Melisron Ltd.

Financial Statements as at December 31, 2022

Adoption of International Financial Reporting Standards (IFRS)

Melisron Ltd.

Financial Statements as at December 31, 2022

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Auditors Report to the Shareholders of

Melisron Ltd.

concerning the Effectiveness of the Internal Audit

pursuant to section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the internal controls over the financial reporting of Melisron Ltd. and its subsidiaries (together: "the Company) as at December 31, 2022. The control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over the financial reporting and for their assessment of the effectiveness of these internal controls over the financial reports attached to the periodic report at this date. Our responsibility is to express an opinion on the Company's internal controls over the Company's financial reporting based on our audit.

The audit components of the internal controls over financial reporting which were defined in accordance with Auditing Standard 911 of the Institute of Certified Public Accountants in Israel, Audit of Internal Controls Over Financial Reporting ("Audit Standard 911"). These controls are: 1) entity-level controls, including audits on the process for preparation and closing of financial reports and information technology general controls (ITGC); (2) controls over the process for the valuation of investment property; (3) controls over the process for revenues from rentals from investment property; (all these together are referred to hereunder as: the "Audited Controls").

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

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

In our opinion, the Company has implemented effectively, in all material aspects, the audited controls as at December 31, 2022.

We have also audited, in accordance with generally accepted control standards in Israel, the consolidated financial statements of the Company as of December 31, 2022 and 2021 and for each of the two years ended December 31, 2022, and our report of March 12, 2023, includes an unqualified opinion of these financial statements, based on our audit and the reports of other auditors.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, March 12, 2023

Auditors Report to the Shareholders of

Melisron Ltd.

We have audited the accompanying consolidated statements of financial position of Melisron Ltd. (the "Company") as at December 31, 2022 and 2021, and the consolidated statements of income and other comprehensive income, changes in equity and cash flows for each of the years ended on these dates. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

The Company's annual consolidated financial statements for the year ended December 31, 2020 were audited by other auditors, whose report dated March 11, 2021, included their unqualified opinion.

We did not audit the financial statements of an equity-accounted investee, the investment in which amounted to NIS 418 million as at March 31, 2022, and to NIS 331 million as at March 31, 2021, where the Company's share in the profits of the foregoing investee amounted to NIS 87 million for the year ended December 31, 2022 and to NIS 84 million for the year ended December 31, 2021. The financial statements of that company were audited by other auditors, whose opinions have been given to us, and our opinion, insofar as it relates to amounts included for that company, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes sampling of evidence supporting the amounts and information in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Company, and evaluating the overall financial statement presentation. We believe that our audits and the audit of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the other auditors, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at December 31, 2022 and 2021 and the results of their operations, changes in equity and cash flows for each of the two years ended on these dates, in conformity with International Financial Reporting Standards (IFRS) and the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in conformity with Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Control over Financial Reporting", the components of the internal controls over the Company's financial reporting as at December 31, 2022, and our report of March 12, 2023, includes an unqualified opinion of the effective fulfillment of these components.

Key audit issues

Key issues in the audit as set out below are the issues that were reported, or that should have been reported to the Company's Board of Directors, and that in our professional opinion were most significant in the audit of the consolidated financial statements for 2022. These issues include, among other things, any issue that (1) refers, or should refer, to material items or disclosures in the financial statements and (2) our opinion thereof was particularly challenging, subjective or complex. These issues were addressed in our audit and our opinion as formulated regarding the entire consolidated financial statements. Reporting of these issues below does not change our opinion regarding the overall consolidated financial statements and we do not use it to give a separate opinion on these issues nor the items and disclosures that they refer to.

Change in fair value of investment property

As set out in Notes 2M, 2P and 13 to the consolidated financial statements as at December 31, 2022, the Company holds investment real estate that is presented at fair value as at that date in accordance with the accounting policy described in Note 2. The fair value of all the Company's investment property (income producing and under development) as at December 31, 2022, amounts to NIS 22,462 million and in 2022 the Company recognized gains from the increase in fair value of an amount of NIS 1,224 million.

As set out in Note 2C to the consolidated financial statements, the fair value set for the investment property is a material estimate that involves uncertainty and is based on the valuations, including analysis that are partly subjective, taking into consideration the circumstances and best available information as at December 31, 2022, and that were assessed with the help of an external real estate appraiser. These assumptions include mainly the most appropriate rate of return, the projected NOI of the properties and the market prices for relevant comparable units. These underlying assumptions, as well as the estimates of the overall fair value of the Company's investment real estate, including its choice of the most appropriate valuation approach, are the result of subjective opinions in an uncertain environment, often extremely so, and therefore any changes in these underlying assumptions could lead to a change in the fair value of the investment property, often substantially, and therefore may also affect the Company's financial position as at December 31, 2022, and the results of its operations in that year, as described in Note 13.

We identified management's estimates and assumptions used for measuring fair value of the investment property as a key audit issue. The audit of the fair value of investment real estate requires the auditor's discretion when examining how management established the adequacy of the assumptions and estimates used in measuring the fair value of the investment real estate.

Audit procedures implemented for addressing the key issue of the audit

For addressing the uncertainty involved in determining the fair value of the Company's investment property, we mainly implemented the following procedures with emphasis on examining the reasonableness of the rates of return determined in the valuation of the properties: 1. Understanding of the internal control environment with regard to determination of the fair value of the investment real estate and auditing effectiveness of the relevant internal audits for determining fair value; 2. Examining and analyzing the fair value presentations, primarily the valuations, conducted by the company and its appraisers, based on samples involving qualitative and quantitative considerations; 3. Examining the underlying assumptions used in the valuations, which were selected based on samples, with emphasis on examining the rates of return and projected NOI, prices of comparable per sq.m units for rent/acquisition and the appraisal approach adopted; 4. Review of the valuations, based on samples, by our expert appraisers with emphasis on rates of return; 5. Communicating with the Company's appraisers; 6. Involvement of senior team members and consultations.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, March 12, 2023

Melisron Ltd.

Consolidated Statements of Financial Position (in NIS million)

	Note	December 31, 2022	December 31, 2021
Current assets:			
Cash and cash equivalents	3	543	1,058
Short-term financial assets	4	325	355
Short-term loans and deposits	5	10	1,137
Trade receivables	6	35	43
Other receivables	7	47	29
Inventory of development real estate for the construction of apartments for sale	8	76	53
Assets classified as held for sale	34	-	200
		1,036	2,875
Non-current assets:			
Long-term loans	9	165	159
Investments and loans to investees	10	1,185	509
Intangible assets and goodwill	11	598	595
Long-term financial assets and other assets	12	66	12
Fixed assets		9	10
Investment property	13	22,462	20,379
		24,485	21,664
		25,521	24,539
Current liabilities:			
Liabilities to banking and other corporations	14	149	982
Current maturities of debentures	18	859	1,755
Trade payables and service providers	15	275	145
Other payables	16	157	194
Provisions for tax	17	122	124
		1,562	3,200
Non-current liabilities			
Debentures	18	8,984	9,169
Long term liabilities to banks and others	19	1,206	27
Deferred taxes	20	3,268	2,984
Liabilities in respect of employee benefits, net		3	2
Other liabilities and provisions	21	130	56
		13,591	12,238
Equity:			
Equity attributable to the Company's shareholders		9,882	8,666
Non-controlling interests		486	435
Total equity		10,368	9,101
		25,521	24,539

March 12, 2023			
Date of approval of the Financial Statements	Liora Ofer Chairman of the Board of Directors	Ophir Sarid CEO	Oren Hillinger CFO

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

Melisron Ltd.

Consolidated Statements of Comprehensive Income (in NIS million)

	Note	Year ended December 31, 2022	2021	2020
Rental and other revenue	26	1,673	1,424	* 1115
Maintenance and operating costs	27	433	373	323
Gross profit		1,240	1,051	792
General and administrative expenses	28	76	61	57
Advertising and Marketing Expenses		18	7	7
Operating profit before other income (expenses)		1,146	983	728
Increase (decrease) in fair value of investment property, net	13	1,224	1,327	(741)
Company's share in profits of equity-accounted investees, net		89	84	2
Other revenues (expenses), net	29	(19)	3	(10)
Operating profit (loss) before other income (expenses)		2,440	2,397	(21)
Financing expenses	30	672	450	254
Financing income	30	33	53	28
Profit (loss) before deduction of taxes on income		1,801	2,000	(247)
Income tax income (expenses)	20	(359)	(459)	4
Net profit (loss) for the year		1,442	1,541	(243)
Net earnings (loss) for year attributable to:				
Company shareholders		1,391	1,473	(250)
Non-controlling interests		51	68	7
		1,442	1,541	(243)
Total comprehensive income (loss) attributable to:				
Company shareholders		1,391	1,473	(250)
Non-controlling interests		51	68	7
		1,442	1,541	(243)
Earnings (loss) per ordinary share of NIS 1 (in NIS)	31			
Attributable to shareholders of the Company:				
Basic and diluted earnings (loss)		29.30	31.06	(5.26)
Number of shares used to calculate basic earnings (loss) per share (thousands)		47,480	47,456	47,438

* For the year ended December 31, 2020, rental and other revenue amounted to NIS 1,187 million. The rental fee relief granted to the tenants for the days when the malls were closed in April 2020 and the first week of May, 2020 amounted to NIS 72 million and was treated as a deductible debt asset due to an operating lease for concessions attributed to the Covid-19 crisis. In view of the foregoing, the net rental and other revenues amounted to NIS 1,115 million.

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

Melisron Ltd.

Consolidated Statements of Changes in Equity (in NIS million)

Year ended December 31, 2022

	Equity attributable to the Company's shareholders								
	Paid up share capital	Share premium	Capital reserve for share-based payments	Capital reserve due to translation differentials	Capital reserve from transactions with non-controlling interests	Capital surplus	Total	Non-controlling interests	Total
Balance as at January 01, 2022	62	2,148	10	(4)	(9)	6,459	8,666	435	9,101
Changes in the year ended December 31, 2022:									
Total comprehensive profit for the year	-	-	-	-	-	1,391	1,391	51	1,442
Issue of shares for employees	-	1	(1)	-	-	-	-	-	-
Cost of share-based payment	-	-	5	-	-	-	5	-	5
Dividend paid	-	-	-	-	-	(180)	(180)	-	(180)
Balance as at December 31, 2022	62	2,149	14	(4)	(9)	7,670	9,882	486	10,368

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

Melisron Ltd.

Consolidated Statements of Changes in Equity (in NIS million)

Year ended December 31, 2021

	Equity attributable to the Company's shareholders								
	Paid up share capital	Share premium	Capital reserve for share-based payments	Capital reserve due to translation differentials	Capital reserve from transactions with non-controlling interests	Capital surplus	Total	Non-controlling interests	Total
Balance as at January 01, 2021	62	2,145	7	(4)	(9)	4,986	7,187	370	7,557
Changes in the year ended December 31, 2021:									
Total comprehensive profit for the year	-	-	-	-	-	1,473	1,473	68	1,541
Issue of shares for employees	-	3	(3)	-	-	-	-	-	-
Cost of share-based payment	-	-	6	-	-	-	6	-	6
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(3)	(3)
Balance as at December 31, 2021	62	2,148	10	(4)	(9)	6,459	8,666	435	9,101

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

Melisron Ltd.

Consolidated Statements of Changes in Equity (in NIS million)
Year ended December 31, 2020

	Equity attributable to the Company's shareholders								
	Paid up share capital	Share premium	Capital reserve for share-based payments	Capital reserve due to translation differentials	Capital reserve from transactions with non-controlling interests	Capital surplus	Total	Non-controlling interests	Total
Balance as at January 1, 2020	62	2,145	4	(4)	(9)	5,296	7,494	367	7,861
Changes in the year ended December 31, 2020:									
Total comprehensive loss for the year	-	-	-	-	-	(250)	(250)	7	(243)
Cost of share-based payment	-	-	3	-	-	-	3	-	3
Dividend paid	-	-	-	-	-	(60)	(60)	-	(60)
Dividend to holders of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(4)	(4)
Balance as at December 31, 2020	62	2,145	7	(4)	(9)	4,986	7,187	370	7,557

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

Melisron Ltd.

Consolidated Statements of Cash Flows (in NIS million)

	Year ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net profit (loss) for the year	1,442	1,541	(243)
Adjusted for:			
Company's share in profits of equity accounted investees	(89)	(84)	(2)
Loss (gain) in fair value of investment property	(1,224)	(1,327)	741
Depreciation and amortization	21	7	4
Expenses for share-based payments	5	6	3
Income tax expenses (income)	359	459	(4)
Financing expenses (income) from loans given, net	(18)	(11)	26
Revaluation of loans from banks and others and changes in accrued interest	14	7	(7)
Revaluation of debentures and changes in accrued interest	426	184	(103)
Revaluation and amortization of discounted deferred consideration	-	-	(1)
Investment in inventory of development real estate for the construction of apartments for sale	(23)	(10)	-
Revaluation of short-term financial assets	32	(29)	(7)
	945	743	407
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	8	26	(34)
Decrease in other receivables	1	7	73
Increase (decrease) in trade payables	43	9	(76)
Increase (decrease) in other accounts payable	(10)	13	1
Increase in other liabilities	22	-	4
Increase in employee benefit liabilities, net	1	-	-
	65	55	(32)
Cash flows for operating activities			
Net income tax paid	(83)	(64)	(66)
Net cash from operating activities	927	734	309

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

Consolidated Statements of Cash Flows (in NIS million) (cont.)

	Year ended December 31,		
	2022	2021	2020
Cash flow used for investing activities			
Acquisition of an investee that is consolidated for first time (see Note 10.C)	-	(42)	-
Acquisition of an equity accounted company	(600)	-	-
Loan provided to an equity accounted company	-	-	(220)
Repayment of a loan provided to an equity accounted company	23	18	121
Short-term investments in financial assets, net	(1)	-	(5)
Compensation from the sale of investment real estate (see Note 34)	205	-	67
Acquisition of and investment in investment real estate and investment property under construction	(651)	(392)	(348)
Payment on settlement (see Note 13.F)	-	(53)	-
Refund due to partial cancellation of sale (see Note 13.F)	-	(67)	-
Deferred consideration for disposal of investment property	-	-	72
Taxes received (paid) for investment property	(31)	5	(9)
Investment in fixed assets and intangible assets	(22)	(7)	(2)
Payment of levies for investment property	(109)	-	-
Repayment (provision) of short and long-term loans and deposits, net	3	(5)	(3)
Net cash for investment activities	(1,183)	(543)	(327)
Cash flow for financing activities			
Dividends paid	(180)	-	(60)
Dividend to holders of non-controlling interests in a subsidiary	-	(3)	(4)
Receipt of long-term loans from a bank and others	575	-	642
Repayment of long-term loans to banks and others	(245)	(89)	(685)
Short-term borrowings from banks and others, net	(2)	(301)	148
Additional acquisition of shares of a subsidiary	(1)	(1)	(1)
Issue of debentures (less issuance expenses)	264	902	1,047
Taxes paid for additional acquisition of shares of a subsidiary	-	-	(40)
Repayment of debentures	(670)	(608)	(1,059)
Net cash for financing activities	(259)	(100)	(12)
Increase (decrease) in cash and cash equivalents	(515)	91	(30)
Balance of cash and cash equivalents as at beginning of year	1,058	967	997
Balance of cash and cash equivalents as at end of year	543	1,058	967

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

Consolidated Statements of Cash Flows (in NIS million) (cont.)

