Less - accumulated amortization	<u>(2,212)</u>
Amortized cost at December 31, 2006	<u>598</u>
Amortized cost at December 31, 2005	<u>882</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- CREDIT FROM BANKS AND OTHERS

a. Composition:

	Weighted interest rate	December 31,	
	31.12.06	2006	2005
	%	NIS in thousands	
Credit from banks:			
Unlinked loans	5.64	142,350	52,877
Unlinked debentures (series J) (1)	6.80	109,862	-
Loans linked to the Canadian dollar	5.93	198,610	214,301
Loans linked to the U.S. dollar (3)	7.06	306,936	289,455
Loans linked to the Swiss Franc (4)	2.80	35,261	37,837
Loans linked to the Euro	4.32	185,427	-
Debentures linked to the CPI (series I) (1)	5.55	369,537	-
Current maturities of long-term liabilities (2)		<u>579,947</u>	<u>387,980</u>
		<u>1,927,930</u>	<u>982,450</u>

(1) On December 26, 2006, the Company issued approximately NIS 370 million par value of debentures (series I), linked to the CPI and bearing annual interest at a rate of 5.55% to institutional investors and approximately NIS 110 million par value of unlinked debentures (series I), bearing annual interest at a rate of 6.8% to institutional investors in order to list those debentures for trade during the second quarter of 2007 in consideration of approximately NIS 480 million. See also Note 30c.

(2) See Notes 17 and 19.

(3) Including non-recourse loans totaling approximately NIS 67,967 thousand and NIS 105,266 thousand for 2006 and 2005, respectively.

(4) Including non-recourse loans totaling approximately NIS 35,261 thousand and NIS 37,837 thousand for 2006 and 2005, respectively.

b. Regarding charges, see Note 22a(2).

c. As for linkage terms, see Note 24.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 15:- TRADE PAYABLES**

a. Composition:

	December 31,	
	2006	2005
	NIS in thousands	
Open accounts	41,649	30,754
Notes payable	45,870	34,825
	<u>87,519</u>	<u>65,579</u>

b. As for linkage terms of trade payables, see Note 24.

NOTE 16:- OTHER ACCOUNTS PAYABLE

a. Composition:

	December 31,	
	2006	2005
	NIS in thousands	
Liability component in respect of conversion option of debentures (series D) into shares	56,923	17,869
Government authorities	48,386	13,800
Tenants	3,116	2,434
Payables in respect of combination transaction (1)	1,500	16,664
Prepaid rental fees	14,945	22,962
Accrued interest income	-	13,969
Interest payable	72,218	74,640
Jointly controlled entities	38,661	34,493
Accrued expenses	14,054	12,499
Provision for depreciation	11,322	12,214
Provision for completion	2,500	6,300
Provision for claims	7,992	3,518
Deferred income	5,438	1,000
Other	11,479	13,082
	<u>288,534</u>	<u>245,444</u>

(1) See Note 22c(1).

b. As for linkage terms of other accounts payable, see Note 24.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LONG-TERM LOANS AND LIABILITIES

a. Loans from banks:

As of December 31, 2006:

	Principal amount	Stated interest rate	Effective interest rate	Balance	Balance net of current maturities
	NIS in thousands	%	%	NIS in thousands	
Loans in Canadian dollars (1)	904,068	5.66	5.66	684,380	679,796
Loans in U.S. dollars (2)	316,704	6.10	6.10	305,635	261,361
Loan in Euro	315,288	4.32	4.32	315,288	315,288
Loan in Swiss Francs	58,350	2.63	2.63	58,350	58,350
Loans linked to the CPI	<u>796,653</u>	5.55	5.55	<u>321,003</u>	<u>231,347</u>
	<u>2,391,063</u>			<u>1,684,656</u>	<u>1,546,142</u>

As of December 31, 2005:

	Principal amount	Stated interest rate	Effective interest rate	Balance	Balance net of current maturities
	NIS in thousands	%	%	NIS in thousands	
Loans in Canadian dollars (1)	975,648	5.35	5.35	748,325	737,886
Loans in U.S. dollars (2)	350,659	5.17	5.17	350,659	350,659
Loan in Euro	283,609	2.97	2.97	283,609	283,609
Loan in Swiss Francs	58,122	1.63	1.63	58,122	58,122
Loans linked to the CPI	<u>798,969</u>	5.61	5.61	<u>434,699</u>	<u>331,694</u>
	<u>2,467,007</u>			<u>1,875,414</u>	<u>1,761,970</u>

(1) Including non-recourse loans totaling approximately NIS 521,330 thousand and NIS 601,310 thousand in 2006 and 2005, respectively. See Note 22b(5).

(2) Including non-recourse loans totaling approximately NIS 79,430 thousand and NIS 86,536 thousand in 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LONG-TERM LOANS AND LIABILITIES (Cont.)

b. Maturity dates of loans from banks subsequent to balance sheet date:

As of December 31, 2006:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Un- determined</u>	<u>Total</u>
	NIS in thousands							
Loans linked to the CPI	89,656	78,916	55,808	31,545	26,027	39,051	-	321,003
Loans in Canadian dollars	4,584	12,259	13,016	264,337	7,657	224,061	158,466	684,380
Loans in U.S. dollars	44,274	875	1,010	1,073	-	76,472	181,931	305,635
Loans in Euro	-	-	556	-	-	-	314,732	315,288
Loans in Swiss Francs	-	-	-	-	-	-	58,350	58,350
	<u>138,514</u>	<u>92,050</u>	<u>70,390</u>	<u>296,955</u>	<u>33,684</u>	<u>339,584</u>	<u>713,479</u>	<u>1,684,656</u>

As of December 31, 2005:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Un- determined</u>	<u>Total</u>
	NIS in thousands							
Loans linked to the CPI	103,005	99,495	79,128	56,000	34,708	62,363	-	434,699
Loans in Canadian dollars	10,439	14,588	15,401	15,706	288,304	240,115	163,772	748,325
Loans in U.S. dollars	-	-	953	1,100	1,169	83,314	264,123	350,659
Loans in Euro	-	-	-	-	-	-	283,609	283,609
Loans in Swiss Francs	-	-	-	-	-	-	58,122	58,122
	<u>113,444</u>	<u>114,083</u>	<u>95,482</u>	<u>72,806</u>	<u>324,181</u>	<u>385,792</u>	<u>769,626</u>	<u>1,875,414</u>

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LONG-TERM LOANS AND LIABILITIES (Cont.)

c. Other long-term liabilities:

As of December 31, 2006:

	Principal amount	Stated interest rate	Effective interest rate	Balance	Balance net of current maturities
	NIS in thousands	%	%	NIS in thousands	
Loans in NIS, linked to the CPI (1)	14,693	-	-	14,693	14,693
Loans from partner in jointly controlled entity, linked to the CPI	5,760	-	-	5,760	5,760
Loans from partner in jointly controlled entity, linked to the U.S. dollar	28,033	6.48	6.48	28,033	28,033
Loans linked to the Euro	10,127	5.92	5.92	8,814	8,814
Perpetual loans (2)	9,924	0.50	6.00	9,924	9,924
Long-term deferred revenue	6,656	-	-	6,656	6,656
Other long-term liabilities	48,219	-	-	48,219	48,219
Non-marketable debentures, linked to the CPI	<u>932,169</u>	4.97	4.97	<u>343,232</u>	<u>265,385</u>
	<u>1,055,581</u>			<u>465,331</u>	<u>387,484</u>

As of December 31, 2005:

	Principal amount	Stated interest rate	Effective interest rate	Balance	Balance net of current maturities
	NIS in thousands	%	%	NIS in thousands	
Loans in NIS, linked to the CPI (1)	17,589	-	-	17,589	17,589
Loans from partner in jointly controlled entity, linked to the U.S. dollar	8,125	5.00	5.00	8,125	8,125
Loans linked to the Euro	9,912	4.67	4.67	9,240	9,240
Perpetual loans (2)	9,818	0.50	6.00	9,818	9,818
Other long-term liabilities	48,890	-	-	48,790	48,790
Non-marketable debentures, linked to the CPI	<u>934,880</u>	4.97	4.97	<u>421,010</u>	<u>343,961</u>
	<u>1,029,214</u>			<u>514,572</u>	<u>437,523</u>

(1) Until June 30, 2004, the loans bore annual interest at the rate of 5%. As from July 1, 2004, the loans are interest free.

(2) The Company received perpetual loans from the State of Israel. The principal of the loans is unlinked and bears annual interest at the rate of 0.5%, linked in full to the Israeli CPI and payable quarterly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LONG-TERM LOANS AND LIABILITIES (Cont.)

- d. Maturity dates of other long-term liabilities subsequent to balance sheet date:

As of December 31, 2006:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Un- determined	Total
	NIS in thousands							
NIS loans linked to the CPI	77,847	67,405	68,190	46,184	36,326	47,280	30,377	373,609
Other unlinked loans	-	-	-	-	-	-	48,219	48,219
Loans linked to the U.S. dollar	-	-	-	-	-	-	28,033	28,033
Loans linked to the Canadian dollar	-	3,328	3,328	-	-	-	-	6,656
Loans linked to the Euro	-	-	-	-	-	-	8,814	8,814
	<u>77,847</u>	<u>70,733</u>	<u>71,518</u>	<u>46,184</u>	<u>36,326</u>	<u>47,280</u>	<u>115,443</u>	<u>465,331</u>

As of December 31, 2005:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Un- determined	Total
	NIS in thousands							
Loans linked to the CPI	77,049	78,144	67,656	68,427	46,341	83,393	27,407	448,417
Other unlinked loans	-	-	-	-	-	-	48,790	48,790
Loans linked to the U.S. dollar	-	-	-	-	-	-	8,125	8,125
Loans linked to the Canadian dollar	-	-	-	-	-	-	9,240	9,240
	<u>77,049</u>	<u>78,144</u>	<u>67,656</u>	<u>68,427</u>	<u>46,341</u>	<u>83,393</u>	<u>93,562</u>	<u>514,572</u>

- e. As for charges, see Note 22a(2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- TENANTS' SECURITY DEPOSITS

As collateral for rental payments, tenants have provided deposits linked to the Israeli CPI which do not bear interest. The deposits plus linkage differences are returned to the tenants at the end of the leasing period, after the tenants have fulfilled all their obligations.

NOTE 19:- DEBENTURES

a. Composition:

As of December 31, 2006:

	<u>Principal amount</u> NIS in thousands	<u>Stated interest rate</u> %	<u>Effective interest rate</u> %	<u>Carrying amount</u> NIS in thousands
Debentures (series C) (1)	580,506	4.05	5.15	137,117
Debentures (series E) (2)	123,501	4.70	6.17	86,778
Debentures (series F) (3)	402,858	5.20	5.40	330,968
Debentures (series G) (4)	1,002,661	5.50	5.39	1,009,743
Debentures (series H) (5)	<u>884,219</u>	4.65	5.05	<u>861,760</u>
	<u>2,993,745</u>			<u>2,426,366</u>

As of December 31, 2005:

	<u>Principal amount</u> NIS in thousands	<u>Stated interest rate</u> %	<u>Effective interest rate</u> %	<u>Carrying amount</u> NIS in thousands
Debentures (series C) (1)	582,199	4.05	5.15	205,310
Debentures (series E) (2)	120,887	4.70	6.17	101,261
Debentures (series F) (3)	404,032	5.20	5.40	397,878
Debentures (series G) (4)	1,005,590	5.50	5.39	1,014,472
Debentures (series H) (5)	<u>449,790</u>	4.65	5.05	<u>369,960</u>
	<u>2,562,498</u>			<u>2,088,881</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

b. Maturity dates subsequent to balance sheet date:

As of December 31, 2006:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Total</u>
NIS in thousands							
Debentures (series C)	68,226	68,891	-	-	-	-	137,117
Debentures (series E)	16,922	17,122	17,342	17,573	17,819	-	86,778
Debentures (series F)	65,852	66,111	66,218	66,332	66,455	-	330,968
Debentures (series G)	168,857	168,627	168,414	168,195	167,970	167,680	1,009,743
Debentures (series H)	(2,325)	(2,226)	(2,328)	(2,449)	108,387	762,701	861,760
	<u>317,532</u>	<u>318,525</u>	<u>249,646</u>	<u>249,651</u>	<u>360,631</u>	<u>930,381</u>	<u>2,426,366</u>

As of December 31, 2005:

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>Fifth year</u>	<u>Sixth year and thereafter</u>	<u>Total</u>
NIS in thousands							
Debentures (series C)	67,791	68,426	69,093	-	-	-	205,310
Debentures (series E)	16,405	16,547	16,743	16,958	17,184	17,424	101,261
Debentures (series F)	65,951	65,729	65,999	66,115	66,233	67,851	397,878
Debentures (series G)	1,764	168,434	168,216	168,019	167,841	340,198	1,014,472
Debentures (series H)	(545)	(8,696)	(8,774)	(8,846)	(8,953)	405,774	369,960
	<u>151,366</u>	<u>310,440</u>	<u>311,277</u>	<u>242,246</u>	<u>242,305</u>	<u>831,247</u>	<u>2,088,881</u>

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

- c. Convertible debentures (series D):

	<u>Principal amount</u> NIS in thousands	<u>Stated interest rate</u> %	<u>Effective interest rate</u> %	<u>Carrying amount</u> NIS in thousands
December 31, 2006	<u>317,433</u>	3.75	6.53	<u>242,466</u>
December 31, 2005	<u>318,458</u>	3.75	6.53	<u>295,556</u>

See also f. below.

- d. Maturity dates subsequent to balance sheet date:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	<u>NIS in thousands</u>	
First year	<u>46,054</u>	<u>46,121</u>
Second year	47,275	47,165
Third year	48,447	48,475
Fourth year	49,685	49,669
Fifth year	51,005	51,039
Sixth year and thereafter	-	53,087
	<u>196,412</u>	<u>249,435</u>
	<u>242,466</u>	<u>295,556</u>

- e. Additional information:

1. A series of registered debentures (series C) of NIS 478,234 thousand par value are traded on the Tel-Aviv Stock Exchange, bear annual interest at the rate of 4.05% and are linked (principal and interest) to the actual Israeli CPI of August 1997. As of the balance sheet date, NIS 363,948 thousand par value was redeemed. The balance is redeemable in the years 2007 to 2008.
2. A series of registered debentures (series E) of NIS 90,643 thousand par value are traded on the Tel Aviv Stock Exchange, bear annual interest at the rate of 4.70% and are linked (principal and interest) to the representative exchange rate of the Euro. As of balance sheet date, approximately NIS 15,107 thousand par value of these debentures were redeemed. The balance is redeemable in equal payments between 2007 and 2011.

In 2004, the Company acquired approximately NIS 15,999 thousand par value of these debentures during trade on the Stock Exchange. These debentures were delisted from trade.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

3. A series of registered debentures (series F) of NIS 376,465 thousand par value are traded on the Tel-Aviv Stock Exchange, bear annual interest at the rate of 5.2% and are linked (principal and interest) to the CPI for January 2002. As of balance sheet date, approximately NIS 62,744 thousand par value of these debentures were redeemed. The balance is redeemable in equal payments between 2007 and 2011.
4. a) NIS 470,000 thousand par value of debentures (series G). The debentures are linked to the CPI, are repayable in six equal payments in the years 2007 - 2012 (inclusive) and bear annual interest at the rate of 5.5% as well as 300 thousand stock options (series 6) convertible to NIS 30,000 thousand par value of debentures (series G) of the Company such that each stock option is exercisable into NIS 100 par value of debentures (series G) against cash payment of an exercise price of NIS 100 linked to the CPI. In any case, the exercise price will not be less than NIS 100. Any options not exercised until February 17, 2005 will expire and will not entitle their holder to any rights in the Company.

The total proceeds, net, from the issuance, less the part acquired by the subsidiary of the Company, amounted to NIS 397 million.

- b) During 2004, the Company issued approximately 7,552 thousand par value of debentures (series G) as a result of the exercise of approximately 75,525 options (series 6) in consideration for approximately NIS 7.6 million.

On October 26, 2004, the Board of Directors of the Company decided to increase the framework of the debentures (series G) issued according to the prospectus of August 9, 2004 by approximately NIS 500 million par value, according to market value, to be issued from time to time in accordance with the Company's requirements.

In November 2004, the Company raised from outside sources approximately NIS 86 million through a private issuance of debentures (series G) to institutional investors.

During 2005, the Company issued through a private placement to institutional investors approximately NIS 333.1 million par value of debentures (series G) in consideration of approximately NIS 351 million.

In addition, during January and February 2005, the Company issued approximately NIS 22,434 thousand par value of debentures (series G) following the exercise of approximately 224,341 options (series 6) in consideration of approximately NIS 22.4 million. The outstanding par value of options expired on February 17, 2005. Total issuance expenses in 2005 amounted to NIS 351 thousand.