Appendix A - Financing and Investing Activities that do not Involve Cash Flows

	Year ended December 31,		
	2022	2021	2020
Trade and other Payables for investment property	174	65	40
Levy for investment real property	32	-	-
Trust deposit for held-for-sale investment property	-	-	10
Trust deposit for the issue of debentures (see Note 18.D)	-	1,103	1
Repayment of debentures from trust deposit	(1,102)	-	-

Appendix B - Additional Information on Cash Flows

	Year ended December 31,		
	2022	2021	2020
Interest paid	243	280	322
Interest received	15	7	8

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

NOTE 1 - General

A. Melisron Ltd. (the "Company") was incorporated in Israel on August 5, 1987 as a private company limited in shares. The Company is defined as resident of Israel. The Company owns and manages, directly and indirectly, through companies it controls, shopping malls, commercial complexes and one of the largest leading office campuses in Israel. In addition, the Company holds 100% of the shares of Grouper Social Shopping Ltd. (hereinafter: "Grouper"), as part of the establishment of a digital division (for further information see Note 10). Furthermore, on July 3, 2022, the Company completed a transaction to acquire 50% of the share capital of Aviv Real Estate Development and Management Ltd. (hereinafter: "Aviv Yizum") that operates in the development and construction of residential properties and urban renewal (for further information see Note 10).

B. The key uses in the real estate segment are:

Shopping Malls and Commercial Centers - the Company owns 17 shopping malls and commercial centers around the country, most of them in major cities and areas of demand. Of the foregoing number of shopping centers and malls, 14 are wholly owned or controlled by the Company and three are jointly controlled with third parties.

Office and High-Tech Parks and High-rise Office Buildings - the Company owns five real estate campuses of offices that it rents out, as well as office buildings that form part of the mall complexes.

In addition, the Company has five properties that are rented to a single tenant and real estate projects under construction and development.

The Company has been traded on the Tel Aviv Stock Exchange since July 29, 1992.

The Company's controlling shareholder is Ofer Investments Ltd. ("Ofer Investments"), which holds 47.05% of the issued share capital and voting rights of the Company. Until December 31, 2022, Ofer Investments was held 85% by Ms. Liora Ofer (through a wholly owned company) and 15% by Mr. Doron Ofer. As of January 1, 2023, Liora Ofer (through a wholly owned private company) owns 100% of Ofer Investments. In addition to the foregoing, Liora Ofer owns (through a wholly owned private company) 0.05% of the Company's issued share capital and voting rights..

Company address: 1 Abba Eban Ave., Herzliya Pituah

Notes to the Financial Statements at December 31, 2022 (in NIS million)

NOTE 1 – General (cont.)

C. Definitions:

In these financial statements:

The Company	-	Melisron Ltd. and its Subsidiaries
International Financial Reporting Standards	-	IFRS and IAS, including international interpretations published in respect thereto (IFRIC and SIC, respectively)
Subsidiaries	-	Companies that are controlled by the Company (as defined in IFRS 10) and their financial statements are consolidated with the financial statements of the Company
Joint venture	-	A company in which two or more parties collaborate, under an agreement, in the control of its financial operations
Investees	-	Companies/subsidiary partnerships or entities under joint control or companies/associates
CPI	-	The consumer price index as published by the Central Bureau of Statistics
Related party	-	As defined in IAS24 regarding disclosure of the relationship of the related party
Interested party and controlling shareholder	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010

D. Information concerning the CPI rates:

Below is a breakdown of the CPI and rate of changes in the reporting periods:

	As at December 31		
	2022	2021	2020
CPI (points)	108.0	102.6	100.2

	Rate of change in % in the year ended December 31		
	2022	2021	2020
CPI (Per cent)	5.30	2.40	(0.60)

NOTE 2 – Significant Accounting Policies

A. Adoption of international financial reporting standards (IFRS)

The financial statements are prepared in accordance with the provisions of the international financial reporting standards (IFRS) and their interpretations as published by the International Accounting Standards Board (IASB).

B. Principles for preparing financial statements:

The annual financial statements include additional disclosure as required under the Securities (Annual Financial Statements) Regulations, 2010.

The financial statements have been prepared by applying the cost principle, other than as described below in Note 2.

The Company's operating cycle is 12 months, with the exclusion of its inventory of real estate under development for the construction of residential apartments for sale, where the operating cycle exceeds 12 months.
The accounting principle presented in this note was applied consistently throughout the reporting periods presented in the financial statements.

C. Causes of uncertainty in material estimates:

Preparation of the Company's financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions about the future. The Company's management consistently reviews the estimates based on past experience and other factors, such as reasonable assumptions depending on the circumstances regarding future events. Actual results may differ from the management's estimates. The effect of changes in accounting estimates is recognized prospectively in the modified period if the change affects only this period, or in the modified period and in future periods if the change also affects them.

Below is a description of the assumptions about the future and other causes of uncertainty in the accounting estimates at the end of the Reporting Period, which have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in subsequent reporting periods.

Investment Property - At the end of the Reporting Period, the Company has its investment properties appraised by an external appraiser. The accepted method for appraising income producing real estate is the income capitalization approach, where the appropriate capitalization rate is determined taking into account the specific risk factors of the appraised property. The Company's management reviews the estimates at the end of each Reporting Period. For further information regarding the valuation techniques and estimates made in measuring the fair value of the investment properties - see Note 13.

NOTE 2 – Significant Accounting Policies (Cont.)

C. Causes of uncertainty in material estimates (cont.):

Income taxes - the calculation of the tax liability of the Company and its subsidiaries involves discretion, especially in situations where the applicable tax laws are given to interpretation and certain tax opinions that may not be fully accepted by the tax authorities. Although in the Company's opinion, the tax positions included in the Company's tax returns are supported by the relevant tax laws, where the Company anticipates a dispute with the tax authorities regarding any uncertain tax position, the Company recognizes additional tax liabilities based on an estimate of the additional amount that it might be required to pay to the tax authorities based on the Company's past experience, on the interpretation of the tax laws and other factors, if applicable.

D. Functional currency and presentation currency

1. **Functional currency** The functional currency of operations that most reliably represents, in the best possible manner, the principal economic environment in which the Company and its investees operate, is the new Israeli shekel. Any transaction that is not in the Company's functional currency is a foreign currency transaction.

   Presentation currency The Company's financial statements are presented in the new Israeli shekel (NIS), with all values rounded to the nearest million, unless otherwise stated.

2. **Transactions that are not in the functional currency are treated as follows:**

   A. A transaction denominated in a foreign currency is recorded, when first recognized, in the functional currency using the immediate exchange rate between the functional currency and the foreign currency at the time of the transaction.

   B. At each balance sheet date, foreign currency monetary items are translated using the immediate exchange rate at the end of the Reporting Period.

   C. At each balance sheet date, non-monetary items measured at historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

   D. At each balance sheet date, non-monetary items measured at fair value in foreign currency translated using the exchange rate at the date when the fair value was determined.

   Exchange rate differentials are recognized in profit or loss in the period in which they arise.

E. Consolidated Financial Statements:

1. **Subsidiaries:**

   When a company is exposed or holds rights to variable returns from its participation in an invested entity and has the ability to affect such returns through its power over such entity, the company controls that entity which is classified as a subsidiary. The Company re-evaluates its control of a subsidiary when the facts and circumstances change.

   The Consolidated Financial Statements present the financial statements of the Company and of its subsidiaries as the financial statements of a single economic entity from the date on which control is

NOTE 2 – Significant Accounting Policies (Cont.)

E. Consolidated Financial Statements (cont.):

1. Subsidiaries (cont.):

acquired until the date on which the Company loses such control. Consequently, for the purpose of consolidation, all inter-company transactions, balances, income and expenses are canceled.

Furthermore, the financial statements of the subsidiaries were prepared by using similar accounting policies as the Company with respect to similar transactions and events under similar circumstances.

Potential voting rights are considered exercisable where the Company has the practical ability to exercise them. When exercisable potential voting rights exist, such as convertible instruments, options and forward contracts, in an investee held by the Company or other parties that invested in the investee, and when exercised will increase/decrease the voting rights of the entity in the investee, the Company assesses whether the existence of such exercisable potential voting rights, together with other existing voting rights in the investee, reflects the existence of control.

2. Non-controlling interests:

Some of the non-controlling interests in the net assets, other than goodwill, of consolidated subsidiaries, are presented separately as part of the Company's equity. Non-controlling interests include the amount of such interests at the date of the business combination (see below), and the share of such non-controlling interests in changes that occurred in the equity of the investee subsequent to the date of the business combination. The losses of subsidiaries attributed to non-controlling interests that exceed the non-controlling interests in the equity of the subsidiary are attributed to the non-controlling interests regardless of the liabilities and ability of such interest holders to make additional investments in the subsidiary.

Results of transactions with the non-controlling shareholders, that relate to the exercise of part of the Company's investment in a subsidiary, when control thereof is maintained, are attributed to equity attributable to the controlling shareholders of the parent company. In transactions with non-controlling interests relating to the acquisition of an additional share in a subsidiary, subsequent to the date of acquisition of control, the excess acquisition cost over carrying amount of the non-controlling interests is attributed at the acquisition date to equity attributable to the controlling shareholder of the parent company.

NOTE 2 – Significant Accounting Policies (Cont.)

F. Joint arrangements:

When the Company has joint control obtained by a contractual arrangement, according to which decisions regarding the relevant activities require unanimous consent of the parties sharing control, the Company has joint control under such arrangement. The Company classifies joint arrangements as joint transactions or as joint ventures based on the interests and liabilities arising from the arrangement. The Company assesses its interests and liabilities taking into account the structure and legal format of the arrangement, the terms of the contractual arrangement and, where applicable, other facts and circumstances.

1. Joint ventures:

When the Company has interests in assets and liabilities in the context of a joint arrangement, the Company classifies the arrangement as a joint venture. The Company recognizes its interests in a joint venture according to its share in assets, liabilities, income and expenses. Transactions between the various companies held by the Company and joint ventures held by the Company are recognized only according to the amount of the share of the other parties in the joint ventures.

2. Joint operations:

When the Company has an interest in the net assets of a joint arrangement, the Company classifies the arrangement as a joint operation. A joint operation is accounted according to the equity method (also see below).

G. Investments in associates and joint operations:

When a company has the power to participate in decisions pertaining to the financial and operating policies of another entity, but such power does not constitute control or joint control, the company will have significant influence in that entity, which may be classified as an associate.

Potential voting rights, that are currently exercisable or convertible, and their effect, including potential voting rights held by another entity, are taken into account in assessing the power to decide such policies. The investment in an associate or joint operation is accounted for using the equity method, other than when the investment (or part thereof) is classified as held-for-sale in accordance with IFRS 5. The financial statements of associates and joint operations were prepared by using similar accounting policies as the Company with respect to similar transactions and events under similar circumstances.

NOTE 2 – Significant Accounting Policies (Cont.)

G. Investments in associates and joint operations (cont.):

Profits or losses from transactions between the Company and an associate or joint operation are accounted for according to the rate of holding. According to the equity accounted method, investments in associates and joint operations are included in the statement of consolidated financial position at cost adjusted for the changes that occurred after acquisition of the Company's share in net assets, including capital funds, net of any impairment, if any, in the value of the associate or joint operation.

If the Company's share in the losses of the associate or joint operation is equivalent to or exceeds its rights in the associate or joint operation (including any long-term rights which in essence are part of the Company's net investments in the associate or joint operation), the Company ceases to recognize its share in additional losses. Once the Company's interests have been amortized to zero, additional losses are recognized only if the Company is legally obligated or materially obligated or if payments were made on behalf of the associate or on behalf of the joint operation. The profits arising after recognition of the losses are only recognized when the Company's share in such profits is equivalent to the unrecognized share of the losses. The excess purchase costs of an associate or joint operation over and above the Company's share in the fair value of identifiable assets, liabilities and contingent liabilities of the associate or joint operation are recognized at the time of acquisition as goodwill.

The goodwill attributed to the associate or joint operation includes the carrying amount of the investment and is not amortized. When the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the investment at the time of acquisition, the differences were recognized in profit or loss at the time of acquisition in the Company's share of the profits of the equity accounted investees.

Impairment of the net investment in the associate or joint operation is assessed when including it in accordance with IAS 36 at any time when the requirements of IAS 28 are applied indicating that the investment in the associate may be impaired. Such impairment is attributed to the investment of the associate.

An increase of the Company's interests in an associate or joint operation is accounted using the acquisition method only for changes in the interest held.

A decrease in the Company's interests in an associate or joint operation, by further application of the equity accounted method, is accounted as derecognition of the proportionate share of its investment and is recognized in profit or loss. In addition, the Company reclassifies to profit or loss the proportion share of amounts previously recognized in other comprehensive income, if such amounts were reclassified to profit or loss at the time of disposal of the related assets or liabilities.

The Company continues to apply the equity method with regard to an investment in an associate that becomes an investment in a joint operation and with regard to an investment in a joint operation that becomes an investment in an associate, without re-measuring the investment.

The Company ceases to use the equity method from the date on which an investment ceases to be an associate or joint operation (or when the investment is classified as held-for-sale, as aforesaid, whichever is earlier). When processing a material effect, any investment remaining in such former associate or joint operation is measured at fair value.

NOTE 2 – Significant Accounting Policies (Cont.)

G. Investments in associates and joint operations (cont.):

The difference between the fair value of the remaining investment and any proceeds from the disposal of part of the investment and the carrying amount of the investment at the time the use of the equity method is discontinued, is recognized in profit or loss. Amounts previously recognized in other comprehensive income with respect to the same investment are treated in the same way as would have been required if the investee had separately disposed of the realized the related assets or liabilities.

The Company tests the existence of signs of impairment of equity accounted investments. Such impairment arises when there is objective evidence that the expected future cash flows from the investment have been adversely affected. Impairment is tested for the investment as a whole. Accordingly, the loss recognized from impairment of the investment is not attributed to the assets that for the investment components, including goodwill, but is rather attributed to the investment as a whole, and therefore the Company recognizes the reversal of losses recognized for equity accounted investments when their recoverable amount increases. To determine the amount of the impairment loss, if any, the recoverable amount of the investment is estimated. The recoverable amount is the higher of the fair value of the investment less costs of disposal and its value in use. When assessing the value in use of the investment, the Company estimates its share of the present value of estimated future cash flows that are expected to be generated from the investee's operations and its disposal, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

NOTE 2 – Significant Accounting Policies (Cont.)

H. Business combinations:

When the Company obtains control of one or more enterprises for the first time, the business combination is treated using the acquisition method. Pursuant to this method, the Company recognizes the acquiree, fixes the date of acquisition and recognizes the identifiable assets acquired and liabilities assumed at fair value, with the exclusion of exceptions. Components of non-controlling interests in the acquiree that constitute present ownership interests and entitle the holder to a share of net assets in the event of liquidation are measured at acquisition date at their proportionate interest in the identifiable assets and liabilities of the acquiree or at fair value identifiable assets. All other components of non-controlling interests are measured at fair value at date of acquisition, unless a different basis for measurement is required. When a business combination is acquired in a step acquisition, the acquisition date is the date on which the Company first gains control of the acquisition.

When a business combination is acquired in a step acquisition, the Company re-measures pre-existing equity rights in the acquiree at fair value at date of acquisition and recognizes the resulting profit or loss in profit or loss. Changes in the fair value of previously acquired shares recognized in other comprehensive income are recognized on the same basis as would have been required if the Company had directly exercised the equity interests previously held by it.

The Company recognizes goodwill on acquisition date as a surplus of the total amount of consideration transferred, including any non-controlling interests, and in business combinations acquired in a step-acquisition, the fair value at the acquisition date of any pre-existing equity right of the Company, over the net amount at acquisition date of identifiable assets acquired and liabilities assumed. If at the acquisition date the goodwill is negative, the Company recognizes, at that time, the resulting gain from the bargain price acquisition.

The Company measures the consideration transferred at the fair value of the assets delivered, the liabilities assumed and the equity instruments issued, and the fair value of the Company holdings in the acquired entity prior to consolidating businesses. Any costs attributable to the business combination are recognized as an expense when incurred, with the exception of costs incurred for issuing capital instruments or debt instruments of the Company.

When the consideration transferred includes contingent consideration arrangements, the Company measures the contingent consideration at the acquisition date at fair value. In subsequent periods, changes in the fair value of contingent consideration, that is not classified as equity, are recognized in profit or loss.

NOTE 2 – Significant Accounting Policies (Cont.)

I. Cash and cash equivalents

Cash comprises cash available for immediate use and call deposits. Cash equivalents are short-term highly liquid investments (of three months or less from date of investment) that are readily convertible into known amounts of cash and are exposed to insignificant risk of change in value. Cash equivalents are held to meet short term commitments for cash payment and not for investment or other purposes.

Bank account balances used by the Company that are subject to third party contractual restrictions are included as part of cash and cash equivalents, unless the restrictions state that such balances do not comply with the definition of cash and cash equivalents. When such contractual restrictions extend beyond 12 months from the end of the Reporting Period, the amounts of the restricted cash and cash equivalents are classified as non-current assets in the statement of financial position

J. Financial instruments:

1. Financial assets:

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument by utilizing transaction clearing date accounting method.

Financial assets are classified to one of the following measurement categories based on the Company's business model for the management of financial assets and based on the contractual cash flow features of the financial asset. Classification is for the financial asset as a whole, without separating embedded derivatives.

a) Debt instruments at discounted cost:

Debt instruments, held within a business model whose objective is achieved by collecting contractual cash flows and whose contractual terms give rise on specified dates to cash flows representing solely payments of principal and interest, were initially measured at fair value with the addition of directly attributed transaction costs, other than receivables measured initially at their transaction price. After initial recognition, such assets are measured at amortized cost. Interest income calculated using the effective interest method was recognized at the gross carrying amount of the financial asset (i.e., before deducting the provision for impairment), other than for financial assets impaired due to credit risk, for which interest income was recognized at the amortized cost of the financial asset (i.e., after deducting the provision for impairment).

b) Financial assets at fair value through profit or loss

The Company has investments in marketable securities that were initially measured at fair value, and changes in fair value after initial recognition were recognized in profit or loss. Transaction costs that were directly attributed to these assets were recognized in profit or loss when incurred.

The Company derecognizes financial assets only when the contractual rights to the cash flows from the financial asset expire. When derecognizing a financial asset measured at amortized cost, the difference between the carrying amount of the asset and the proceeds received or that will be received is recognized in profit or loss.

NOTE 2 – Significant Accounting Policies (Cont.)

J. Financial instruments (cont.):

2. Financial liabilities and equity instruments:

Liabilities and equity instruments issued by the Company are classified as financial liabilities or equity instruments based on the nature of the contractual arrangements and definition of the financial liability and equity instrument.

An equity instrument is any contract that indicates a residual right to the Company's assets after deducting all of its liabilities. The equity instruments issued by the Company are recorded according to proceeds from their issue less expenses directly attributed to the issue of these instruments. Buyback of the Company's equity instruments are recognized and derecognized directly in equity. No gain or loss in the purchase, sale, issue or cancellation of the Company's equity instruments are recognized.

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities classified as financial liabilities measured at amortized cost:

Financial liabilities in this class, such as debentures and bank loans, were initially measured at fair value after deduction of directly attributable additional transaction costs, if any (such as debt raising costs). Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method, that takes into account directly attributable transaction costs. Short-term credit (such as supplier and other credit) is recognized according to its terms, usually at nominal value. Gains and losses are recognized in profit or loss when the financial liability is derecognized, and as a result of the systematic amortization process.

3. Impairment and derecognition of financial assets:

The Company recognizes a provision for impairment with respect to contractual credit losses on debt instruments at amortized costs and on payables with respect to leases. Expected credit losses a probability-weighted estimate of credit losses, based on risk of default. The impairment provision reduces the carrying amount of the asset.

The Company measures expected credit losses in a manner to reflect: the unbiased and probability-weighted amount, determined by estimating a range of probable outcomes; the time value of the money (depending on the effective interest rate of the instrument), reasonable and reliable information obtainable without excessive cost or effort on past events, current conditions and forecasts of future economic conditions. The Company updates the impairment provision at the end of each reporting period, and the change in the provision is recognized as a gain or loss from impairment in profit or loss. The Company measured credit losses in the amount of the contractual credit loss for the full lifetime of the instrument for receivables, for other financial instruments whose credit risk increased substantially from the date of initial recognition. Contractual credit losses for the full lifetime of the instrument are the contractual credit losses deriving from every possible event of default over the full contractual lifetime of the instrument.

With regard to financial assets, the maximum exposure to loss in the event of default is the gross carrying amount of the financial asset on reporting date.

NOTE 2 – Significant Accounting Policies (Cont.)

4. Derecognition of financial liabilities

A financial liability is derecognized from the statement of financial position when the liability is discharged, canceled or expires. Exchanging an existing financial liability for another liability from an existing lender at substantially different terms, or if the terms of an existing liability are substantially modified, such exchange or modification are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at their fair value and calculates the new effective interest rate for subsequent measuring at amortized cost.

The difference in the financial statements between both foregoing liabilities is recognized in profit or loss as a financing item, and if direct transaction costs are incurred, they are also attributed to this item. If such exchange or modification is not substantial, they are treated as a change in the terms of the original liability when the current value of the new cash flows, discounted at the original interest rate, is used to update the existing liability. The foregoing update is recognized in profit or loss as a financing item. If direct transaction costs are incurred they are deducted from the updated liability and a new effective interest rate is calculated at such time.

Terms are substantially different if the discounted present value of the cash flows according to the new terms, discounted using the original effective interest rate, including any commissions paid, less any commissions received, and taking into account case with respect to the principal of the business combination debt instrument, if any, is different by at least 10% from the carrying amount of the existing liability at date of change. In addition, when the foregoing ten percent limit does not exist, the qualitative factors relating to the change are also examined, in the economic characteristics of the exchanged debt instruments that are based on the economic and financial risks of the investor.

NOTE 2 – Significant Accounting Policies (Cont.)

K. Inventory of development real estate for the construction of apartments for sale:

The cost of inventories of apartments for sale under construction include the identifiable direct costs with respect to the cost of the property, such as taxes, fees and levies, and all the building costs. The cost of the inventories is recognized as an expense when recognizing the income, and allocated according to the size of each apartment and pro rata to the cost of inventory in the project.

Inventories of apartments for sale under construction are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price of the apartment in the ordinary course of business less the estimated costs of completion and the estimated selling expenses.

L. Non-currents assets or a disposal group classified as held for sale

Non-currents assets are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. The foregoing occurs when the assets are available for immediate sale as is and the expected disposal is highly probable. The Company classifies non-current assets as held for sale when management is committed to selling it and the sale is expected to qualify for recognition as a sale that was completed within one year from date of classification of the non-current asset. At the same time, the liabilities directly attributed to such assets when their expected disposal and transfer to the buyer upon disposal are presented separately as current liabilities in the statement of financial position. Investment real estate measured at fair value classified as a held for sale asset in accordance with the foregoing, continues to be presented at fair value and as a separate current asset classified as held for sale (or as part of a group of assets classified as held for sale). Comparable data relating to a held for sale asset is not reclassified. When the non-current asset or disposal group no longer complies with the criteria for classification as held for sale, the non-current asset or disposal group will be reclassified to the non-current asset group.

M. Fair value measurement:

Fair value is the price that would be received when selling an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that a transaction taking place in the principal market for the asset or liability that the Company has access to, or in the absence of a principal market, in the most advantageous market for the asset or liability that the Company has access to. The fair value of the asset or liability is based on assumptions that would have been used by market participants to price the asset or liability, assuming that market participants act in their economic interests.

Fair value measurement of a non-financial asset (investment real estate assets) takes into account the ability of a market participant to generate economic benefits through the optimal use of the asset, or by selling it to another market participant that will make optimal use of the asset. A liability to pay a betterment levy on investment property is recognized, separately from the property, on the date of exercise of the rights defined in the provisions of the law. Accordingly, as part of the fair value measurement of investment property prior to recognition of the foregoing liability to pay a betterment levy, negative cash flows relating to the levy are taken into account. See Note 20 below.

The Company uses valuation techniques that are appropriate to the circumstances and for which sufficient information is available to measure fair value, while maximizing the use of relevant observable data and

NOTE 3 – Significant Accounting Policies (Cont.)

M. Fair value measurement:

minimizing the use of unobservable data. For this purpose, IFRS 13 provides a fair value hierarchy of three levels according to the priority of the data source used for measuring fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly

Level 3: Inputs that are not based on observable market data (unobservable inputs) (assessment without using observable market inputs).

All the assets and liabilities measured in the financial statements at fair value or for which fair value is disclosed, are classified in classes with similar characteristics as the level of the fair value hierarchy and if the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

N. Linkage:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index are adjusted at the relevant index at each reporting date according to the terms of the agreement.

O. Provisions:

The Company recognizes provisions in the financial statements when the Company has a current liability (legal or implicit) resulting from past events, if it is expected that a negative flow of resources containing financial benefits is required for discharging the liability and if the amount of the liability can be reliably estimated. The amount recognized as a provision is the best estimate of the expense required to discharge the current liability at the end of the reporting period. When the effect of time value is material, the provision amount is measured according to the current value of the projected expense that are required to discharge the liability.

Changes with respect to the time value are attributed to profit or loss.

A provision for a liability to pay a betterment levy imposed by law is recognized in the financial statements only when the activity causing the payment of the levy occurs ("binding event"), as set out in the legislation. Accordingly, the Company recognizes a liability to pay a betterment levy imposed under the Planning and Building Law, 1965, only when "realizing a right in the real estate" as per the meaning of the term in the provisions of the law (obtaining a permit, commencing use of the real estate under a permit that was granted or transferring rights in the real estate).

P. Investment property, including investment property under construction:

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee as a right of use for the purpose of earning rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business, when the Company provides services to the lessees of the property, this property is treated as an investment property if the services constitute an insignificant, relatively, component of the entire arrangement.

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value (see also Note 2.C.). Gains or losses arising from changes in the fair values of investment property are recognized in profit or loss as incurred. Investment property is not systematically depreciated.

Investment property under construction for future use as investment property is also measured at fair value as set out above, when fair value can be reliably measured. When the fair value cannot be measured reliably, due to the nature and scope of project risks, the property is measured according to cost, less impairment losses, if any, until the completion of the construction or until the date on which the fair value can be measured reliably, whichever is earlier.

Investment property is derecognized when it is sold or when its use ceases and future financial benefits are not expected from its sale. The date of realization is the date on which control of the property is transferred. The difference between the net consideration from the sale of the asset and the carrying amount in the financial statements is recognized in the statement of comprehensive income in the period the asset is derecognized. The date of transfer of control of the property and determination of the consideration, including if it includes a variable consideration, are determined in accordance with the relevant provisions on the subject under IFRS 15.

Q. Borrowing costs

If the borrowing costs can be attributed directly to the acquisition, construction or production of qualifying assets (investment property under construction), the borrowing costs are capitalized as part of the costs of the asset over the construction period. The Company capitalizes borrowing costs when expenses are incurred for the property, borrowing costs are incurred and the required operations are carried out for preparing the property for its intended use or for sale. The Company ceases to capitalize borrowing costs when substantially all the operations required to prepare the qualifying asset for its intended use or sale have been completed. Revenues generated from temporary investment of specific credit received for investing in qualifying assets are deducted from the borrowing costs arising from capitalization. General borrowing costs were calculated as a multiple of the average interest rate of the Company by the cost of the property actually invested and not funded from specific borrowings. All other borrowing costs are recognized in profit or loss when generated.

NOTE 2 – Significant Accounting Policies (Cont.)

R. Intangible assets:

1. An intangible asset is an identifiable non-monetary asset without physical attributes. The identifiable criterion, in this definition, will be met if the asset is separately identifiable or if the asset derives from contractual or other legal rights, regardless of whether such rights are transferable or can be separated from the Company or from other rights and obligations.
2. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.
3. Intangible assets that are created internally from the Company's development operations will be recognized when the following conditions are met:
   a) The existence of technical feasibility of completing the asset so that it will be available for use or for sale.
   b) The Company intends to complete the asset and use it or sell it.
   c) The Company is able to complete the asset and use it or sell it.
   d) The manner in which the asset will generate future economic benefits can be determined.
   e) The Company has the available technical, financial and other resources to complete the development and to use the asset or sell it.
   f) Costs incurred during the development that are attributable to the asset can be measured reliably.
4. According to management's assessment, intangible assets (other than goodwill) have a finite useful life. Internally generated intangible assets are amortized using the straight-line method over their useful life, and are presented at cost, less amortization and impairment losses.
5. Depreciation period and depreciation method:
   a) A depreciable amount of an asset is systematically allocated over its useful life. With the straight-line method over the years, the depreciation expenses for each period are recognized in profit or loss - see Note 11B4 below.
   b) The Company reviews the useful life and depreciation method used, at least once at the end of each fiscal year.

      Changes are treated prospectively as a change in an accounting estimate.
6. With regard to the impairment of intangible assets, see Note 2U below.
7. With regard to goodwill arising from the acquisition of an investee - see Note 2H above.

S. Recognition of revenues:

Income is measured and recognized at the fair value of the expected proceeds to be received under the terms of the contract, less the amounts collected for third parties (such as taxes).

A. Rental income under an operating lease:

Rental income is recognized on a straight-line basis over the lease term. The Company operates as a principal supplier and bears the risks and rewards from the transaction and therefore recognizes its revenues in respect of ongoing tenant payments for maintenance, cleaning, electricity and tax expenses, on a gross basis.

NOTE 2 – Significant Accounting Policies (Cont.)

S. Recognition of revenues (cont.):

A. Rental income under an operating lease (cont.):

A fixed increase in rent over the term of the lease is recognized as revenues on a straight-line basis as an inherent part of the rental. Lease incentives granted to tenants are recognized as a separate asset and are deducted using the straight-line method against a decrease in rental income over the lease term.

B. Revenues from rendering of services:

Revenues from management services for the investment real estate properties are recognized over the service period as these services constitute a performance obligation over time and the customer simultaneously receives and consumes the benefits provided by the Company's performance.

C. Revenue for selling digital vouchers via a website and application:

The Company operates via a website and application (through a subsidiary) in order to sell digital vouchers for various enterprises with which it has engaged in an agreement.
The Company's revenues are recognized as a net revenue at the time a voucher is sold as the nature of the Company's promise to the customer is to arrange for the goods or services to be provided by another party.
Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

T. Marketing and advertising expenses:

Advertising and marketing expenses that are directly attributable and identifiable with respect to a specific asset are recorded under the maintenance and operating costs item. Other marketing and advertising expenses, such as the cost of branding of malls, are recorded as a separate item in the statement of income.

U. Impairment of non-financial assets:

At the end of each reporting period the Company reviews whether there are any indications of impairment of non-monetary assets, which require assessment of such impairment. Regardless of whether there are indications of impairment, once a year the Company assesses impairment of goodwill arising from a business combination or of an intangible asset that is not yet available for use. If such assessment is required, the Company estimates the recoverable value of the asset or cash generating unit. The recoverable amount is the higher of fair value less costs of disposal and the value in use. The value of usefulness is the current value of future cash flows estimated to generate from an asset or cash generating unit. If the recoverable amount is lower than the carrying amount of the asset, the Company recognizes it as a loss due to impairment and amortizes the carrying amount of the asset to its immediate recoverable amount in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated at acquisition to each of the cash generating units expected to benefit from the synergy in the business combination. The Company recognizes impairment of a cash generating unit when its recoverable amount is lower than its carrying amount. In such event, the Company allocates the impairment loss to lowering the value of the unit's assets, first against the goodwill attributed to the unit and then to the other assets pro rata based on their carrying amount (subject to their recoverable amount). These losses are immediately recognized in profit or loss.