During October and November 2005, a wholly owned subsidiary of the Company sold NIS 63.1 million par value of debentures (series G) to institutional investors in consideration of approximately NIS 68.7 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

5. A series of NIS 200,000 thousand par value of registered debentures (series H) which are redeemable in eight equal annual installments in each of the years 2011 through 2018, linked (principal and interest) to the Israeli CPI. The debentures bear annual interest of 4.65% to be paid on February 28 and August 31 of each of the years 2006 to 2018.

1,500 thousand registered stock options (series 7) were also issued, which are exercisable into NIS 150,000 thousand par value of debentures (series H) for a period of two months such that each stock option is exercisable into NIS 100 par value of debentures (series H) for a cash exercise increment of NIS 100, linked to the CPI per stock option. Any stock options (series 7) which are not exercised by October 31, 2005 (inclusive) will expire and will not entitle their holders to any rights.

1,500 thousand registered stock options (series 8) were also issued, which are exercisable into NIS 150,000 thousand par value of debentures (series H) for a period of two months such that each stock option is exercisable into NIS 100 par value of debentures (series H) for a cash exercise increment of NIS 100, linked to the CPI per stock option. Any stock options (series 8) which are not exercised by December 29, 2005 (inclusive) will expire and will not entitle their holders to any rights.

Total issuance proceeds amounted to approximately NIS 200 million.

Total issuance expenses in 2005 amounted to NIS 4,253 thousand.

During 2005, the Company issued NIS 134,556 thousand par value of debentures (series H) following the exercise of 1,345,560 options (series 7) in consideration of NIS 135.5 million. The remaining 154,440 options (series 7) expired on October 31, 2005.

In 2005, the Company issued NIS 110,867 thousand par value of debentures (series H) following the exercise of 1,108,677 options (series 8) in consideration of approximately NIS 112.8 million. The remaining 391,323 options (series 8) expired on December 29, 2005.

In October 2005, the subsidiary acquired approximately 156 thousand par value of options (series 7) in consideration of approximately NIS 16 million and converted them into approximately NIS 15.6 million par value of debentures (series H) in consideration of approximately NIS 15.6 million.

During October and December 2005, the subsidiary acquired NIS 111,449 thousand par value of debentures (series H) in consideration of NIS 112,434 thousand.

During December 2005, the subsidiary sold NIS 38,500 thousand par value of debentures (series H) in consideration of NIS 38,404 thousand.

During 2006, the Company allocated by private placements to institutional investors approximately NIS 432.8 million par value of debentures (series H) for a total consideration of approximately NIS 431.9 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DEBENTURES (Cont.)

During January 2006, a subsidiary of the Company sold about NIS 72.9 million par value of debentures (series H) of the Company for a total consideration of approximately NIS 72.8 million.

f. Convertible debentures:

A series of registered debentures (series D) of NIS 296,637 thousand par value of the Company are traded on the Tel Aviv Stock Exchange, bear annual interest at the rate of 3.75% and are linked (principal and interest) to the Israeli CPI of January 2002. The debentures are convertible into Ordinary shares of the Company at the conversion ratio of NIS 9.5 par value of debentures (series D) into 1.085 shares. The debentures are redeemable in equal payments in the years 2006 to 2011. During 2006, NIS 49,439 thousand par value of debentures were redeemed.

During November and December 2006, approximately NIS 6 million par value of debentures (series D) were converted into about 687 thousand Ordinary shares.

g. As for charges, see Note 22a(2).

NOTE 20:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

a. Israeli labor laws and Severance Pay Law require the Company to make severance pay to employees upon their dismissal or retirement. The calculation of the Company's liability in respect of employee benefits is carried out according to valid employment contracts and is based on employee salaries which management believes creates the right for severance pay.

b. Information on defined deposit plans:

1. Expenses in respect of employee benefits, net:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Cost of current service	670	790
Interest expenses in respect of benefit liabilities	360	460
Expected return on the plan's assets	(155)	(212)
Total expenses in respect of employee benefits	875	1,038
Actual return on the plan's assets	215	84
The expenses are presented in the statement of income as follows:		
General and administrative expenses	875	1,038

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

2. The plan's assets (liabilities):

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Liabilities in respect of defined benefit plan	10,126	10,924
Fair value of the plan's assets	(4,030)	(4,646)
	6,096	6,278
Net unrecognized actuarial losses	(971)	(437)
Initial consolidation	(19)	-
Total liabilities, net	<u>5,106</u>	<u>5,841</u>

3. Changes in the present value of the defined benefit obligations are as follows:

	2006	2005
	NIS in thousands	
Liability as of January 1	10,924	10,046
Initial consolidation	162	-
Interest expenses	360	460
Cost of current service	670	790
Paid royalties	(2,582)	(679)
Actuarial loss, net	592	307
Liability as of December 31	<u>10,126</u>	<u>10,924</u>

4. The plan's assets:

- a) The plan's assets include assets held in a long-term employee benefit fund as well as in managers' insurance policies.

- b) Changes in the fair value of the plan assets are as follow:

	2006	2005
	NIS in thousands	
The plan's assets as of January 1	4,646	4,140
Initial consolidation	143	-
Expected return	155	212
Contributions by the employer	857	874
Paid royalties	(1,828)	(451)
Actuarial gain (loss), net	57	(129)
The plan's assets as of December 31	<u>4,030</u>	<u>4,646</u>

Total expected rate of return on the plan's assets is determined based on types of assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

5. The principal assumptions used in determining employee benefit obligations for the Group's defined benefit plan are shown below:

	2006	2005
	%	%
Discount rate	5.62	5.84
Expected rate of return on the plan's assets	3.67	4.741
Future salary increases	5.45	5.43

NOTE 21:- CONTINGENT LIABILITIES

- a. Pursuant to the Law for the Encouragement of Capital Investments, 1959, the Company is entitled to investment grants for its investments in approved programs, see Note 26a. As for the compliance with the terms of the letter of approval, see Note 11c.

- b. Pending claims against the Company:

1. In May 2001, a claim in the amount of NIS 2.5 million was filed by an individual who was a party to the negotiations for leasing a property of the Company, which eventually was not leased to him. The Company argues that no agreement was formalized with the plaintiff and, accordingly, the Company bears no liability to him. The chances of the lawsuit are remote.
2. In August 2002, a claim in the amount of NIS 2.4 million was filed regarding a building, which was purchased from the Company. The plaintiffs allege impairment of their rights including, easement to the plot on which the building is situated. The case is in pre-trial stage and hearings were not yet scheduled.

The Company claims that the statute of limitation applies and the claim lacks cause of action and also raises claims as to the essence of the lawsuit. In the opinion of the Company's legal advisors, the Company maintains valid defense arguments against the lawsuit.

3. In November 2002, a claim in the amount of NIS 1.9 million was filed against the Company and against other defendants, including the State of Israel, alleging damages caused due to a flood. The plaintiffs maintain a business in the Erez industrial zone where the Company gives management and maintenance services to the State of Israel. The Company argues that the flood was caused as a result of a supporting wall which was constructed by the State and, therefore, it is not responsible for the claimed damage. The statement of defense was presented by the Company's insurance company while maintaining the claim that the issue of coverage within the relations of the insurance company and the Company, is open.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- CONTINGENT LIABILITIES (Cont.)

4. In October 2006, a subrogation tortious lawsuit in the amount of NIS 2.1 million was filed by the National Insurance Institute against an insurer of the Company. The lawsuit is in preliminary stages and a first pre-trial has been scheduled for October 2007.
5. A lawsuit in the amount of approximately NIS 14.8 million that had been filed in the course of 2005 against the Company and others was only submitted to the defendants during February 2007 (about two years after having been filed) in respect of damages caused due to a flood that occurred in 2002. At this stage, a letter of defense has not yet been submitted.
6. Other claims were filed against the Company in the ordinary course of business, the amount of each one and also their aggregate amount is insignificant to the Company.
7. Various claims in the aggregate amount of NIS 14.2 million were filed against the Company in the context of its activity as project manager for the Israel Lands Administration. In the opinion of the Company's attorneys, in the event that the Company fails to prove its case in any of said claims, the amounts shall be paid out of the project's account and, accordingly, the Company has no exposure in respect of these claims.

In management's opinion, based on its legal counsel, the Company has good defenses against the above claims and the provision in their respect is adequate to cover the Company's exposure.

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS

- a. Charges:
 1. To secure the Company's compliance with the terms of the approvals of an approved enterprise under the Law for the Encouragement of Capital Investments, 1959, it has pledged in favor of the State of Israel all of its fixed assets by an unlimited last in priority floating charge.
 2. To secure most of the liabilities of the Company and its investees, mortgages were placed on their rights to various real estate properties which they own and on inventory of buildings for sale, net as well as on part of the securities held by the Company. Similarly, part of the cash due and that will be due the Company from tenants in that portion of real estate was pledged.

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

The balances of the secured liabilities are as follows:

	December 31,	
	2006	2005
	NIS in thousands	
Short-term loans and credit	757,197	551,871
Long-term liabilities (including current maturities)	2,049,434	2,317,517
Bank guarantees secured by pledge	443,862	288,719
	3,250,493	3,158,107

The above liabilities do not include liabilities for approximately NIS 2,884,829 thousand of debentures (series C, D, E, F, G, H, I and J) (including current maturities) which are secured by a token amount of NIS 1.

3. To secure the enforcement of an agreement entered between the Company and Ackerstein Zvi Ltd. and its related company, the Company placed a senior fixed charge on all of its rights to receive rental payments from several tenants as per the rental agreements with them.
 4. As of December 31, 2006, the carrying amount of pledged assets in Israel is approximately NIS 2,425 million and of pledged assets abroad approximately NIS 2,378 million.
- b. Guarantees:
1. As of the balance sheet date, the Company provided bank guarantees in the amount of NIS 29,722 thousand in order to secure completion of buildings in various local council areas, to participate in tenders and to secure credit.
 2. The Company is the guarantor of a loan given to its subsidiary, Industrial Buildings Ashdod, by Bank Hapoalim B.M. in the amount of approximately NIS 9,643 thousand.
 3. The Company is the guarantor of loans given to a subsidiary, Meimadim Investments, in the amount of approximately NIS 63.1 million.
 4. As of balance sheet date, the Company provided bank guarantees in the amount of approximately NIS 3,029 thousand in order to secure the payments of buyers of apartments in Tel-Aviv Towers in accordance with the Sales Law (Apartments) (Securing the Investments of Apartment Buyers), 1974.
 5. In the context of an agreement signed between banks in Canada and subsidiaries of the Company for receiving non recourse loans in order to finance the acquisition of properties in Canada, the Company has undertaken to indemnify the banks for any damage, expense or loss that they may incur, directly and indirectly, if certain conditions are met, as detailed in the loan agreement. As of the balance sheet date, these conditions were not met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

6. The Company guaranteed U.S. \$ 40 million to a foreign bank individually and jointly with a foreign partner (50%) against loans taken to finance the Company's investments.
7. A subsidiary of the Company provided a guarantee to Bank Leumi in the amount of approximately NIS 846 thousand in respect of a tender for a management contract.
8. The Group guaranteed loans extended to various trusts in Canada and other European subsidiaries in favor of a foreign bank in a total of approximately NIS 48 million.
9. The Company provided a bank guarantee in respect of an affiliate for loans extended to the affiliate totaling approximately NIS 120 million.

c. Commitments:

1. On December 7, 1995, a combination agreement was signed between the Company and Ackerstein Zvi Ltd. and Luba Ltd. (collectively - "Ackerstein") whereby the Company undertook to set up a project on a plot in Herzliya owned by Ackerstein of which 58% will be owned by the Company and 42% by Ackerstein.

The project includes four towers. During July 2001, the construction of the first stage of the project was completed including two towers. Pursuant to the agreement, the Company has committed to terminate the construction of the entire project no later than February 28, 2005.

Ackerstein approached the Company with a request to implement the combination agreement and to construct stage B of the project. On February 26, 2004, an agreement was signed enabling construction of stage B of the project in two parts. In the first part (B1 stage), the Company constructed one office building and part of the parking garage. All of the areas to be allocated to by virtue of the combination agreement of total stage B areas will be delivered upon completion.

The second part (B2 stage) has commenced and the Company began the construction of the remaining project. Based on the agreement, the parties maintain their rights and claims regarding their liabilities pursuant to the combination agreement. Due to falling behind on the schedule for completing the B1 stage, the Company estimates that it shall be required to pay compensation to tenants in an amount that it estimates as immaterial. In contrast, the Company is entitled to compensation from the project's contractor that, if received, will probably cover part of the Company's compensation liability.

Regarding a charge in accordance with the combination agreement, see a(3) above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

2. On April 21, 2005, the general meeting of the Company approved the decision of the audit committee and the Board of the Company of March 2005 regarding the Company' engagement with Jerusalem Economic Corporation Ltd. ("JEC") and Durban for the establishment of a joint company ("the management and supervision company") to provide super-management and supervision services in respect of real estate properties in Europe to the Company, JEC and Durban (the Company, JEC and Durban shall be collectively referred to as the "group companies"). The provisions of the proposed agreement as well as the arguments to enter into this contractual commitments are similar, not including the required revisions, to the provisions of the agreement for the management of the real estate properties in North America of each of the group companies, as described in Note 20c(7) to the financial statements of the Company as of December 31, 2004, except the following changes:
 - a) The management and supervision company will be jointly owned by the group companies.
 - b) A charge of 5% will be added to each component of costs and expenses (cost + 5%).
 - c) In case one of the group companies terminates its commitment with the management and supervision company, the above company shall transfer its stake in the management and supervision company to the other companies of the group companies who have not terminated the commitment at no consideration.
 - d) The agreement will be in effect for five years until April 30, 2010.
 - e) Any change in the annual budget of the management and supervision company in a rate exceeding 20% a year will be reported to the annual general meeting of the Company.
3. On August 9, 2006, the Company's general meeting approved an engagement with Jerusalem Economic Corporation Ltd. (a controlling shareholder of the Company, "JEC") and Durban Investments Ltd. (a public company controlled by Mr. Fishman, the Company's Chairman of the Board, "Durban") for collaborating in the real estate sector in Russia in the context of which all the Russian real estate activity of JEC, Durban and the Company as of the date of these financial statements and any future real estate activities in Russia will be jointly managed by the parties and through a joint company ("the joint company"). The Company and JEC will each hold 40% of the joint company's issued share capital and Durban will hold 20%. The collaboration agreement will include provisions as to the manner of consolidating the existing activities of the Company and JEC in Russia and the balance payments to be extended by all parties and the manner of executing future investments through the joint company. The agreement stipulates that all parties will commit not to invest in real estate in Russia until the later of 1. Seven years from the date of the approval of the joint commitment by the general meeting of that shareholder, namely August 2013, or 2. The date on which the shareholder's holdings in the joint company drop below 5% of the joint company's share capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

Similarly, the Company's audit committee and Board approved that the Company's Chairman will receive an annual grant at a rate of 4% of the net operating income (operating income net of depreciation and amortization) deriving from the joint company's investments in Russia and a pre-tax margin to be determined based on sale of assets by the joint company. Accordingly, in calculating the annual grant to the Company's Chairman of the Board at a rate of 4% of the net operating income and a pre-tax margin to be determined based on sale of assets by the joint company, approved by the Company's general meeting on January 19, 2005, the Company's share in the assets held through the joint company will not be included.

The Company's audit committee and Board further approved that the joint company shall participate in the joint company's travel expenses to Russia for conducting its business through a private airplane (indirectly) owned by the Company's Chairman up to 12 flights a year. The amount of the participation will be set according to the prices approved by the Company's general meeting of April 28, 2004. The participation in these expenses by the joint company will replace the participation of the Company by virtue of the same decision in flights in whose expenses the joint company will participate. Beyond that, there will be no changes in the Company's existing engagement.

In September 2006, the joint company (Mirland Development, "Mirland") issued shares to the Company and Durban in consideration of U.S. \$ 822 thousand and U.S. \$ 2,869 thousand, respectively (approximately NIS 3.6 million and NIS 12.6 million, respectively). Pursuant to the agreement, the Company assigned its investments in Felixtowe, Inverton Enterprises, Mall Projects and Creative Come to Mirland. The Company also assigned loans of approximately NIS 107 million to Mirland that were converted into capital.

In December 2006, the joint company completed its IPO on a London stock exchange. The Company's holding rate in the joint company decreased from 40% to 28%, resulting in a gain of NIS 303.7 million to the Company.

4. On January 9, 2006, a partnership under the full control of the Company signed an agreement for the purchase of about 50% of the rights to a company which holds land in Florida, U.S.A. ("the company") designated for construction of luxury residence, hotels, a commercial center and parking lots. The total cost of acquisition (100%) amounts to approximately U.S. \$ 56 million, of which approximately U.S. \$ 26 million was financed through foreign bank loans.