NOTE 2 – Significant Accounting Policies (Cont.)

U. Impairment of non-financial assets:

At the end of each reporting period, the Company assesses whether there are any indications that the impairment of an asset, other than goodwill, recognized in earlier periods still exists or has been reduced. When such indication exists, the Company calculates the recoverable amount of the asset. The impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the recoverable amount of the asset from the most recent date on which the impairment loss was recognized. The carrying amount of an asset, other than goodwill, resulting from the reversal of the impairment loss will not exceed the carrying amount that would have been determined (less depreciation or amortization) if an impairment loss had not been recognized in previous years. Reversal of an impairment loss of an asset, other than goodwill, is immediately recognized in profit or loss.

Reversal of an impairment loss of a cash generating unit will be allocated to the unit's assets, excluding goodwill, pro rata to the carrying amount of these assets. As a result of such reversal, the carrying amount of the asset will not exceed the lower of its recoverable amount or the carrying amount that would have been determined as aforesaid, had no impairment loss been determined. The loss due to impairment of goodwill cannot be reversed.

NOTE 2– Significant Accounting Policies (Cont.)

V. Leases:

The Company as a lessor in an operating lease:

With regard to the Company's operations as a lessor, the tests for classifying leases as finance or operating leases depend on the substance of the lease agreement and are made at the inception of the lease in accordance with the principles below. Lease agreements that do not substantially transfer to the Company all the risks and rewards inherent in ownership of the leased asset are classified as an operating lease. In transactions where the Company is an intermediate lessor, the primary lease and the sublease are treated as separate contracts. The sublease is classified as a financing or operating lease with regard to a right-of-use asset arising from the primary lease. Investment real estate properties are leased under operating lease agreements to the properties' lessees. With regard to leasing income, see section 2S above; Furthermore, the Company also leases underlying assets used as fixed assets for negligible and immaterial amounts. The lease payments for them are recognized as they arise, as an expense in the statement of income, on a straight-line basis over the lease term.

The Company also has right-of-use assets regarding land, which constitute underlying assets, under lease agreements with the Israel Lands Authority, and which the Company uses as investment property measured at fair value. Amounts recognized in respect of such assets (prepaid amounts in capitalized leases) are treated and presented as investment property and not as right-of-use assets, where the measurement at fair value refers to the right-of-use assets and not to the underlying assets. Moreover, future payments that will apply when exercising the option to extend the lease term with the Israel Land Authority are not recognized as part of the property and the liabilities because they are considered variable lease payments, derived from the fair value of the land at the date of renewal of the lease, and therefore recognized only when the option is exercised.

The initial direct costs incurred when obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as an expense under the change in fair value of the investment property.

In the operating lease contracts that combine fixed lease payments and variable lease payments, the lessees were granted relief due to the Covid-19 pandemic under which the fixed component was reduced to a lower amount for a limited period while the variable component was left in place, the Company considers the revised minimum fixed component as another systematic basis which better represents the pattern in which benefit from the use of the underlying asset is diminished.

The Company accounts for the rent concessions granted to the lessees in operating lease contracts with regard to past lease payments, as derecognition of a financial asset. Accordingly, and after taking into account projected credit losses, if any, the Company derecognizes the operating lease receivables in the statement of income as reduced income when the contractual rights to the cash flows from this financial asset expire.

W. Share-based payment:

1. Such transactions include transactions with employees in return for their services (direct terms) that are settled in equity instruments.

2. In share-based payment arrangements for employees that are settled in equity instruments, the value of the benefit is measured on the date granted using the B&S model for pricing options. The fair value is routinely recognized as a payroll expense against a capital fund over the vesting period.

3. Granting of equity instruments may be conditional upon compliance with defined vesting conditions. Hence, cumulatively, no amount will be recognized for services received if the equity instrument that was granted does not vest due to failure to comply with the terms of service.

NOTE 2 – Significant Accounting Policies (Cont.)

X. Income tax:

1. The Financial Statements include deferred taxes for temporary differences between financial reporting purposes and income tax purposes. Such differences are mainly due to the differences between the carrying amounts of items in the financial statement and the future remaining amounts for income tax purposes, due to certain items that are measured at fair value in the financial statements without corresponding adjustments for tax purposes, due to the difference in timing of recognition of certain expenses and income, and due to losses brought forward for tax purposes.
2. The calculation of current taxes is based on tax rates and tax laws legislated or effective by the date of the statement of financial position. Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the asset is disposed or the liability is discharged, based on the tax rates and tax laws that are being enacted or are actually enacted, by the end of the Reporting Period.
3. Deferred tax liabilities are recognized in respect of temporary taxable differences unless the deferred tax liability is the result of initial recognition of goodwill or initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (loss for tax purposes). Deferred tax assets are recognized for all deductible temporary differentials up to an amount that is expected will be taxable income against which the deductible timing differences may be utilized.
4. Deferred tax liabilities have not been recognized in respect of temporary differences generated due to investments in investees. Such temporary differences may be taxable if the Company disposes of the investment in these investees. As long as the Company does not intend to utilize such temporary differences and controls their reversal, no such liability is recognized.
5. Current and deferred taxes are recognized in the statement of income, unless it is the result from a transaction or event that is not recognized in the statement of income.
6. Deferred taxes for investment properties presented at fair value are measured on the assumption that their carrying amount will be settled in full by selling them only, and accordingly are measured to reflect the tax consequences that will apply when selling the property and not during its period of use.
7. The Company reflected the effect of uncertainty in determining the components for its current and deferred tax calculation when the tax authority is unlikely (probability above 50%) to accept the treatment of uncertain tax positions. The Company reflected the effect of uncertainty for any uncertain tax position using the most reasonable amount method or the prediction method, depending on the method the Company expects to provide better forecasts concerning the decision regarding uncertainty. The Company decides whether to consider uncertain tax positions separately, or in conjunction with one or more other uncertain tax positions, depending on which approach provides better forecasts concerning the decision regarding uncertainty. In addition, the Company assumes that the tax authority will check amounts that it is entitled to check and will have full knowledge of all the relevant information.

NOTE 2 – Significant Accounting Policies (Cont.)

X. Income tax (cont.):

8. Current tax assets and liabilities are offset and presented when the entity has an enforceable legal right to offset the amounts recognized and intends to settle the net amount, or to dispose of the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset and presented when the entity has an enforceable legal right to offset current tax assets against current tax liabilities, and when they relate to income tax imposed by that tax authority, and the company intends to dispose of the current net tax assets and liabilities.

Y. Earnings per share (EPS):

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

Z. Classification of interest and dividends paid / received in the statement of cash flows:

The Company classifies cash flows from interest and dividends it received and cash flows from interest paid, as cash flows that were used or resulted from current operations. Cash flows with regard to income tax are generally classified as cash flows used for current operations, excluding those that can be easily identified with cash flows that were used for investment or financing activities. Dividends paid by the Company are classified as cash flows from financing activities.

In the statement of cash flow, the Company classifies cash flows relating to consistently discounted interest payments on eligible assets with other payments relating to such assets.

AA. The effect of new International Financial Reporting Standards, and amendments to the standards in the period before their application that could affect the financial statements in the period of initial application:

Classification of Liabilities as Current or Non-Current - Amendment to International Accounting Standard 1 - Presentation of Financial Statements ("Amendment to IAS 1"):

An amendment to IAS 1 with regard to the classification of liabilities as current or non-current was issued in 2020 (the "Amendment 2020"). The Amendment clarifies that classification of liabilities as current or non-current is based on the existence of a right until the end of the reporting period and is not affected by the entity's expectation to utilize such right.

The Amendment removed reference to the existence of an unconditional right and clarified that if the right to defer settlement is conditional on compliance with financial covenants, the right exists if the entity complies with the covenants set for the end of the reporting period, even if the lender tests compliance with the covenants at a later date.

Furthermore, a definition of the term "settlement" was added to the Amendment to clarify that settlement could mean the transfer of cash, goods and services or equity instruments of the entity itself to the counterparty. In this context, it was clarified that if under the terms of the liability, the counterparty has an option to demand settlement with the entity's own equity instruments, such condition does not affect the classification of the liability as current or non-current if the option is classified as a separate capital component under IAS 32 Financial Instruments: Presentation.

The Amendment only affects the classification of liabilities as current or non-current in the statement of financial position and not the amount or the timing of recognition of such liabilities or the income and expenses related to them.

In October 2022, another amendment was published regarding the classification of liabilities with financial covenants (below: Amendment 2022), where it was clarified that only financial covenants with which the entity is required to comply before or at the end of the reporting period, affect the entities right to defer settlement of the liability for at least 12 months after the reporting period, also if compliance is in practice tested after the reporting period.

Amendment 2022 provides that if the entity's right to defer settlement of a liability is subject to compliance with financial covenants within 12 months after the reporting period, the entity is required to disclose information that will allow the users of the financial statements to assess the inherent risk. The other amendments issued under Amendment 2020 remained in place. The effective date for Amendment 2020 and Amendment 2022 was set for the reporting period beginning on or after January 1, 2024. Early adoption is possible on condition that the entity adopts both amendments at the same time.

NOTE 2 – Significant Accounting Policies (Cont.)

AA. **The effect of new International Financial Reporting Standards, and amendments to the standards in the period before their application that could affect the financial statements in the period of initial application (cont.):**

Amendment to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Accounting Estimates):

The definition of a "change in accounting estimates" was replaced with a definition of "accounting estimates". Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The Amendment clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The Amendment will be applied prospectively for the annual reporting periods beginning on or after January 1, 2023. Early adoption is possible.

BB. **The effect of new International Financial Reporting Standards, and amendments to the standards in the period before their application that could affect the financial statements in the period of initial application (cont.):**

Amendment to IFRS 9 Financial Instruments ("Amendment to IFRS 9"):

The Amendments to IFRS 9 published as part of the 2018-2020 annual improvements cycle, clarifies which costs are included in the 10 percent test for derecognition of financial liabilities resulting from exchanging them or from significant amendment of their terms.

Pursuant to the provisions of the Amendment, costs and fees paid to third parties will not be included in the 10 percent test, so that only fees paid to the lender will be taken into account in this test. The Amendment will be applied for exchanges or amendment of terms that were implemented in the financial liabilities as of January 1, 2022, the effective date of the Amendment, i.e. Without retesting the exchanges or amendments to terms in the periods preceding the applicable date of the Amendment. Early adoption is possible. The Amendment had no material effect on the Company.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 3 – Cash and Cash Equivalents

Composition:

	Interest rate as at December 31, 2022	December 31, 2022	December 31, 2021
	%		
NIS:			
In cashbox and in banks		3	40
Deposits	3.15-3.25	538	1,017
		541	1,057
Foreign currency:			
In cashbox and in banks		1	-
Deposits		1	1
		2	1
		543	1,058

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 4 – Short-Term Financial Assets:

Composition:

	December 31, 2022	December 31, 2021
Financial assets held for trading at fair value through profit or loss		
Linked government bonds	11	3
NIS government bonds	16	7
USD-linked corporate bonds	2	2
CPI-linked corporate bonds	44	40
NIS corporate bonds	39	37
Shares in Israel	22	29
Foreign shares and bonds	61	59
ETFs and mutual funds	130	178
Total	325	355

NOTE 5 – Short-Term Loans and Deposits

Composition:

	Interest rate as at December 31, 2022	December 31, 2022	December 31, 2021
	%		
Deposits in trust (see Note 18.D)	0.1	2	1,128
Total deposits		2	1,128
Current maturity of loans to others (see Note 22.D)	5.00	8	9
Total loans		8	9
Total		10	1,137

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 6 – Trade Receivables:

A. Composition

	December 31, 2022	December 31, 2021
Open debts	10	16
Checks receivable	13	17
Income receivable	15	15
	38	48
Less provision for doubtful debts	(3)	(5)
Total	35	43

B. The Company has many customers, none of which are significant for the Company, therefore its exposure to credit risk is low.

NOTE 7 – Other Receivables:

Composition:

	December 31, 2022	December 31, 2021
Jointly-controlled transactions	2	1
Prepaid expenses	6	5
Income receivable	6	3
Advances to suppliers	3	5
Income tax receivable	17	14
Institutions	11	-
Other receivables	2	1
Total	47	29

NOTE 8 – Real Estate Under Development for Construction of Apartments for Sale:

The Company is developing (together with a partner in equal parts) the Landmark project in the Sarona complex in Tel Aviv. The project includes offices, commerce, public buildings, and residential units. The building rights include 8.1 thousand sq.m of residences (116 housing units) (the Company's share is 50%). The Company recognizes a proportional part of the construction costs in inventory of apartments under development.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 9 – Long-term Loans:

A. Composition

	Linkage basis	Interest rate as at December 31, 2022	December 31, 2022	December 31, 2021
		%		
Loans for tenants	CPI	4.0-6.0	2	4
Sellers' loan (see Note 22.D)	CPI	5.0	171	164
			173	168
Less current maturities			(8)	(9)
Total			165	159

B. Repayment dates subsequent to the balance sheet date:

For further information about the sellers' loan see Note 22.D.

C. Additional details:

For further information, see Note 25 - Financial Instruments

NOTE 10 – Investments in and Loans to Investees

A. Composition:

	December 31, 2022	December 31, 2021
Equity-accounted investments (1)	1,021	331
Other investments:		
Loan (2)	164	178
Total other investments	164	178
Total	1,185	509

NOTE 10 – Investments in and Loans to Investees (cont.)

1) **Acquisition of 50% of the shares of Aviv Real Estate Development and Management Ltd.:**

On May 26, 2022, the Company entered into an agreement with Aviv & Co. Group Real Estate 1963 Ltd. (the "Seller") and wholly-owned company of the Seller, Aviv Real Estate Development and Management Ltd. ("Aviv Development") for the acquisition of 50% of the share capital of Aviv Development (which develops and constructs residential housing and urban renewal projects). Under the agreement, on completion of the transaction on July 3, 2022, Aviv Development allocated to the Company and the Seller sold to the Company shares of Aviv representing 50% of the share capital of Aviv Development for a total consideration of NIS 600 million (of which an amount of NIS 146 million was paid to the Seller for the acquired shares and an amount of NIS 454 million was paid to Aviv Development for the allocated shares), reflecting for Aviv Development the value of the Company (before the money and before deducting the debt of Aviv Development to the Seller in the amount of NIS 90 million, which was repaid on completion of the transaction) in the amount of NIS 836 million. The investment in Aviv Development is presented in the financial statements of the Company using the equity method as at July 1, 2022.

Allocation of the acquisition cost in NIS millions:

Consideration paid	600
Capital acquired	286
Original difference:	**314**
Attribution of original difference:	
Project backlog	26
Expected projects	95
Commercial name	13
Tax reserve	(31)
Goodwill	211
Total	**314**

The consideration paid includes amounts related to expected benefits and future developments. All of these resulted in goodwill amounting to NIS 211 million.

2) **Shareholder loan Hotzot Hamifratz Haifa Ltd.**

On December 31, 2021, the Company and Ashtrom Properties Ltd. "(Ashtrom") provided a shareholder loan to Hotzot Hamifratz Haifa Ltd. ("Hotzot Hamifratz"), in which each of the companies owns 50% of its capital and voting rights, in a total amount of NIS 355 million (half by the Company and half by Ashtrom). Hotzot Hamifratz used the full amount of the loan to repay the existing shareholder loans. Under the terms of the loan, the loan principal is not linked to the CPI and will be repaid by Hotzot Hamifratz in one payment on December 31, 2027. In addition to repayment of the loan principal, Hotzot Hamifratz will pay unlinked interest to the shareholder at an annual rate of 4%. In addition, Hotzot Hamifratz may, at any time, advance and repay any amount on account of the repayment of the loan principal without an early repayment penalty. Due to an amendment to the terms of the loan as from July 1, 2022, it was agreed that the principal and interest on it will be linked to the CPI and the interest rate will decrease by 0.5% to a rate of 3.5%. The other terms of the loan remained unchanged.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 10 – Investments in and Loans to Investees (cont.)