The Company continues to negotiate the acquisition of additional land of some 9 thousand sq. m., adjacent to the land acquired. The overall cost (100%) of the additional rights under negotiation amounts to approximately U.S. \$ 64 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

5. In the reported period, a wholly-owned foreign subsidiary of the Company completed the transaction for the sale of its rights in a commercial center located in Canada (City Place) in consideration of NIS 314 million (approximately Can\$ 78.5 million). The Company committed to pay NIS 14.4 million (approximately Can\$ 3.6 million) to the purchaser for vacant commercial spaces. The above amount was deposited with the Company's trustee and shall be paid every month over 36 months, if such spaces are not rented. During the period, in the event that the parties shall find lessees for the above vacant space and upon the consent of the parties, the Company shall receive a refund from the purchaser in respect of amounts it paid for such spaces.

Until the date of the financial statements, the purchaser forwarded the entire consideration to the foreign company.

The foreign subsidiary extended to the purchaser a loan of NIS 16 million in Canadian dollars bearing annual interest of 6%, half of which shall be repaid at the end of two years and the balance shall be repaid at the end of three years against a charge, second in priority, placed on the property.

6. In July 2006, Meimadim Investments Ltd. ("Meimadim Investments"), a subsidiary of the Company, reclassified 1,559,990 of its authorized shares from Ordinary shares to Deferred shares (these shares included 1,554,200 issued shares) pursuant to the decision of the shareholders from July 4, 2006.

Meimadim Investments also issued 40,000 Ordinary shares, of which the Company purchased 28,000 shares in consideration of NIS 28 thousand and was also assigned shareholders' loans totaling NIS 4,848 thousand. As a result, the holding rate in Meimadim Investments increased from 60% to 70%.

The Ordinary shares will confer upon their holders the following rights:

- a) Participate in distribution of the Company's earnings.
- b) Participate in the distribution, in the event of liquidation, of excess assets over liabilities and the par value of the Company's issued share capital.
- c) Vote in meetings of the Company's shareholders in all matters (without derogating from the right of other types of shareholders to vote in matters pertaining to rights conferred upon them by virtue of other types of shares).
- d) Nominate directors in the Company.

The only right that the deferred shares confer upon their holders is to receive their par value upon liquidation of the Company, after all the other types of shareholders have received the full amounts to which they are entitled as above and after they have also received the full par value of the shares that they will hold in the Company at that time (deferred shareholders will not be entitled to participate in the distribution of any earnings in the Company and will not participate in general meetings of shareholders or in nominating directors).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- CHARGES, GUARANTEES AND COMMITMENTS (Cont.)

7. During October 2006, the Company, through a wholly owned foreign subsidiary, completed a transaction for the sale of 1,583 apartments in Magdeburg and Dresden, Germany. The cost of the transaction amounts to approximately NIS 207 million (€ 37 million).

NOTE 23:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

- a. Balances with interested and related parties:

As for balances with investees, see Notes 7 and 16.

- b. Transactions with interested and related parties:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Revenues from rental of buildings	4,113	4,212
Revenues from building management	360	306
Revenues from project management	-	136

The Company, including subsidiaries, has leased in the ordinary course of business and under market conditions spaces to companies in which Mr. Eliezer Fishman (the controlling shareholder in the Company through companies under his control and/or controlled by his family members) is an interested party. Said leased spaces include some 7,844 sq.m. and 9,672 sq.m. as of December 31, 2006 and 2005, respectively. The lease fees paid to the Company during 2006 and 2005 by these companies represented 0.8% and 0.9%, respectively of total rental income derived for the Company in each of these periods.

For some of the properties leased to companies in which Mr. Eliezer Fishman has an interest, as above, the Company and subsidiaries provide management services. In 2006 and 2005, the Company provided management services for spaces of some 4,332 sq.m. and 3,472 sq.m., respectively. The management fees paid to the Company during 2006 and 2005 by said companies represented some 0.4% and 0.3%, respectively of total revenues from management fees in each of these periods.

In May 2001, the Company entered into an agreement with a foreign company which is owned, directly and indirectly, by Mr. Eliezer Fishman whereby the subsidiary will provide "super" management and supervision services for the planning, construction and marketing of office and residential buildings which the foreign company is constructing in Lisbon, Portugal, in return for the cost to the Company + 20%. About 470 residential units with an area of about 56,000 sq.m. are being built during the first stage.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

- c. Management fees, salaries and benefits:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Management fees to board members	1,187	1,892
Management fees to the Chairman of the Board (including grant)	14,298	6,994
Salary and benefits (including options) to the CEO	1,993	1,215
Number of directors	8	9

NOTE 24:- FINANCIAL INSTRUMENTS

- a. Financial risk factors:

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

Risk management is carried out by a specially formed team ("the risk management team") according to a policy approved by the Board of Directors. The risk management team identifies, evaluates and hedges financial risks in collaboration with the Group's operating units. The Board of Directors supplies written risk management procedures that also include specific policies regarding certain risk exposures such as foreign currency risk, interest rate risk, credit risk as well as the use of derivative financial instruments and non-derivative financial instruments and investments of excess cash.

1. Exchange rate risk:

The Group's operations are internationally dispersed, exposing it to foreign currency risks resulting from the exposure to various currencies. Foreign currency risk results from cash flows, recognized assets and liabilities denominated in currencies other than the Group's functional currency and net investments in foreign operations.

The Group has invested in a foreign operation whose net assets are exposed to possible fluctuations in the exchange rates of the U.S. dollar, the Euro, the Canadian dollar and the Russian Ruble (foreign currency translation risk). The currency exposure arising from the net assets of a foreign operation is mainly managed by taking out loans in same currency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

2. Credit risk:

The Group has no significant concentrations of credit risks. The Group maintains policies that guarantee that rental of properties are carried out to customers with an adequate credit history and that its rental activities are performed in cash or using checks.

3. Interest rate risk:

The Group's interest rate risk is mainly derived from long-term loans and debentures. Loans bearing variable interest rates expose the Group to interest rate risk in respect of cash flows whereas loans bearing fixed interest rates expose the Group to interest rate risk in respect of fair value.

4. Liquidity risk:

The Group aims to preserve the existing ratio between obtaining continued financing and its flexibility in using overdrafts, credit from banks and debentures.

5. Cash flow risk in respect of interest rate:

The Group is exposed to risk in respect of changes in market interest resulting from long-term loans obtained that bear variable interest. The Group's policy is to manage the financing costs relating to interest by using a mix of variable and fixed interest for its long-term loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

b. Interest rate risk:

The following table demonstrates the carrying amount of the groups of financial instruments that are exposed to fair value risk and/or cash flow risk in respect of interest rate based on the earlier of the contractual payments or the date of repricing:

As of December 31, 2006:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Un- determined	Effective interest rate	Total
	NIS in thousands								
Financial assets:									
Cash and cash equivalents **)	532,674	-	-	-	-	-	-	4.9	532,674
Short-term investments **)	39,055	-	-	-	-	-	-	-	39,055
Securities	221,920	-	-	-	-	-	-	-	221,920
Long-term deposits and receivables:									
Linked to the CPI *)	71,525	90,358	90,217	71,134	125,057	535,179	-	3.9	983,470
In Canadian dollars *)	11,552	13,872	133,143	-	-	-	-	4.5	158,567
In U.S. dollars *)	-	-	-	-	-	-	48,623	6.5	48,623
Financial liabilities:									
Credit from banks:									
Unlinked **)	252,212	-	-	-	-	-	-	6.1	252,212
Linked to the Canadian dollar **)	198,610	-	-	-	-	-	-	5.9	198,610
Linked to the U.S. dollar **)	306,936	-	-	-	-	-	-	7.1	306,936
Linked to the Swiss Franc **)	35,261	-	-	-	-	-	-	2.8	35,261
Linked to the Euro **)	185,427	-	-	-	-	-	-	4.3	185,427
Linked to the CPI **)	369,537	-	-	-	-	-	-	5.6	369,537
Long-term loans from banks:									
Linked to the CPI *)	89,656	78,916	55,808	31,545	26,027	39,051	-	5.6	321,003
In Canadian dollars *)	4,584	12,259	13,016	264,337	7,657	224,061	158,466	5.7	684,380
In U.S. dollars *)	44,274	875	1,010	1,073	-	76,472	181,931	6.1	305,635
In Euro *)	-	-	556	-	-	-	314,732	4.3	315,288
In Swiss Francs *)	-	-	-	-	-	-	58,350	2.6	58,350
Other long-term liabilities:									
Loans linked to CPI *)	77,847	67,405	68,190	46,184	36,326	47,280	30,377	4.7	373,609
Unlinked NIS liabilities *)	-	-	-	-	-	-	48,219	-	48,219
Loans linked to U.S. dollar *)	-	-	-	-	-	-	28,033	6.5	28,033
Loans linked to Canadian dollar *)	-	3,328	3,328	-	-	-	-	-	6,656
Loans linked to Euro *)	-	-	-	-	-	-	8,814	5.9	8,814

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Un-determined	Effective interest rate	Total
NIS in thousands									
Debtures:									
Debtures (series C) *)	68,226	68,891	-	-	-	-	-	5.2	137,117
Debtures (series E) *)	16,922	17,122	17,342	17,573	17,819	-	-	6.2	86,778
Debtures (series F) *)	65,852	66,111	66,218	66,332	66,455	-	-	5.4	330,968
Debtures (series G) *)	168,857	168,627	168,414	168,195	167,970	167,680	-	5.4	1,009,743
Debtures (series H) *)	(2,325)	(2,226)	(2,328)	(2,449)	108,387	762,701	-	5.1	861,760
Convertible debtures:									
Debtures (series D) *)	46,054	47,275	48,447	49,685	51,005	-	-	6.5	242,466
	<u>(1,051,204)</u>	<u>(424,353)</u>	<u>(216,641)</u>	<u>(571,341)</u>	<u>(356,589)</u>	<u>(782,066)</u>	<u>(780,299)</u>		<u>(4,182,493)</u>

*) These assets/liabilities bear fixed interest.