B. Rates of ownership and control of the main companies and operations in the Company, incorporated in Israel and other countries:

		December 31, 2022		December 31, 2021
Name of holding company	Name of investee	% in capital	Status in Company	% in capital
Melisron Ltd.				
	British Israel Investments Ltd.	100.0%	Subsidiary	100.0%
	Ramat Aviv Mall Ltd.	100.0%	Subsidiary	100.0%
	Hotzot Hamifratz Haifa Ltd.	50.0%	Joint venture	50.0%
	Grouper Social Shopping Ltd.	100.0%	Subsidiary	100.0%
	Aviv Real Estate Development and Management Ltd.	50.0%	Joint venture	-
British Israel Investments Ltd.:				
	Azo-Rit Properties Ltd.	100.0%	Subsidiary	100.0%
	British Israel High Tech (North) Ltd.	100.0%	Subsidiary	100.0%
	Irus HaGilboa Ltd.	100.0%	Subsidiary	100.0%
Azo-Rit Properties Ltd.:				
	Shopping Centers (Azo-Rit) Ltd.	100.0%	Subsidiary	100.0%
	My Ofer Management Services Ltd.	100.0%	Subsidiary	100.0%
	Azorei Park Ltd.*	-	Subsidiary	100.0%
Shopping Centers (Azo-Rit) Ltd.:				
	Azo-Rit Rehovot Ltd.	100.0%	Subsidiary	100.0%
	Azo-Rit Bilu Center Ltd.	72.0%	Subsidiary	72.0%
	Harel - Hatayelet Malls Ltd.	100.0%	Subsidiary	100.0%
	Azo-Rit Hadar Ltd.	100.0%	Subsidiary	100.0%
	Sirkin Mall (British Israel) Ltd.	100.0%	Subsidiary	100.0%
	MLA HaNegev Investments and Development Ltd.	100.0%	Subsidiary	100.0%
	Oz Technologies (1972) Ltd.	100.0%	Subsidiary	100.0%
	Avnat Ltd.	82.3%	Subsidiary	82.3%
	Nahariya North Mall Properties Ltd.	100.0%	Subsidiary	100.0%
My Ofer Management Services Ltd.				
	Clal Real Estate Investments Ltd.	100.0%	Subsidiary	100.0%
Oz Technologies (1972) Ltd.:				
	Avnat Ltd.	17.7%	Subsidiary	17.7%
Clal Real Estate Investments Ltd.				
	Melisron (Millennium House) Ltd.	100.0%	Subsidiary	100.0%
	Azorei Mallal Industries Ltd.	74.0%	Subsidiary	74.0%
Harel Hatayelet Malls Ltd.:				
	Pizza Hut (Israel) Holdings 1993 Ltd.	100.0%	Subsidiary	100.0%
	A.R.D Omri and Roi Ltd.	100.0%	Subsidiary	100.0%

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 10 – Investments in and Loans to Investees (cont.)

C. Entry into consolidation:

In July, 2021, the Company entered into an agreement to purchase the full share capital of Grouper Social Shopping Ltd. ("Grouper"), a private company operating a digital and online shopping platform, which also owns the brands Groo and Baligam, for a consideration of NIS 57 million. In July, 2021 the transaction was completed and the full consideration was paid. In addition, under the acquisition contract, the Company undertook to pay NIS 4 million to key employees at Grouper for three years from the contract date, in consideration for the continuation of their employment at Grouper in this period. In 2022 and up to the publication date of this report, some of the key employees terminated their employment, such that the compensation to be paid over the three years is expected to amount to NIS 2 million . The Company's results include the results of Grouper as at July 1, 2021.

Net cash used for acquisition

Cash and cash equivalents in the acquired company as at the acquisition date	15
Cash paid for the acquisition	(57)
Net cash	(42)

Attribution of acquisition cost:

Consideration paid	57
Capital acquired	5
Original difference:	**52**
Attribution of original difference:	
Customer relations	14
Brand	7
Tax reserve	(5)
Goodwill	36

The consideration paid for the business combination includes amounts for expected benefits from synergy and future developments. All of these resulted in goodwill amounting to NIS 36 million.

Amounts recognized at the acquisition date for assets and liabilities:

Tax reserve	(5)
Cash and cash equivalents	15
Trade receivables	7
Other receivables	3
Fixed assets	1
Intangible assets	67
Deferred tax assets	2
Trade payables	(17)
Other payables	(15)
Liabilities for employee benefits, net	(1)
Total identifiable assets, net	**57**

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 11 – Intangible Assets and Goodwill:

A. Composition

	Intangible assets	Goodwill	Total
Cost as at January 1, 2022	45	562	607
Additions in the period	21	-	21
Cost as at December 31, 2022	66	562	628
Accumulated amortization as at January 1, 2022	12	-	12
Amortization for 2022 (B.4 and B.5)	8	10	18
Accumulated amortization as at December 31, 2022	20	10	30
Amortized balance as at December 31, 2022	46	552	598
Amortized balance as at December 31, 2021	33	562	595

B. Additional details:

1. On April 12, 2011, the acquisition of British Israel Investments Ltd. was completed. As at the acquisition date, the Company recognized goodwill arising from the acquisition in the amount of NIS 438 million (see Cash-Generating Unit 1 below).

2. On December 31, 2016, the preconditions for acquisition of 23.4% of Azorei Mallal Industries Ltd. were fulfilled. As at the acquisition date, the Company recognized goodwill arising from the acquisition in the amount of NIS 88 million (see Cash-Generating Unit 2 below).

3. In July 2021, the Company completed a transaction for acquisition of the entire share capital of Grouper Social Shopping Ltd. ("Grouper"). As at the acquisition date, the Company recognized goodwill arising for the acquisition in the amount of NIS 36 million. (See Cash-Generating Unit 3 below).

4. The Company uses the straight line method for amortization of an intangible asset with a finite useful life (management agreement and customer relations). Under this method, Cash-Generating Unit 1 is amortized on a straight line basis over 13.75 years and Cash-Generating Unit 3 is amortized on a straight line basis over 10-11 years.

5. Amortization of intangible assets with a finite useful life is recognized under other expenses in the statement of income.

C. Additional information about the recoverable amount of a cash-generating unit:

Information about amounts of goodwill allocated to the various cash-generating units:

	Goodwill as at December 31	
	2022	2021
Cash-Generating Unit 1	436	438
Cash-Generating Unit 2	88	88
Cash-Generating Unit 3	28	36

NOTE 11 – Intangible Assets and Goodwill (cont.)

C. Additional information about the recoverable amount of a cash-generating unit (cont.)

Cash-Generating Unit 1

The recoverable amount of the cash-generating units is based on the fair value less disposal costs. The fair value of the operation is based on the value of the Company's equity plus the fair value of its financial liabilities, net. The calculation is classified at level 2 on the fair value hierarchy.

Assumptions used to calculate the fair value of the Company's operations:

A. Fair value of equity - based on the quoted price of the Company's shares in an active market (the TASE), as at December 31, 2022.
B. Control premium - based on the control premium in international benchmark companies with operations similar to those of the Company.
C. Fair value of marketable debentures - based on the quoted price of the debentures in an active market (the TASE), as at the impairment assessment date.

The fair value less disposal costs was compared with the carrying amount of the operating assets plus goodwill recognized in the financial statements and less part of the tax reserves. Accordingly, the value of the cash-generating units exceeds their carrying amount, therefore there is no goodwill impairment.

The estimates and assumptions were based on the Company's assessment of future industry trends from external and internal sources and on the economic assumptions of independent appraisers.

Cash-Generating Unit 2

The recoverable amount of the cash-generating unit is based on the value in use. In assessing the value in use, forecasted future net cash flows used in the appraisal of the income-producing operating assets of Azorei Mallal were taken into account, using the income approach - discounted cash flows (DCF) at discount rates of 6.86%-6.91%.

The calculation is classified at level 3 on the fair value hierarchy. The value in use was compared with the carrying amount of the operating assets plus goodwill recorded in the financial statements. According to the comparison, the value of the cash-generating unit exceeds its carrying amount, therefore there is no goodwill impairment.

Cash-Generating Unit 3

The recoverable amount of the cash-generating unit is based on the value in use. As at December 31, 2022, the Company assessed the recoverable amount of the unit relevant to the goodwill as at the reporting date. The value in use of the operations of the cash-generating unit is based on the estimated future pre-tax cash flows from the business activity of the cash-generating unit and their discounted cash flow (DCF approach). The key assumptions underlying the calculation of the value in use are the operating profit, the discount rate, and the long-term growth rate. The cash flow forecast on the basis of value in use was based on management's assumptions and on expected performance data, which management believes are appropriate in the circumstances and in accordance with past experience and industry standards. These cash flows were determined on the basis of the budget for the next six years and the forecasted cash flows for a period exceeding six years were based on long-term growth at a rate of 3%. The discount rate of 23.25% after tax (based on the WACC model) includes the inherent risks in the cash flows and the realization of the expected flow. From the assessment, it arose that the value in use of the cash-generating unit as at the reporting date is lower than its carrying amount. Accordingly, the Company recorded an impairment in goodwill in the amount of NIS 7 million. The impairment was recorded under other expenses.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 12 – Short-Term Financial Assets and Other Assets:

Composition:

	December 31, 2022	December 31, 2021
Payment on account of betterment levy (1)	50	-
Other assets (2)	16	12
	66	12

1. Payment on account of betterment levy for Landmark Tel Aviv project, which the Company holds together with a partner.
2. Including receivables from municipal institutions in the amount of NIS 11.5 million.

NOTE 13 – Investment Property

A. Composition/change

	2022	2021
Fair value as at January 1	20,379	18,590
Investments in investment property	624	365
Acquisition of land and payment of taxes for it (Note 13.C)	123	-
Appreciation of the fair value of investment property, net (Note 13.B)	1,224	1,327
Payment for partial cancellation of a sale (Note 13.E.)	-	67
Advance payment on account of acquisition of investment property and payment of taxes for it (Note 13.C)	63	-
Capitalization of financing for property under construction	49	30
Balance as at December 31	22,462	20,379

B. Valuation update as at December 31, 2022:

As at December 31, 2022, the Company, as every year, revised the valuation of its assets through an external appraiser. The valuations included an adjustment of the representative NOI of assets based on updated information about lease contracts and the Company's forecast for the conditions of lease contracts. The change in NOI was mainly due to the amendment of the lease contract signed in the period and revised for the rental revenue index. In addition, the fair value of projects under construction was adjusted, mainly due to the advance in markets (signing lease agreements). The appraisers also reflected the market risks for commercial areas (increase in the interest rate, the inflation, and the risk of recession) at this time by raising the representative discount rate for proceeds for a fixed period until the expected return to regular activity, equivalent to an increase in the basic discount rate for rental revenue in the commercial areas permanently at a rate of 0.25%.

The Company included appreciation, net of investment property, in the amount of NIS 1,224 million in its financial statements for 2022. For further information about the fair value measurement, see Note 2.M.

NOTE 13 - Investment Property (cont.):

C. Acquisition of property in 2022:

1. On April 12, 2022, a wholly owned subsidiary of the Company purchased land covering 9 thousand sq.m near the Ofer Hacarmel Park for a consideration of NIS 36 million. The Company will use the land for future expansion of the Ofer Hacarmel Park.
2. On June 1, 2022, the Company signed a purchase and partnership agreement with M. Yochananof and Sons (1988) Ltd. for the joint promotion of the development, planning, and execution of a project for the construction of an open commercial center including commerce and offices areas, covering 24 thousand sq.m in Yavne. Under the agreement, the Company acquired 70% of the lease rights in the land on which the project will be built in exchange for a consideration of NIS 47 million (such that subsequent to the transaction, the Company holds 70% of the property rights).
3. On June 7, 2022, a wholly owned subsidiary of the Company purchased land covering 16.5 thousand sq.m, near Kanot Junction for a consideration of NIS 29 million. In November, 2022, an agreement was signed for the purchase of additional adjacent land covering 4 thousand sq.m for a consideration of NIS 5 million. The purchased lands are part of a total complex of 250 thousand sq.m zoned for agriculture and the local council is advancing a plan under the authority of a district committee to rezone the complex from agriculture to logistics (industry and storage) and offices.
4. On October 2, 2022, the Company signed a conditional agreement with a party unrelated to the Company, which includes a termination clause (according to which, under the grounds set out in the agreement, the Company may cancel the agreement up to the date set in the agreement), for the purchase of 4.5 thousand sq.m of land on Lincoln Street in Tel Aviv with a building used for commerce and offices above the basement floor, for a consideration of NIS 298 million plus VAT. The approved construction rights permit the construction of 17.5 thousand sq.m of offices for rent (above six basement floors) and the Company plans to increase the construction rights. As at the balance sheet date, the Company paid NIS 45 million on account of the consideration and NIS 17.5 million on account of taxes. Subsequent to the balance sheet date, the transaction was completed and the Company paid the remaining consideration.

NOTE 13 - Investment Property (cont.):

D. Fair value measurement:

Description of the Group	Fair value	Valuation technique	Significant unobservable information	Range	Marketed area (thousands of sq.m)
December 31, 2022					
Group A	20,189	Revenue approach - discounted cash flows (DCF)	Monthly rent per sq.m	51-482	5-88
			Primary discount rate	5.25%-7.75%	
			Occupancy rate	91%-100%	
Group B	676	Comparison approach			
Group C	1,597	Discounted cash flows (DCF) less estimated construction costs expected to arise from its construction	Primary discount rate	6.42%-6.75%	
Total	22,462				
December 31, 2021					
Group A	18,705	Revenue approach - discounted cash flows (DCF)	Monthly rent per sq.m	47-462	5-88
			Primary discount rate	5.25%-7.25%	
			Occupancy rate	91%-100%	
Group B	469	Comparison approach			
Group C	1,205	Discounted cash flows (DCF) less estimated construction costs expected to arise from its construction	Primary discount rate	6.54%-7.16%	
Total	20,379				

(1) Group A includes income-producing real estate, with fair value measured on the basis of the projected discounted cash flow, based on reliable estimates of future cash flows, supported by the terms of any lease or other contracts and by external evidence, such as: rental fees appropriate for similar real estate in the same location and position, and the use of discount rates reflecting current market assessments of the uncertainty regarding the amount and timing of the cash flows. The main discount rates used as at December 31, 2022 are between 5.25% and 7.75%, compared with the main discount rates of between 5.25% and 7.5% as at December 31, 2021.

(2) Group B includes purchased land and rights with fair value based on the assessment of the market value of the property, based on transactions in other properties in a location similar to the evaluated property.

(3) Group C includes mainly real estate under construction, with fair value based on the value of the built-up and inhabited property net of development profit and construction costs.

The main monthly rental fees used to estimate the value of the built-up and inhabited property for most of the property in this group as at December 31, 2022 amount to NIS 164 per 1,000 sq.m, compared with NIS 151 per 1,000 sq.m as at December 31, 2021.

Groups A and C constitute level 3 and Group B constitutes level 2 in the fair value hierarchy as set out in Note 25.C.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 13 – Investment Property (cont.):

E. Amounts recognized in profit or loss for investment property:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Rental fees and other revenue from investment property	1,673	1,424	1,115
Direct operating costs from investment property generating rental and other revenue	433	373	323

F. Agreement for cancellation of an agreement (partial), settlement, and cooperation - Nahariya North Mall:

On May 28, 2013, the wholly-owned subsidiaries of the Company (the "Sellers") and Clal Insurance Company Ltd. ("Clal") signed a sale agreement, in which Clal acquired the entire rights and liabilities in the Nahariya North Mall and in an adjacent plot zoned for housing. Under the sale agreement and subject to the conditions set out in the agreement, mechanisms were established for guaranteeing a return and for adjustment of the consideration between the parties for 10 years, starting from the handover of the lease to the land to Clal under the sale agreement. Disputes arose between the parties regarding the implementation of the sale agreement and in the legal proceedings, each party denied the other party's claims. To fully settle and finalize the legal proceedings and eliminate all claims and disputes between the parties, on June 2, 2020, the parties signed a settlement agreement under which the sale agreement will be partially revoked for half (50%) of all the rights and obligations in the mall and the real estate, against the refund of NIS 67 million by the Sellers to Clal.

In addition, and for half of the rights remaining in Clal, Clal will be paid final compensation in the amount of NIS 53 million. The above arrangement includes a mutual waiver by the parties of all allegations, demands, and claims relating to the sale agreement and/or to the legal proceedings and/or to disputes arising between the parties, including allegations, demands, and claims for the amounts due to either party (as alleged by them) in accordance with the sale agreement, including final and absolute cancellation of the mechanisms for guaranteeing the returns and adjustment of the consideration set out in the original agreement. The validity of the agreement is subject to the approval of the Competition Commissioner, which was given on October 21, 2020. In May, 2021, the agreement was completed (including receipt of court approval) against a refund in the amount of NIS 67 million and compensation in the amount of NIS 53 million (the above payments were made in full). On completion of the agreement, the Company (through wholly-owned subsidiaries) holds 50% of the Nahariya North Mall.

G. Sensitivity analysis:

The following is a sensitivity analysis of the cap rate of the real estate based on standardized NOI (including companies that are accounted at the equity method in the financial statements): Based on NOI of NIS 1,362 million (standardized NOI) any change of 0.25% in the discount rate on the adjusted fair value is NIS 687 million (less deferred taxes at a rate of 23% - NIS 529 million).

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 13 - Investment Property (cont.):

H. Liens:

See Note 22.B

I. Description of composition and change

	December 31, 2022			
	Group A	Group B	Group C	Total
January 1, 2022	18,705	469	1,205	20,379
Investments in the period	285	45	294	624
Acquisition of land	-	72	51	123
Advance payments on account of acquisition of land	-	63	-	63
Adjusted value	940	35	249	1,224
Financing discount	-	-	49	49
Group transfer	259	(8)	(251)	-
As at December 31, 2022	20,189	676	1,597	22,462

J. Expected revenues for signed rental contracts:

	December 31, 2022	December 31, 2021
First year	1,123	976
Second year	893	762
Third year	640	553
Fourth year	453	373
Fifth year	332	248
Sixth year and onwards	857	762
Total	4,298	3,674

- It should be clarified that the expected revenue does not include expected revenue for the exercise of options to renew existing contracts that will come to an end. The expected revenue set out above includes only revenue from rental and parking, for which there are contracts signed as at December 31, 2022, without revenue from management fees, proceeds, and revenue from lease contracts paid as a percentage of proceeds. As at December 31, 2022, the revenue component from variable components is not material to the Company and the Company has no information about its expected revenue from this component.
- The information about the expected revenue may change, among other things, due to the cancellation or breach of lease agreements, among other things, due to the effects of Covid-19 and/or a change in the economic situation of the tenants such that they will be unable to pay rent (including but not limited to bankruptcy or foreclosure).
- The figures include 50% of the revenue expected from Hotzot Hamifratz (the Company holds 50% of its capital and voting rights, and the investment in it is presented in the financial statements of the Company using the equity method).

NOTE 13 - Investment Property (cont.):

K. Agreement with a new tenant:

On April 6, 2022, the Company signed a contract with an international technology company for an area of 51,000 sq.m in the Landmark Tel Aviv project , which the Company owns together with a partner. The area consists of half of the rental areas in Tower A in the project. The agreement is for seven years, with two options to extend the period by another three years each. The transaction (for the first period only) is expected to amount to NIS 750 million (the Company's share is 50%). The contract is linked to the CPI.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 14 – Liabilities to Banks and Others

A. Composition

	Interest rate as at December 31, 2022	December 31, 2022	December 31, 2021
	%		
Banks:			
Short-term loans (1)	P+0.35	-	642
Current maturities for long-term loans		7	6
Total		7	648
Other:			
Commercial Securities (Series 3)	P-1	99	99
Current maturities for long-term loans (see Note 19)		43	235
		142	334
Total		149	982

1. In April, 2020, Ramat Aviv Mall Ltd. (a wholly-owned subsidiary of the Company holding rights in the Ofer Ramat Aviv Mall) signed an agreement with Bank Leumi for a credit facility of up to NIS 850 million (subject to compliance with the terms of the agreement) valid until March 2022. Under the agreement, the Company may use a maximum amount of NIS 200 million from the credit facility for its ongoing requirements and a maximum amount of NIS 650 million to repay the loan of the subsidiary. The current lien in favor of the bank on the Ofer Ramat Aviv mall and the Company's guarantee in favor of the bank are used to secure the loan under the new credit facility. In November 2020, the subsidiary repaid the balance of the loan in the amount of NIS 635 million by using the credit facility. In January, 2022, the Ramat Aviv Mall Ltd. extended the credit facility agreement for two more years, until March 2024. As at the reporting date, the subsidiary has an unused credit facility of NIS 200 million.

B. For further information see Note 25.

NOTE 15 – Trade Payables:

A. Composition

	December 31, 2022	December 31, 2021
Open debts	83	64
Checks payable	45	34
Expenses payable (B)	147	47
Total	275	145

B. The balance is mainly due to provisions for investments and settling of accounts.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 16 – Other Payables

A. Composition

	December 31, 2022	December 31, 2021
Employee benefits and related salary expenses	32	30
Interest payable	65	81
Institutions	-	8
Deferred income	15	24
Expenses payable (B)	41	36
Payables for the sale of assets	-	10
Others	4	5
Total	157	194

B. The balance is mainly due to provisions for levies and betterment.

NOTE 17 – Provisions for Tax

The provisions are mainly due to disputed tax issues; for further information see Note 20.E.

NOTE 18 – Debentures:

A.

1. Composition

	Linkage basis	Effective interest rate as at December 31, 2022	Nominal interest rate as at December 31, 2022	December 31, 2022 Total less current maturities	December 31, 2021 Total less current maturities
		%	%		
In Melisron:					
Debentures (Series F)	CPI	3.81	4.90	-	144
Debentures (Series J)	CPI	1.91	1.76	1,459	1,416
Debentures (Series K)	CPI	2.51	2.30	1,375	1,334
Debentures (Series M)	CPI	5.18	5.85	-	135
Debentures (Series N)	CPI	1.49	2.15	1,352	1,324
Debentures (Series O)	-	3.50	3.50	695	931
Debentures (Series P)	CPI	2.00	2.35	802	783
Debentures (Series Q)	CPI	1.09	2.25	1,146	1,238
Debentures (Series R)	CPI	0.79	0.65	398	385
Debentures (Series S)	CPI	1.57	1.43	431	417
Debentures (Series T) (c)	CPI	0.79	0.25	1,326	1,062
Total				8,984	9,169

2. Current maturities for debentures:

	December 31, 2022	December 31, 2021
Current maturities for debentures:	859	1,755

NOTE 18 – Debentures (cont.)

B. Additional details:

Series	Rating agency	Issuance rating as at the reporting date		Total par value as at the issuance date (including expansions and exchanges) (NIS thousands)	Type of interest	Nominal interest	Effective interest rate as at the issuance date	Interest payment dates	Current maturity Dec 31, 2022 (NIS millions)	Nominal par value Dec 31, 2022 (NIS millions)	Par value CPI-linked, Dec 31, 2022 (NIS millions)	Carrying amount Dec 31, 2022 (NIS millions)	Interest payable, Dec 31, 2022 (NIS millions)	Market value Dec 31, 2022 (NIS millions)
		Issuance	Reporting date											
Debentures (Series F) Oct. 9, 2011 Expansions: Jan 10, 2012 Jan 11, 2012 May 2, 2013 Jun 15, 2014 Mar 31, 2015	Maalot	AA	AA	1,060,073	Fixed	4.9%	1.3%-5.1%	Fixed semiannual interest, Apr 10, Oct 10, in 2012-2023	148	133	148	149	2	154
Debentures (Series J) Mar 31, 2015 Exchange: Jan 28, 2017 Oct 23, 2017 Expansions: Feb 24, 2019 Apr 16, 2020	Maalot	A+	AA	1,528,817	Fixed	1.76%	1.33%-2.29%	Fixed semiannual interest, Jan 10, Jul 10, in 2016-2025	35	1,367	1,498	1,493	12	1,477
Debentures (Series K) Mar 31, 2015 Expansions: Apr 19, 2016 Jan 12, 2017 Jun 8, 2017	Maalot	A+	AA	1,469,530	Fixed	2.3%	2.19%-2.82%	Fixed semiannual interest, Jan 10, Jul 10, in 2016-2025	33	1,290	1,414	1,408	15	1,404
Debentures (Series M) May 5, 2016	Maalot	AA-	AA	1,765,784	Fixed	5.85%	5.18%	Fixed semi-annual interest - Nov 30 and May 30 in 2016-2023 (in 2023, one payment on May 30 only)	139	119	139	139	21	143

Series	Rating agency	Issuance rating as at the reporting date		Total par value as at the issuance date (including expansions and exchanges) (NIS thousands)	Type of interest	Nominal interest	Effective interest rate as at the issuance date	Interest payment dates	Current maturity Dec 31, 2022 (NIS millions)	Nominal par value Dec 31, 2022 (NIS millions)	Par value CPI-linked, Dec 31, 2022 (NIS millions)	Carrying amount Dec 31, 2022 (NIS millions)	Interest payable, Dec 31, 2022 (NIS millions)	Market value Dec 31, 2022 (NIS millions)
		Issuance	Reporting date											
Debentures (Series N) Apr 19, 2016 Exchange: Mar 5, 2018 Apr 11, 2018 Expansions: Oct 30, 2019 Apr 16, 2020	Maalot	AA-	AA	1,370,403	Fixed	2.15%	0.52%-2.29%	Fixed semi-annual interest - Apr 27 and Oct 27 in 2016-2026 (in 2016, one payment on Oct 27 only, and in 2026, one payment on Apr 27 only)	31	1,235	1,356	1,383	5	1,360
Debentures (Series O) Apr 19, 2016 Expansions: Jan 12, 2017 Aug 6, 2017	Maalot	AA-	AA	1,062,425	Fixed	3.5%	3.15%-3.79%	Fixed semi-annual interest - Jun 30 and Dec 30 in 2016-2024 (in 2016, one payment on Dec 30 only)	235	930	930	931	-	915
Debentures (Series P) Jan 12, 2017 Exchange: Mar 5, 2018 Expansion: Sep 6, 2018	Maalot	AA-	AA	827,516	Fixed	2.35%	1.69%-2.49%	Fixed semiannual interest - Apr 1 and Oct 1, in 2017-2027	19	743	810	821	5	820
Debentures (Series Q) Mar 6, 2018 Expansions: Oct 30, 2019 Mar 1, 2021 Apr 21, 2021	Maalot	AA-	AA	1,221,743	Fixed	2.25%	0.75%-2.38%	Fixed semiannual interest, Jan 1 and Jul 1, in 2018-2032 (in 2032, one payment on Jan 1 only)	141	1,122	1,226	1,287	14	1,136

NOTE 18 – Debentures (cont.)

B. Additional details (cont.)

Series	Rating agency	Issuance rating as at the reporting date		Total par value as at the issuance date (including expansions and exchanges) NIS thousands	Type of interest	Nominal interest	Effective interest rate as at the issuance date	Interest payment dates	Current maturity, Dec 31, 2022 (NIS millions)	Nominal par value Dec 31, 2022 (NIS millions)	Par value CPI-linked, Dec 31, 2022 (NIS millions)	Carrying amount Dec 31, 2022 (NIS millions)	Interest payable Dec 31, 2022 (NIS millions)	Market value Dec 31, 2022 (NIS millions)
		Issuance	Reporting date											
Debentures (Series R) Mar 3, 2020	Maalot	AA	AA	400,000	Fixed	0.65%	0.79%	Fixed semi-annual interest - Jan 1 and Jul 1 in 2020-2028 (in 2020, one payment on Jul 1 only)	9	380	409	406	1	372
Debentures (Series S) Aug 18, 2020	Maalot	AA	AA	428,000	Fixed	1.43%	1.57%	Fixed semiannual interest, Jan 1 and Jul 1, in 2021-2029	9	411	443	440	3	409
Debentures (Series T) Aug 17, 2021 Nov 1, 2022	Maalot	AA	AA	1,398,495	Fixed	0.25%	0.38%-2.32%	Fixed semi-annual interest - Jan 1 and Jul 1 in 2020-2030 (in 2030, one payment on Jan 1 only)	60	1,354	1,433	1,386	2	1,210

NOTE 18 – Debentures (cont.)

C. Expansion of debentures in 2022:

On November 6, 2022, the Company issued a private offering for the class of investors set out in the First Schedule to the Israel Securities Law, in an amount of NIS 287 million par value Debentures (Series T) by way of expansion of an existing debenture series. The issuance was made at a price of 92.04 agorot for each NIS 1 par value Debentures (Series Q), for a gross consideration of NIS 264 million and at an effective interest rate of 2.32%. The consideration for the issuance was received in full.

D. Issuance of debentures in 2021:

In accordance with the shelf offering report published by the Company on August 15, 2021, the Company issued Debentures (Series T) amounting to NIS 1.1 billion par value at a price of NIS 1 per NIS 1 par value of Debentures (Series T), in consideration for a gross amount of NIS 1.1 billion and at an effective interest rate of 0.38%. The Debentures (Series T) are linked to the CPI and bear annual interest at a rate of 0.25%. The debenture principal and interest are repayable in 18 payments as follows: The debenture principal is repayable in 6 equal payments of 2%, twice a year on January 1 and July 1, starting from January 1, 2022 and until July 1, 2024 (inclusive); 11 equal payments of 1% are repayable twice a year, on January 1 and July 1, from January 1, 2025 to January 1, 2030 (inclusive); and a final payment of the principal of 77% is repayable on July 1, 2030. The interest on the debentures is payable twice a year, on January 1 and July 1, starting from January 1, 2022 up to July 1, 2030 (inclusive). The Debentures (Series T) are secured by a caveat and a commitment to record a mortgage, as well as a first ranking lien on the returns, insurance compensation, and rights to be registered as the owner of the Grand Canyon complex in Haifa, which is owned (100%) by a subsidiary of the Company, as set out in the deed of trust for Debentures (Series T). The consideration for the issuance was deposited in trust to secure Debentures (Series H), which have a final repayment date on January 1, 2022. In January 2022, the Debentures (Series H) were repaid. The consideration from the issuance of the Debentures (Series T) was used to repay the debentures.

Financial covenants:

Undertaking to maintain a minimum equity: The Company undertakes that as long as the Debentures (Series T) are in circulation, the Company's equity (including non-controlling interests) according to its most recently published audited or reviewed consolidated financial statements will not fall below NIS 2.9 billion over two consecutive quarters.

Equity to balance sheet ratio: The Company undertakes that as long as Debentures (Series T) are in circulation, the Company's equity, including non-controlling interests and plus a net deferred tax liability, according to its most recently published audited or reviewed consolidated financial statements, will not fall below 23% of the total balance sheet of the Company, for two or more consecutive quarters (in this section, "total balance sheet" means the total balance sheet of the Company, less cash (non-restricted), cash equivalents (non-restricted), marketable securities, short-term financial assets, and current assets such as short-term loans and deposits).