***) These assets/liabilities bear variable interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

As of December 31, 2005:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Un- determined	Effective interest rate	Total
	NIS in thousands								
Financial assets:									
Cash and cash equivalents **)	120,614	-	-	-	-	-	-	4.3	120,614
Short-term investments **)	45,801	-	-	-	-	-	-	-	45,801
Securities	60,549	-	-	-	-	-	-	-	60,549
Long-term deposits and receivables:									
Linked to the CPI *)	22,139	72,566	89,536	90,351	71,214	537,464	-	3.8	883,270
In U.S. dollars *)	-	-	-	-	-	-	8,125	5.0	8,125
Financial liabilities:									
Credit from banks:									
Unlinked **)	52,877	-	-	-	-	-	-	5.2	52,877
Linked to the Canadian dollar **)	214,301	-	-	-	-	-	-	4.6	214,301
Linked to the U.S. dollar **)	289,455	-	-	-	-	-	-	6.3	289,455
Linked to the Swiss Franc **)	37,837	-	-	-	-	-	-	1.9	37,837
Long-term loans from banks:									
Linked to the CPI *)	103,005	99,495	79,128	56,000	34,708	62,363	-	5.6	434,699
In Canadian dollars *)	10,439	14,588	15,401	15,706	288,304	240,115	163,772	5.4	748,325
In U.S. dollars *)	-	-	953	1,100	1,169	83,314	264,123	5.2	350,659
In Euro *)	-	-	-	-	-	-	283,609	3.0	283,609
In Swiss Francs *)	-	-	-	-	-	-	58,122	1.6	58,122
Other long-term liabilities:									
Loans linked to CPI *)	77,049	78,144	67,656	68,427	46,341	83,393	27,407	4.8	448,417
Unlinked NIS liabilities *)	-	-	-	-	-	-	48,790	-	48,790
Loans linked to U.S. dollar *)	-	-	-	-	-	-	8,125	5.0	8,125
Loans linked to Euro *)	-	-	-	-	-	-	9,240	4.7	9,240
Debentures:									
Debentures (series C) *)	67,791	68,426	69,093	-	-	-	-	5.2	205,310
Debentures (series E) *)	16,405	16,547	16,743	16,958	17,184	17,424	-	6.2	101,261
Debentures (series F) *)	65,951	65,729	65,999	66,115	66,233	67,851	-	5.4	397,878
Debentures (series G) *)	1,764	168,434	168,216	168,019	167,841	340,198	-	5.4	1,014,472
Debentures (series H) *)	(545)	(8,696)	(8,774)	(8,846)	(8,953)	405,774	-	5.1	369,960
Convertible debentures:									
Debentures (series D) *)	46,121	47,165	48,475	49,669	51,039	53,087	-	6.5	295,556
	<u>(733,347)</u>	<u>(477,266)</u>	<u>(433,354)</u>	<u>(342,797)</u>	<u>(592,652)</u>	<u>(816,055)</u>	<u>(855,063)</u>		<u>(4,250,534)</u>

*) These assets/liabilities bear fixed interest.

**) These assets/liabilities bear variable interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)**

c. Credit risk:

Concentrations of credit risk - general:

Credit risk is the risk that a counterparty to a financial instrument will fail in meeting its commitment and cause a monetary loss to the Company. A concentration of credit risks may arise from exposures of entering into various financial instruments with a single entity (a single concentration) or as a result of entering into commitments with several groups of debtors with similar economic characteristics whose ability to meet their obligations is expected to be similarly affected by changes in economic or other conditions (group concentration). Characteristics that might result in a concentration of risks include the nature of the debtors' activities, the sector in which they operate, the geographic location of their activities and the solvency of groups of borrowers.

- As of December 31, 2006, the balance of trade receivables in respect of certain customers includes concentrations of credit risks as follows:

	December 31,	
	2006	2005
	NIS in thousands	
Trade receivables	74,850	55,797
Allowance for doubtful accounts	<u>(13,504)</u>	<u>(12,924)</u>
Trade receivables, net	<u><u>61,346</u></u>	<u><u>42,873</u></u>

The Company performs ongoing valuations of the credit extended to its customers while examining their environmental financial conditions. The Company provides an allowance for doubtful accounts based on factors that affect the credit risks of certain customers, past experience and other information.

- The Company holds cash and cash equivalents, short and long-term investments and other financial instruments in various financial institutions. These financial institutions are located in different geographical areas worldwide and the Company's policy is to disperse its investments between the different institutions. According to the Company's policy, evaluations of the relative credit stability of the different financial institutions are performed on an ongoing basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)**

d. Fair value:

The following table sets out the carrying amounts and fair values of groups of financial instruments that are reported in the financial statements not at fair value:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>NIS in thousands</u>			
Financial assets:				
Investment in sort-term deposits and securities	260,975	106,350	260,975	106,350
Long-term loans granted	<u>1,190,660</u>	<u>891,395</u>	<u>1,187,316</u>	<u>874,129</u>
	<u>1,451,635</u>	<u>997,745</u>	<u>1,448,291</u>	<u>980,479</u>
Financial liabilities:				
Short-term credit	1,347,983	594,471	1,347,983	594,471
Long-term liabilities to banks	1,684,656	1,875,414	1,707,266	1,886,061
Other long-term liabilities	367,849	448,417	359,092	460,381
Debentures	<u>2,682,073</u>	<u>2,384,437</u>	<u>2,800,812</u>	<u>2,497,026</u>
	<u>6,082,561</u>	<u>5,302,739</u>	<u>6,215,153</u>	<u>5,437,939</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

e. Linkage terms of monetary balances:

	December 31, 2006						Total
	Linked to CPI	Linked to the U.S. dollar	Linked to the Canadian dollar	Linked to the Euro	Linked to the Swiss Franc	Unlinked	
	NIS in thousands						
ASSETS							
Cash and cash equivalents	-	5,079	10,708	82,792	3,639	430,456	532,674
Short-term investments	-	5,196	17,680	11,234	-	507	34,617
Trade receivables	-	-	-	-	-	61,346	61,346
Other accounts receivable	12,806	38,734	-	-	-	4,669	56,209
Long-term deposits	903,768	-	-	-	-	-	903,768
Long-term receivables (including current maturities)	100,292	28,033	158,567	-	-	-	286,892
	<u>1,016,866</u>	<u>77,042</u>	<u>186,955</u>	<u>94,026</u>	<u>3,639</u>	<u>496,978</u>	<u>1,875,506</u>
LIABILITIES							
Credit from banks and others	369,537	306,936	198,610	185,427	35,261	252,212	1,347,983
Trade payables	-	-	-	-	-	87,519	87,519
Other accounts payable	74,983	34,493	-	4,042	-	158,571	272,089
Loans from banks (including current maturities)	321,003	305,635	684,380	315,288	58,350	-	1,684,656
Other long-term liabilities (including current maturities)	373,609	28,033	6,656	8,814	-	48,219	465,331
Tenants' deposits	24,006	-	-	-	-	4,829	28,835
Debentures (including current maturities)	2,582,054	-	-	86,778	-	-	2,668,832
	<u>3,745,192</u>	<u>675,097</u>	<u>889,646</u>	<u>600,349</u>	<u>93,611</u>	<u>551,350</u>	<u>6,555,245</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2005						Total
	Linked to CPI	Linked to the U.S. dollar	Linked to the Canadian dollar	Linked to the Euro	Linked to the Swiss Franc	Unlinked	
	NIS in thousands						
ASSETS							
Cash and cash equivalents	-	9,553	6,095	22,502	1,465	80,999	120,614
Short-term investments	-	6,789	38,210	419	-	383	45,801
Trade receivables	-	-	-	-	-	42,873	42,873
Other accounts receivable	32,332	35,303	-	-	-	37,897	105,532
Long-term deposits	781,207	-	-	-	-	-	781,207
Long-term receivables (including current maturities)	102,063	8,125	-	-	-	-	110,188
	<u>915,602</u>	<u>59,770</u>	<u>44,305</u>	<u>22,921</u>	<u>1,465</u>	<u>162,152</u>	<u>1,206,215</u>
LIABILITIES							
Credit from banks and others	-	289,455	214,301	-	37,837	52,877	594,470
Trade payables	-	-	-	-	-	65,579	65,579
Other accounts payable	76,135	34,493	-	4,763	-	76,458	191,849
Loans from banks (including current maturities)	434,699	350,659	748,325	283,609	58,122	-	1,875,414
Other long-term liabilities (including current maturities)	448,417	8,125	-	9,240	-	48,790	514,572
Tenants' deposits	24,123	-	-	-	-	5,352	29,475
Debentures (including current maturities)	2,283,176	-	-	101,261	-	-	2,384,437
	<u>3,266,550</u>	<u>682,732</u>	<u>962,626</u>	<u>398,873</u>	<u>95,959</u>	<u>249,056</u>	<u>5,655,796</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 25:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME**

a. Maintenance and management costs:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Maintenance and insurance	125,298	118,147
Municipal taxes	43,510	42,522
Wages and related expenses	17,654	21,112
	<u>186,462</u>	<u>181,781</u>

b. General and administrative expenses:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Salaries and related expenses	11,536	8,856
Management fees and directors' remuneration	15,485	8,886
Depreciation	1,223	1,199
Doubtful accounts and bad debts	7,519	4,496
Professional services	13,785	9,372
Office and other expenses	15,768	9,274
	<u>65,316</u>	<u>42,083</u>

c. Financial expenses:

In respect of long-term loans	108,474	88,596
In respect of debentures	137,213	158,220
In respect of short-term credit	34,841	27,948
In respect of revaluation of liability component of conversion option of debentures (series D) into shares	39,488	7,212
Other financial expenses	2,705	1,739
	<u>322,721</u>	<u>283,715</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME (Cont.)

Financial income:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
In respect of long-term investments	44,610	42,331
Gain from marketable securities, net	11,496	20,176
Other financial income	750	2,242
	56,856	64,749
d. Other income, net:		
Gain from decrease in holding rate	303,651	-
Other income	2,732	1,397
	306,383	1,397

NOTE 26:- TAXES ON INCOME

a. Tax laws applicable to the companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI.

The Law for the Encouragement of Capital Investments, 1959 ("the Law"):

Under the Law, the Company is entitled to various tax benefits by virtue of the "approved enterprise" status granted to part of its facility, as detailed by the Law.

The main benefits granted by virtue of the Law are as follows:

1. Accelerated depreciation – the Company is entitled in the first five years from the commencement of use of the buildings for rent, which were constructed within the framework of approved programs under this law, to deduct accelerated depreciation at an annual rate of 16% of the investment in the building and 20% of the investment in industrial systems in the building.
2. Reduced tax rate – The Company taxable income attributed to the approved investment is subject to corporate tax at the rate of 25%. The Company will be exempt of all other taxes in respect of that income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

The reduced tax rate applies to the Company income derived from the approved investment in the first seven years, commencing with the year in which the Company first earned taxable income from that investment, provided that no more than 14 years have passed from the year in which the approval was granted, or 12 years from the year in which the asset was operated, whichever is earlier.

3. The alternative system of benefits – Part of the Company's investments in buildings received approval as an approved enterprise under the alternative system of benefits. The Company revenues derived from these buildings will be tax exempt for a period of two to four years, following which, income derived from these buildings will be taxable at the rate of 25%, for a total period of up to seven years.

Distribution of dividends out of income earned under the alternative system of benefits will then subject the Company to tax at the rate of 25% on the amount of the dividend.

4. Dividends – Dividends paid from taxable income attributed to the Approved Enterprise will be subject to tax at the rate of 15% for the recipient. Dividends distributed from other taxable income will be subject to tax at the rate of 25% for an individual recipient.

Capital gains/losses:

Pursuant to the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2002 ("the reform law"), tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of the sale of properties purchased before the adoption of the reform law, the reduced tax rate will apply only to the portion of the profit which accrued after the adoption of the law, as computed according to the law. Further, the reform law states that capital losses carried forward for tax purposes may be offset against capital gains indefinitely. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

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

1. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26%, 2010 and thereafter – 25%.

As to the effect of the amendment as above, see c. below.

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

Partnerships incorporated in Germany – tax at the rate of about 26.4%.

Partnership incorporated in the U.S.

(a) Atlanta – Federal tax at the rate of 35% and State tax at the rate of 6%.

(b) New York – Federal tax at the rate of 35%, State tax at the rate of 7.5% and Municipal tax at the rate of 9%.

(c) Florida – Federal tax at the rate of 35%.

A company incorporated in Hungary – tax at the rate of 16%.

A company incorporated in Canada – taxes on current gains range from 39% to 48.6%, based on the location of the property.

A company incorporated in Portugal – tax at the rate of about 27.5%.

Companies incorporated in the Netherlands – tax at the rate of 29.6%.

Partnerships incorporated in France – tax at the rate of 35%.

A company incorporated in Switzerland – tax at the rate of 22.5%.

c. Taxes on income included in the statements of income:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Adjustment of balances of deferred taxes as a result of change in tax rates	-	(106,684)
Current taxes	65,657	18,506
Deferred taxes	20,022	74,808
Taxes in respect of previous years	18,778	6,251
	<u>104,457</u>	<u>(7,119)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

d. Deferred taxes:

1. a) The deferred taxes are computed in respect of timing differences between the amounts included in the statements and the amounts allowable for tax purposes.
- b) The deferred taxes are computed at the tax rate of approximately 19.5% - 39% in the long run.
- c) The composition of deferred taxes and the changes therein are as follows:

	<u>In respect of balance sheet items</u>			<u>Losses and deduction carried forward for tax purposes</u>	<u>Total</u>
	<u>Current</u>	<u>Depreciable fixed assets</u>	<u>Other</u>		
	<u>NIS in thousands</u>				
Balance as of January 1, 2005	2,352	(649,933)	8,932	7,771	(630,878)
Adjustment due to change in tax rate	(287)	107,258	(287)	-	106,684
Changes during the year	(983)	(69,830)	(3,034)	(961)	(74,808)
Foreign currency translation adjustments of autonomous investees	-	(4,411)	-	634	(3,777)
Balance as of December 31, 2005	1,082	(616,916)	5,611	7,444	(602,779)
Changes during the year	(187)	(36,489)	(936)	17,590	(20,022)
Initial consolidation	88	-	89	-	177
Amounts carried to capital reserve due to foreign currency translation adjustments of autonomous investees	-	463	-	(1,884)	(1,421)
Balance as of December 31, 2006	<u>983</u>	<u>(652,942)</u>	<u>4,764</u>	<u>23,150</u>	<u>(624,045)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

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

	December 31,	
	2006	2005
	NIS in thousands	
In non-current assets	24,664	4,305
In long-term liabilities	(648,709)	(607,084)
	<u>(624,045)</u>	<u>(602,779)</u>

2. A deferred tax asset in subsidiaries in respect of carry forward losses of approximately NIS 4.4 million was not included since its utilization in the foreseeable future is not probable.

- e. The theoretical tax:

Below is a reconciliation between the tax expense assuming that all the income was taxed at the statutory tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Year ended	
	December 31,	
	2006	2005
	NIS in thousands	
Income before taxes on income	<u>609,023</u>	<u>337,507</u>
Statutory tax rate	<u>31%</u>	<u>34%</u>
Tax computed at statutory tax rate	188,797	114,752
Increase (decrease) in respect of:		
Adjustment of balances of deferred taxes as a result of change in tax rate	-	(106,684)
Tax exempt income	(98,378)	(2,492)
Tax losses for which deferred taxes were not provided	2,491	535
Tax benefit derived from reduced tax rates	(6,382)	(9,164)
Effect of discontinuing the adjustment of the financial statements	(7,672)	5,229
Differences for which no deferred taxes were recorded	26,124	(11,015)
Taxes in respect of previous years	18,778	6,251
Different tax rates in foreign subsidiaries	(19,591)	(4,810)
Other	290	279
Taxes on income	<u>104,457</u>	<u>(7,119)</u>
Average effective tax rate	<u>17.2%</u>	<u>-</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

f. Final tax assessments:

1. The Company received final tax assessments through the year ended December 31, 1998.

During December 2006, the Company was issued income tax orders for 1999-2003, requiring the Company to pay additional tax totaling approximately NIS 50 million, including interest and linkage differences in respect of said years.