E. Expansion of debentures in 2021:

1. In March 2021, the Company issued a private offering for classified investors of Debentures (Series Q), NIS 220 million par value debentures by way of expansion of an existing debenture series. The issuance was made at a price of NIS 1.088 per share for each NIS 1 par value Debentures (Series Q), for a gross consideration of NIS 239 million and at an effective rate of 1%.
2. In April 2021, the Company issued NIS 598.7 million par value Debentures (Series Q) by way of expansion of an existing debenture series. The issuance was made at a price of NIS 1.126 per share for each NIS 1 par value Debentures (Series Q), for a gross consideration of NIS 674 million and at an effective interest rate of 0.75%.

F. For further information see Note 25.

NOTE 18 – Debentures (cont.)

G. Financial covenants:

1. Undertaking to maintain a minimum equity:

The Company undertakes that as long as the Debentures (Series J-Series T) are in circulation, the Company's equity according to its most recently published consolidated financial statements will not fall below NIS 2.5-2.9 billion (according to the relevant series) for two or more consecutive quarters ("equity" in this section means the Company's equity according to the consolidated balance sheet, including non-controlling interests).

2. Equity to balance sheet ratio:

The Company undertakes that as long as Debentures (Series K, Series M, Series O-Series T) are circulation, the Company's equity, including non-controlling interests plus a net deferred tax liability, according to its most recent consolidated financial statements, will not fall below 20%-23% (based on the relevant series) of the Company's total balance sheet according to its most recent consolidated financial statements for two or more consecutive quarters. For this purpose, "total balance sheet" means the total balance sheet of the Company, less cash, cash equivalents, and marketable securities.

3. Undertaking to maintain a loan to value (LTV) ratio in British Israel Investments Ltd. ("British"):

The Company holds 100% of the issued and paid-up share capital of British, and it undertook that as long as Debentures (Series M) are in circulation, the ratio between total liabilities and total assets (LTV) of British, according to its most recent financial statements, will not exceed 55%.

H. As at December 31, 2022 and 2021, the Company is in compliance with the contractual restrictions and financial covenants.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 19 – Long-Term Liabilities to Banks and Others:

A. Composition:

	Linkage basis	Interest rate as at December 31, 2022	December 31, 2022	December 31, 2021
		%	Total less current maturities	
Unlinked bank loan (see Note 14.A)	-	P+0.35	642	-
Linked bank loan	CPI-linked	6.29	7	13
Loans from banks and others	CPI-linked	1.77-4.0	557	14
			1,206	27

B. Loans from an institutional entity:

1. In July 2022, Azo-Rit Bilu Center Ltd. ("Bilu Center"), 72% of which is held by the Company (indirectly) through the subsidiary Shopping Centers (Azo-Rit) Ltd., which is wholly owned (100%) by the Company ("Shopping Centers"), signed a loan agreement of NIS 175 million with an institutional entity for a 10-year term, which will be used to repay part of Bilu Center's existing loans, the balance of which as at June 30, 2022 was NIS 222 million.

   The loans are secured by a lien on the Company's interest in the open Ofer Bilu Center complex as well as a guarantee of Shopping Centers and the Company.

   The loans provided are CPI-linked and bear annual interest at a rate of 1.77%-1.89%. The loan principal and interest will be paid in 40 installments as follows: The principal will be paid in 39 equal installments of 1.43% each, every quarter from October 14, 2022 until April 14, 2032 (inclusive), and the final principal payment of 44% will be settled on July 14, 2032. The interest in respect of the loans will be paid quarterly on the same dates.

2. In August 2022, the same institutional entity provided the Company a credit facility of NIS 400 million, which is convertible into a loan in the amount of the credit facility for a 10-year term. This credit facility is another credit facility for the debt refinancing of NIS 175 million by Bilu Center as set out above.

   The entire credit facility was utilized and accordingly, the Company received a loan for a 10-year term, which is secured by a guarantee of Shopping Centers as well as a first degree lien on Shopping Center's holdings of shares of Bilu Center, which owns the shopping center Ofer Bilu Center and on 50% of the interests in Ofer Hagivaa Mall. The loan is CPI-linked and bears annual interest of 1.97%. The loan principal and interest will be paid in 40 installments as follows: The principal will be paid in 39 equal installments of 1.25% each, every quarter from November 21, 2022 until May 21, 2032 (inclusive), and the final principal payment of 51% will be settled on August 21, 2032. The interest in respect of the loans will be paid quarterly on the same dates.

NOTE 19 – Long-Term Liabilities to Banks and Others (cont.)

C. Contractual restrictions and financial covenants:

1. In respect of a liability to a bank which as at December 31, 2022 was NIS 642 million, a subsidiary undertook that:

   - The NOI to be received in respect to the asset pledged to the bank will not fall below NIS 80 million.
   - The LTV ratio (between the loan amount and the value of the pledged asset) will not exceed 70%.
   - The ratio between the outstanding credit and the NOI will at no time exceed 8.5.

2. In respect of a liability to a financial corporation which as at December 31, 2022 was NIS 176 million, an investee undertook that:

   - The net annual rent (NOI) from assets pledged to the financial corporation will not fall below NIS 38 million (CPI-linked up to a maximum of 2% per year cumulatively).
   - The LTV ratio (between the loan amount and the value of the pledged asset) will not exceed 65%.

3. In respect of a liability to a financial corporation which as at December 31, 2022 was NIS 397 million, the Company undertook that:

   - The equity of the investee will not fall below NIS 500 million.
   - The LTV ratio (between the amount of the loan and the value of the pledged asset) will not exceed 75%.

As at December 31, 2022 and 2021, the Company complies with the contractual restrictions and financial covenants.

D. Additional information:

1. Liens - see Note 22.B.
2. For further information, see Note 25.
3. For information about current maturities, see Note 14.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 20 – Income Tax Income (Expenses):

A. Composition of deferred taxes, net:

	Deferred taxes in respect of			
	Investment property	Losses from securities, losses for tax purposes and unrecognized expenses	Other	Total
Balance as at January 1, 2021	(2,764)	138	16	(2,610)
Entry into consolidation	-	2	(5)	(3)
Movement in profit or loss in 2021	(365)	(4)	(2)	(371)
Balance as at December 31, 2021	(3,129)	136	9	(2,984)
Movement in profit or loss in 2022	(289)	5	-	(284)
Balance as at December 31, 2022	(3,418)	141	9	(3,268)

Deferred taxes as at December 31, 2022 and 2021 were calculated at a tax rate of 23%, which is expected to apply to the Company upon reversal of the time differences in respect of which they were created.

B. Composition of income tax income (expenses):

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Current taxes	(59)	(37)	(29)
Betterment tax	-	-	(4)
Deferred taxes	(284)	(371)	49
Taxes for preceding years	(16)	(51)	(12)
Total	(359)	(459)	4

C. Tax rate and changes in tax rates applicable to the Company:

Tax rates applicable to the Company as of 2018: 23%

D. Losses for tax purposes:

Losses for tax purposes carried forward to the following tax year of the Company, as at the balance sheet date, amount to NIS 799 million. The Company did not recognize deferred taxes in respect of carry-forward losses amounting to NIS 156 million.

NOTE 20 – Income Tax Income (Expenses):

E. Main tax issues under dispute:

1. In December 2021, the tax assessment officer issued best judgment tax assessments to a wholly-owned subsidiary of the Company amounting to NIS 48 million for the 2015-2019 tax years in respect of several tax issues, mainly intercompany dividends which, according to the tax authorities, are mainly from profits in respect of which no tax was charged due to depreciation expenses that are deductible solely for tax purposes in the distributing company. Subsequent to the balance sheet date, the tax assessment officer issued a phase B best judgment tax assessment of NIS 103 million. The Company disagrees with these assessments and intends to appeal them.

2. In December 2021, the tax assessment officer issued best judgment tax assessments to another wholly-owned subsidiary of the Company amounting to NIS 32 million for the 2016-2019 tax years, for certain non-permissible financing expenses. The Company filed an objection and discussions are underway with the tax authorities.

3. On October 14, 2020, the Jerusalem District Court handed down a judgment in respect of a wholly-owned subsidiary of the Company, a company sold by the Company and another company not affiliated with the Company. Following the judgment, the subsidiary and the sold company are liable for tax payments amounting to NIS 32 million in respect of several tax issues, mainly distribution of dividends that, according to the tax authorities, are from revaluation gains and non-permissible financing expenses. The Company's share of the tax liability is NIS 25 million.

   The Company and subsidiary appealed the judgment. Notwithstanding the foregoing, NIS 20 million was paid to the tax authorities in respect of the subsidiary's share. Subsequent to the balance sheet date, the Company signed a mediation agreement with the tax authorities. For further information, see Note 36.

4. In December 2020, the tax assessment officer issued best judgment tax assessments to a wholly-owned subsidiary of the Company amounting to NIS 76 million for the 2014-2016 tax years in respect of several tax issues, mainly receipt of dividends which, according to the tax authorities, are from revaluation gains and certain non-permissible financing expenses. The Company filed an objection against the assessments, which are under deliberation by the court.

   The Company, with the advice of its advisors, recognized tax provisions in its financial statements, the balance of which as at December 31, 2022 was NIS 122 million.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 20 – Income Tax Income (Expenses) (cont.)

F. Theoretical tax:

Presented below is the reconciliation between the theoretical tax amounts that would have applied had all income been taxable at the normal rates and the provision for income taxes net of income tax recognized in the statements of comprehensive income:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Income (loss) before taxes on income and equity gains	1,712	1,916	(249)
Corporate tax rate applicable to the Company	23%	23%	23%
Theoretical tax	394	441	(57)
Tax addition (saving) for:			
Unrecognized expenses (exempt income), net	13	(7)	9
Taxes for preceding years	16	51	12
Provision for which deferred taxes were not recognized	17	4	(4)
Benefit from previous periods not recognized before, that were used to reduce deferred and current tax expenses	(5)	(8)	11
Difference between accounting of income as reported for tax purposes and accounting of income as reported in the financial statements	(68)	(23)	21
Other differences	(8)	1	4
Total	359	459	(4)

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 21 – Other Liabilities and Provisions:

Composition:

	December 31, 2022	December 31, 2021
Deposits from tenants (a)	25	26
Equipment renewal reserve (b)	2	2
Prepaid revenue in respect of projects under construction (c)	18	-
Liabilities for levies (d)	81	28
Other	4	-
	130	56

(a) To secure the liabilities of tenants under lease and management agreements with the Company, the tenant is required to make a deposit at the beginning of the agreement term. The deposits are returned to tenants at the end of the lease term linked to the CPI on the date of receipt thereof or alternatively are used as payment in respect of the last lease months. The deposits are recognized in the financial statements under addition to linkage differences accrued as at the balance sheet date.

(b) Amounts collected for future repairs, which according to the lease and management contracts will be financed by the tenants and not by the Company. The amounts are accrued in a special reserve for this purpose.

(c) Prepaid rental income in respect of the Landmark Tel Aviv project.

(d) Most of the balance is attributable to provisions for betterment taxes.

NOTE 22 – Contingent Liabilities, Liens and Agreements:

A. Contingent liabilities:

On February 28, 2018, a claim was filed against British Israel Investments Ltd. (a wholly-owned subsidiary of the Company) ("British") for payment of development or brokerage fees in respect of the acquisition of the Company's holdings in British.

The claim amounts to NIS 50 million (for fee purposes). The statement of defense filed by British completely rejected the plaintiffs' allegations, among other things, due to lack of cause (contractual or other) and lack of privity. Furthermore, British relies on a waiver provided by the plaintiffs in the past in connection with the acquisition of the holdings.

British has other defense arguments and in the opinion of the Company's legal counsel, the claim will most likely be dismissed.

B. Liens:

1. To secure repayment of credit from banks, financial institutions and debentures, assets valued at NIS 13.7 billion were pledged.
2. The Company pledged 121 million shares of British Israel Investments Ltd. ("British") to secure debentures (Series F), so that in total the pledged British shares constitute 71.06% of British shares held by the Company.

C. Agreements:

1. Regarding agreements with stakeholders, see Note 32.

NOTE 22 – Contingent Liabilities, Liens and Agreements (cont.)

C. Agreements (cont.):

2. On December 20, 2021, the extraordinary general meeting of Company shareholders approved (further to approval by the audit committee and Board of Directors of the Company on November 7, 2021 and November 14, 2021, respectively) an extension of the Company's agreement (by way of renewal of the previous agreement that ended on December 31, 2021, with the necessary adjustments) with the controlling shareholder of a company, Ofer Investments Ltd. (which subsequent to the balance sheet date became a wholly-owned company of Liora Ofer), according to which the Company will provide Ofer Investments Ltd. with real estate appraisal and management, payroll accounting and human resources, general and operations services in predefined volumes by the Company's employees, in return for NIS 135 thousand per quarter plus duly required VAT. Furthermore, Ofer Investments will bear a proportionate share of incidental expenses for engagement of the Company's employees who provide the services. The agreement is valid for a three-year term from January 1, 2022. As from November 1, 2022, the agreement was revised to also include the provision of information system services by the Company's information systems manager in return for another NIS 30 thousand per quarter plus duly required VAT, and it also specifies that Ofer Investments will cover a proportionate share of the incidental expenses for employment of the information systems manager who provides the services, based on the volume of services actually provided plus duly required VAT.
3. On September 21, 2022, the general meeting of Company shareholders approved (further to approval by the Company's Compensation Committee and Board of Directors on August 10, 2022 and August 14, 2022, respectively) the extension of the tenure of Ophir Sarid, Company CEO, under the same term as his original employment agreement dated November 14, 2019, other than the following changes: 1. The term of engagement was extended for another three years from November 1, 2022 (i.e., until October 31, 2025); 2. The fixed base salary was revised to NIS 165,000, while according to the provisions of the CEO's employment agreement and the Company's compensation policy, the base salary will be linked (upwards) to the CPI set in his original employment agreement (August 2019); 3. Allocation of options according to Note 24.A. The CEO is eligible for an annual bonus equal to up to 12 monthly salaries based on the bonus formula in the Company's compensation policy, and the other terms of employment under his original employment agreement remain unchanged.
4. On May 5, 2021, an extraordinary general meeting of Company shareholders approved (subsequent to obtaining the approval of the Company's Compensation Committee and Board of Directors) the Company's officers compensation policy, adjusted to the changes in the Company and the provisions of the law relevant from the date of adoption of the Company's previous compensation policy ("Compensation Policy"). The Compensation Policy is for a 3-year term from May 5, 2021.
5. For information about the Company's agreement with a wholly-owned company of the chairperson of the Board of Directors, Liora Ofer, for chairperson of the board services, see Note 32 below.

D. Sales of investment properties:

According to a settlement agreement signed between the Company and the Director General of the Competition Authority, which was given the validity of a judgment in 2012, the Company is required to sell, among other things, its holdings in Harel Mall in Mevaseret Zion. Under the sale of all holdings in Harel Mall Ltd. (the Company's share, indirect, is 40% of this company's capital shares and 50% of its management shares) ("Property Company"), the rights holder of Harel Mall in Mevaseret Zion, in 2013, a subsidiary provided the buyer and the Property Company with a loan of NIS 225 million, for the purpose of compliance with part of the liabilities of their under the sale transaction, against collateral provided by the Property Company and buyer (including in connection with rights in the Property Company) in favor of the Company. The outstanding balance of the consideration, which amounts to NIS 6 million (the Company's share), was recognized to doubtful debts.

NOTE 22 – Contingent Liabilities, Liens and Agreements (cont.)

D. Sales of investment properties (cont.):

On January 31, 2016, temporary liquidators were appointed for two companies whose shareholders are the holders of management shares in a company that provides management services to the buyer. Due to a petition filed by the Company with the Tel Aviv District Court on February 22, 2016 for appointment of a temporary operating receiver for the purpose of operating the mall and protecting the collateral provided to the Company, the court ordered the mall and the Property Company to be managed by the mall's CEO and the financial manager appointed by the court, with oversight by all relevant parties, including the temporary liquidators and the Company. Due to the Covid-19 crisis and depreciation of the value of commercial assets, the Company recognized part of the loans to impairment so that the carrying amount reflects the value of the collateral. In February 2023, a mediation agreement was reached with parties not associated with the Company, according to which the sale contract of Harel Mall in Mevaseret Zion of 2013 will be canceled and Harel Mall Ltd. will sell all its interests in the mall to the Company, so that the Company will hold 100% of the interests in the mall. For further information, see Note 36.

NOTE 23 - Capital:

A. Share capital:

1. Nominal share capital:

	Registered		Issued and paid up	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Ordinary shares of NIS 1 par value each	50,000,000	50,000,000	47,491,202	47,472,672

2. Main rights of the shares:

The Company's ordinary shares grant their holder the right to vote, receive dividends and to participate in the distribution of the Company's assets in the event of liquidation.

B. Further information:

1. Distribution of dividends as from January 1, 2020:

Declaration date	Distribution date	Dividend per share (agorot)	Amount (NIS millions)
February 25, 2020	March 17, 2020	126.5	60
August 14, 2022	September 5, 2022	252.8	120
November 23, 2022	December 12, 2022	126.3	60

2. On February 25, 2020, the Board of Directors resolved to revise the Company's dividend distribution policy, from 2020, whereby a decision to distribute a dividend and the amount thereof will be made, if any, quarterly, subject to the provisions of the law regarding distribution of dividends and business considerations.

3. Capital issuance:
Subsequent to the reporting date, on February 1, 2023, the Company announced an increase in its registered share capital from 50,000,000 ordinary shares of NIS 1 par value each to 75,000,000 ordinary shares of NIS 1 par value each, as resolved at the general meeting of Company shareholders of January 3, 2023.

NOTE 24 – Share-Based Payment:

A. Company CEO:

1. On September 21, 2022, the general meeting of Company shareholders approved (subsequent to approval by the Company's Compensation Committee and Board of Directors on August 10, 2022 and August 14, 2022, respectively) the extension of the Company CEO's tenure under terms that include allocation of 79,095 non-marketable options for Company shares pursuant to section 102 of the Income Tax Ordinance in a capital track, through a trustee, in a volume that reflects 0.17% of the Company's issued share capital on the grant date. The CEO's eligibility for the options will form in three tranches ("Vesting Dates") as follows:
   (a) 26,365 options in the first tranche: The first tranche will form within two years of the grant date, meaning November 1, 2024, and will expire two years from the Vesting Date, meaning November 1, 2026.
   (b) 26,365 options in the second tranche: The second tranche will form within two years of the grant date, meaning November 1, 2024, and will expire two years from the Vesting Date, meaning November 1, 2026.
   (c) 26,365 options in the third tranche: The third tranche will form within three years of the grant date, meaning November 1, 2025 and will expire in one year from the Vesting Date, meaning November 1, 2026.

   According to the terms of the options, the exercise price per option was set at NIS 262.4, deriving from the weighted average closing price of the Company share on October 31, 2022, which reflected the higher between: (a) The weighted average closing price of the Company share in a representative period of 30 trading days preceding the grant date; (b) the price of the Company share on the grant date. The fair value of the underlying benefit of the options granted to the CEO as at the grant date was NIS 6.3 million, the amount is recognized to profit or loss over the vesting period.
2. On November 11, 2019, the general meeting of Company shareholders approved (subsequent to approval by the Company's Compensation Committee and Board of Directors on October 2, 2019) the allocation of 107,480 non-marketable options for Company shares pursuant to section 102 of the Income Tax Ordinance in a capital track, through a trustee, in a volume that reflects 0.24% of the Company's issued share capital on the grant date. The CEO's will be eligible for the options in three tranches ("Vesting Dates") as follows:
   (a) 39,632 options in the first tranche: The first tranche will form one year after the approval date of the grant of the options by the Company's Board of Directors, meaning November 20, 2020, and will expire two years after the Vesting Date, meaning November 20, 2022.
   (b) 33,924 options in the second tranche: The second tranche will form two years after the grant date, meaning November 20, 2021, and will expire two years after the Vesting Date, meaning November 20, 2023.
   (c) 33,924 options in the third tranche: The third tranche will form three years after the grant date, meaning November 20, 2020, and will expire two years after the Vesting Date, meaning November 20, 2023.

   According to the terms of the options, the exercise price of each option was set at NIS 215.3, deriving from the weighted average closing price of the Company's shares in a period of 30 trading days preceding the grand date, which reflected the higher between: (a) The weighted average closing price of the Company share in a representative period of 30 trading days preceding the grant date, (b) the price of the Company share on the grant date. The fair value of the underlying benefit of the options granted to the CEO as at the grant date was NIS 3.8 million. This amount is recognized to profit or loss over the vesting period.

NOTE 24 – Share-Based Payment (cont.)

A. Company CEO (CONT.):

On May 13, 2021 and May 18, 2021, the Company's Compensation Committee and Board of Directors, respectively, approved an extension of the exercise period of the Company CEO's existing options for another two years, without changing the other terms or exercise price of the options. Extension of the exercise period of the Company CEO's existing options was approved by the general meeting of Company shareholders held on June 23, 2021. The incremental fair value of the underlying benefit in respect of extension of the exercise period is estimated at NIS 1 million.

B. Officers, managers and other employees:

1. On March 9, 2022 and March 13, 2022, the Company's Compensation Committee and Board of Directors (respectively) approved a private placement of 13,915 options (non-marketable) to Company officer (who is not director or the CEO). The options will be granted according and subject to the Company's option plan as approved by its Compensation Committee and Board of Directors on October 10, 2013 and October 14, 2013, respectively, pursuant to the provisions of section 102 of the Income Tax Ordinance in a capital track, by a trustee.

   The eligibility for the options will form in two tranches of equal value, as follows:

   (a) 7,362 options in the first tranche: The first tranche will form within two years of grant date, meaning March 13, 2024, and will expire two years after the Vesting Date, meaning March 13, 2026.

   (b) 6,553 options in the second tranche: The second tranche will form within three years of the grant date, meaning March 13, 2025, and will expire two years after the Vesting Date, meaning March 13, 2027.

   According to the terms of the options, the exercise price of each option was set at NIS 263.6, deriving from the weighted average closing price of the Company share in a period of 30 trading days preceding the grant date, which reflects the higher price between: (a) The weighted average closing price of the Company share in a representative period of 30 trading days preceding the grant date; (b) the price of the Company share on the grant date. The fair value of the underlying benefit of the options is estimated at NIS 0.8 million. This amount is recognized to profit or loss over the Vesting Period.

2. On November 7, 2021 and November 14, 2021, the Company's Compensation Committee and Board of Directors (respectively) approved a private placement of 13,923 options (non-marketable) to Company officer, which are exercisable for ordinary shares of the Company. The options will be granted according and subject to the Company's options plan as approved by its Compensation Committee and Board of Directors on October 10, 2013 and October 14, 2013, respectively, pursuant to the provisions of section 102 of the Income Tax Ordinance in a capital track, through a trustee.

   The options will be granted in a periodic grant format. The offerees may exercise the proposed options in two tranches of equal value, as follows:

   (a) Two years after the grant date of the options, the offerees will be eligible for the First Tranche (7,332 options).

   (b) Three years after the grant date of the options, the offerees will be eligible for the Second Tranche (6,591 options).

   The options will be exercisable within two years from their Vesting Date.

NOTE 24 – Share-Based Payment (cont.)

B. Officers, managers and other employees (cont.):

The exercise price of each option was set at NIS 274.2, which derives from the closing price of the company share on November 11, 2021 and reflects the higher between: 1. The weighted average closing price of the company share in a representative period of 30 trading days preceding the approval date of the allocation of options by the company's Board of Directors. 2. The closing price of the company share on the last trading day preceding the approval date of allocation of the options allocated by the company's Board of Directors. The fare value of the underlying benefit of the options allocated above, as at the granny date, is NIS 0.9 million. This amount is recognized to profit or loss over the vesting period. The options will be converted into company shares using the cashless method.

3. On March 25, 2021 and March 29, 2021, the company's compensation committee and Board of Directors (respectively) approved a private placement of 248,255 options (non-marketable) to officers and other employees, while of such options: a) 150,143 options will be allocated to seven officers who report directly to the CEO (whereas for two of them, the allocations is subject to and after exchange of existing options allocated to them (35,558 options) on March 22, 2020, and a tax decision which received as at the date of this report, in connection with exchange of the options and allocation of new options), and b) 98,112 options will be allocated to 26 directors and other employees in the company and its subsidiaries (non-officers of the company). The options were actually allocated on March 11, 2021.

The options will be granted according and subject to the Company's options plan as approved by its Compensation Committee and Board of Directors on October 10, 2013 and October 14, 2013, respectively, pursuant to the provisions of section 102 of the Income Tax Ordinance in a capital track, by a trustee.

The offerees will be eligible to the options in two tranches of equal value, as follows:

With regard to the officers: Two years after the grant date of the options to the officers, they will be eligible for the First Tranche (79,442 options), and three years after the grant date, they will be eligible for the Second Tranche (70,701 options). The fair value of the underlying benefit in respect of the officers (except two who report directly to the CEO for whom the allocation will be by means of exchange of the existing options) is estimated at NIS 5.1 million, and the incremental fair value of the underlying benefit in respect of the two officers for whom the allocation will be carried out as an exchange of existing options, as at their grant date, is estimated at NIS 0.5 million (the fair value of the underlying benefit of the exchanged options, as at their grant date, is estimated at NIS 1.3 million).

With respect to the other managers: Two years after the grant date of the options to the other managers, they will be eligible for the First Tranche (51,912 options), and three years after the grant date, they will be eligible for the Second Tranche (46,200 options). The fair value of the underlying benefit is estimated at NIS 4.2 million.

The options will be exercisable within two years from their Vesting Date: The exercise price of each option was set at NIS 185, which derives from the closing price of the Company share on March 25, 2021 and reflects the higher between: 1. The weighted average closing price of the Company share in a representative period of 30 trading days preceding the approval date of the allocation of options by the Company's Board of Directors. 2. The closing price of the Company share on the last trading day preceding the approval date of allocation of the options by the Company's Board of Directors. The options will be converted into Company shares using the cashless method.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 24 – Share-Based Payment (cont.)

C. Further information about the granted options

	As at December 31, 2022		As at December 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options granted to employees:				
Outstanding at the beginning of the period	419,892	192.45	304,115	186.83
Granted	95,758	263.22	262,178	189.74
Forfeited	42,356	185.0	-	-
Exercised	39,307	157.7	110,843	158.14
Exchanged	-	-	35,558	231.39
Outstanding at the end of the period	433,987	211.94	419,892	192.45
Exercisable at the end of the period:	118,407	209.98	123,790	191.93

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 25 – Financial Instruments:

A. Method of determining fair value:

Due to their nature, the fair value of financial instruments, such as cash and cash equivalents, trade and other short-term receivables, and trade and other short-term payables are a reasonable approximation of their carrying amount.

Marketable assets and liabilities	-	According to the price quoted in an active market as at the balance sheet date.
Non-marketable short-term interest-bearing assets and liabilities with a fixed repayment date.	-	Their carrying amount reflects their fair value as at the balance sheet date, since their average interest rate is not materially different to the standard market interest rate for similar items as at the balance sheet date.
Assets and liabilities at variable interest rates.	-	The fair value of assets and liabilities at variable interest rates, in respect of which there were no material changes, is determined according to the contractual terms and conditions of the instrument.
Long-term fixed interest loans	-	The fair value of long-term fixed-interest loans is determined based on calculation of the current value of cash flows at the standard interest rate of similar loans with similar characteristics.

B. Fair value of financial instruments whose carrying amount is not a reasonable approximation of their fair value:

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Marketable debentures (1)	9,903	9,400	10,999	11,825
Long-term fixed interest loans (1)	615	593	-	-

(1) Including interest payable

C. Fair value hierarchy:

The Company classifies measurement of financial instruments using a fair value hierarchy that reflects the nature of the data used when making the measurements. The fair value hierarchy is:

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

b) Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from the prices).

c) Level 3 - inputs for the asset or liability that are not based on observable market information (unobservable inputs).

Below are figures regarding the fair value hierarchy of financial instruments measures at fair value recognized in the balance sheet:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss:				
Marketable securities as at December 31, 2022	325	-	-	325
Marketable securities as at December 31, 2021	355	-	-	355

NOTE 25 – Financial Instruments (cont.):

D. Risk management policy:

The Company's operations expose it to various financial risks, such as market risk (including in respect of interest and inflation risk), credit risk and liquidity risk. The Company's management focuses on measures to minimize possible negative effects on the financial performance of the Company.

1. Market risks

Market risks derive from the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in market prices.

Below are the financial risks to which the Company is exposed and management policy thereof:

a) CPI risk:

Due to the fact that a vast majority of financial liabilities undertaken by the Company are CPI linked and likewise with revenues, an increase in inflation will lead to a rise in the Company's financing expenses and the volume of its liabilities, but in contrast, an increase in its revenues will be recorded, which could lead to positive revaluation of the Company's assets in a manner that reduces the negative impact on the Company's results.

b) Interest risk:

Since most of the Company's liabilities are at fixed interest rates, the Company is not exposed to interest rate fluctuations.

However, if long-term interest rates increase, the required return on the Company's assets may increase and the value of its assets may decrease accordingly.

Interest rate fluctuations may also affect the cost of debt raising by the Company as well as financing expenses in respect of variable interest loans.

2. Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a loss to the other party by non-compliance with a commitment.

Most of the Company's revenue is rent, which is usually payable monthly. A lion's share of the rent receipts is made by standing orders, while a significant part of the contracts is accompanied by a deposit in the amount of one month's rent and/or a bank guarantee. The Company has many customers, none of which are material to it.

Therefore, the risk level involved is low.

3. Liquidity risk:

Liquidity risks derive from the management of the Company's working capital as well as financing expenses and principal repayments of the Company's debt instruments. Liquidity risk is the risk that the Company will struggle to meet its commitments related to financial liabilities which are to be settled in cash or another financial asset.

The Company's policy is to ensure that the cash held is sufficient to cover liabilities on their due date. In order to achieve this goal, the Company works to hold sufficient cash balances (or binding credit facilities) to repay its short-term liabilities. The Company also aspires to reduce liquidity risk by fixing the interest rates (and thereby the cash flows) on short-term loans.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 25 – Financial Instruments (cont.):

D. Risk management policy (cont.):

A. Analysis of the contractual due dates of financial liabilities including interest and interest rates as at the balance sheet date:

December 31, 2022		Maturity dates				
	Stated interest rate (%)	Up to 1 year	Between 1-3 years	Between 3-5 years	Over 5 years	Total
Short-term loans from banks and others	P-1.0	101	-	-	-	101
Trade and other payables, and tax provisions	-	724	327	117	90	1,258
Debentures	0.25-5.85	858	3,932	2,395	2,620	9,805
Long-term loans from banks and others	1.77-6.29	38	724	61	421	1,244
Total		1,721	4,983	2,573	3,131	12,408

December 31, 2021		Maturity dates				
	Stated interest rate (%)	Up to 1 year	Between 1-3 years	Between 3-5 years	Over 5 years	Total
Short-term loans from banks and others	P-1.0 – P+0.5	741	-	-	-	741
Trade and other payables, and tax provisions	-	503	338	187	88	1,116
Debentures	0.25-5.85	1,752	1,817	4,140	3,115	10,824
Long-term loans from banks and others	3.76-6.29	231	7	20	-	258
Total		3,227	2,162	4,347	3,203	12,939

B. Sensitivity analysis of the fair value of key financial instruments as at December 31, 2022:

1. Sensitivity to changes in prices of marketable securities:

	Income (loss) from a change in market risk		