Based on the opinion of its professional counsel, the Company has filed an appeal to the above orders, rejecting most of the tax assessing officer's claims.

The Company believes that the provisions included in the financial statements covers the exposure in respect of these assessments.

2. Investees received assessments that are deemed final through the year ended December 31, 2003.
3. A subsidiary received final assessments through the year ended December 31, 2003.
4. Jointly controlled entities received final assessments through the year ended December 31, 2003.

NOTE 27:- SEGMENTS

a. General:

1. The Company and the other Group companies operate in four main geographical segments: Israel, Canada, the United States and Europe.
2. Part of the revenues and expenses are directly attributed to the geographical segments.
3. The segment's assets include all the operating assets used by the segment and are composed mainly of real estate and inventory of buildings for sale.

The segment's liabilities include all the operating liabilities which derive from the operating activities of the segment and are composed mainly of trade payables and other accounts payable.

The segment's assets and liabilities do not include income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 27:- SEGMENTS (Cont.)**

b. Reporting on geographical segments:

1. Revenues:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Revenues from external factors:		
Israel	347,806	328,972
Canada	166,588	183,371
The United States	206,171	17,197
Europe	82,390	44,938
Total	<u>802,955</u>	<u>574,478</u>

2. Segment results and adjustment to net income:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Israel	358,097	387,546
Canada	34,209	111,415
The United States	60,626	10,990
Europe	155,076	74,913
Total	608,008	584,864
Expenses not allocated to segments	<u>39,503</u>	<u>29,788</u>
Operating income	568,505	555,076
Financial expenses	265,865	218,966
Other income, net	306,383	1,397
Taxes on income (tax benefit)	104,457	(7,119)
Equity in earnings (losses) of affiliates	<u>(1,783)</u>	<u>18</u>
Net income	<u>502,783</u>	<u>344,644</u>

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- SEGMENTS (Cont.)

3. Gross profit:

	Year ended	
	December 31,	
	2006	2005
	NIS in thousands	
Israel	267,934	255,311
Canada	62,269	77,481
The United States	66,594	9,886
Europe	62,493	31,662
Total	459,290	374,340

4. Assets used by the segments:

	December 31,	
	2006	2005
	NIS in thousands	
Israel	6,318,601	5,792,610
Canada	949,888	1,305,633
The United States	493,577	496,995
Europe	973,892	708,822
Total	8,735,958	8,304,060
Assets not allocated to segments	991,041	124,984
Total assets	9,726,999	8,429,044

5. Liabilities used by the segments:

	December 31,	
	2006	2005
	NIS in thousands	
Israel	312,324	239,435
Canada	760,964	1,284,309
The United States	449,963	448,056
Europe	562,571	722,946
Total	2,085,822	2,694,746
Liabilities not allocated to segments	5,139,683	3,627,570
Total assets	7,225,505	6,322,316

INDUSTRIAL BUILDINGS CORPORATION LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- SEGMENTS (Cont.)

6. Cost of acquisition of long-lived assets:

	Year ended December 31,	
	2006	2005
	NIS in thousands	
Israel	174,770	82,821
Canada	1,009	8,455
The United States	64,884	12,114
Europe	455,903	544,729
Total	696,566	648,119

NOTE 28:- SHAREHOLDERS' EQUITY

- a. Composition:

	December 31, 2006		December 31, 2005	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares in thousands			
Ordinary shares of NIS 1 par value	600,000	310,089	600,000	309,403

- b. On March 20, 2005, the Company's Board decided to extend by five additional years (until 2009) the policy for distribution of dividend that was accepted by the Company. According to this policy, a cash dividend of not below 50% of the Company's net income of each year will be distributed.
- c. During February 2002, the Company issued to the public by a prospectus 12,260 thousand warrants (series 5), of which 2,060 thousand warrants (series 5) to the Company's employees in consideration of NIS 4,992 thousand. The warrants shall be available for immediate exercise and sale. Following the issuance of bonus shares on June 29, 2003, each warrant is exercisable into 1.085 of the Company's Ordinary shares of NIS 1 par value each in return for an exercise price in cash of NIS 9, linked to the Israeli CPI published in respect of January 2002 and, in any case, will not be below NIS 9. The warrants are exercisable up to and including February 5, 2006. The Company's subsidiary purchased in the context of the issuance 3,655 thousand of these warrants in consideration of approximately NIS 1,502 thousand.

During 2004, the Company's wholly-owned subsidiary sold its entire holdings in the Company's exercisable warrants (some 3,655 thousand warrants) in consideration of approximately NIS 1,396 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- SHAREHOLDERS' EQUITY (Cont.)

Furthermore, during August 2004, the Company issued, by a prospectus, 4,000 thousand warrants (series 5) exercisable into 4,339 thousand of the Company's Ordinary shares of NIS 1 par value each in consideration of NIS 908 thousand, in such a manner that each warrant is exercisable into 1.085 of the Company's Ordinary shares of NIS 1 par value each in return for an exercise price in cash of NIS 9, linked to the Israeli CPI in respect of January 2002. In any event, the exercise price shall not be below NIS 9. A warrant that is not exercised until February 5, 2006, shall be null and void and shall not confer any right whatsoever toward the Company.

These warrants were issued at no consideration to the Company's officers and employees, of which 999,999 warrants (series 5) to directors who are not controlling shareholders and 1,000,000 warrants (series 5) to the Company's CEO at terms similar to the terms of the warrants (series 5) which were issued by the Company by a prospectus dated February 14, 2002.

The issuance of warrants (series 5) to the Company's directors was approved on August 3, 2004 by the Company's audit committee and Board and on September 22, 2004 by the general meeting of the Company's shareholders.

On February 5, 2006, the remaining 75,000 warrants (series 5) expired.

- d. During November and October 2006, approximately NIS 6 million par value of debentures (series D) were converted into about 687 thousand Ordinary shares in consideration of NIS 6,674 thousand.
- e. On March 23, 2006, the Company's Board decided on the distribution of a dividend for 2005 in the amount of NIS 25 million to the Company's shareholders.

On November 15, 2006, the Company's Board decided on the distribution of an interim dividend for 2006 in the amount of NIS 100 million to the Company's shareholders.

On March 27, 2007, the Company's Board discussed the adjustment of the dividend distribution policy to IFRS and resolved that as of 2006, the Company's dividend distribution policy will be subject to the provisions of the law and the Company's cash flow needs at a rate of 40% of its net income net of the changes in the fair value of investment properties and the deferred taxes in their respect. The Board also decided that this policy and its adjustment to IFRS would be re-examined after the Company's results for 2007 are made public.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29:- NET EARNINGS PER SHARE

Details of the number of shares and income used to compute net earnings per share:

	Year ended December 31,			
	2006		2005	
	Weighted number of shares In thousands	Net income NIS in thousands	Weighted number of shares In thousands	Net income NIS in thousands
Number of shares and income before equity in earnings of investees, net Equity in basic earnings per share of investees	310,089	350,472	309,403	271,399
	-	152,311	-	73,245
For the computation of basic net earnings	<u>310,089</u>	<u>502,783</u>	<u>309,403</u>	<u>344,644</u>
Effect of potentially dilutive Ordinary shares	<u>27,543</u>	<u>10,360</u>	<u>33,875</u>	<u>26,521</u>
For the computation of diluted net earnings	<u>337,632</u>	<u>513,143</u>	<u>343,278</u>	<u>371,165</u>

NOTE 30:- SUBSEQUENT EVENTS

- a. During the first quarter of 2007, approximately NIS 104 million par value of debentures (series D) were converted into approximately NIS 12 million Ordinary shares of the Company.
- b. During the first quarter of 2007, 3,558 thousand options of a third party in an affiliate were exercised, resulting in a decrease in the Company's stake in the affiliate from 28% to 27.04% and deriving a gain of approximately U.S. \$ 5.5 million for the Company.
- c. During the first quarter of 2007, the Company issued approximately NIS 142 million par value of debentures (series I) and approximately NIS 20 million par value of debentures (series J) in consideration of approximately NIS 165 million.
- d. During January through March 2007, the Company completed several acquisitions of properties throughout Germany (commercial, offices and residential) for a total cost of approximately NIS 240 million.
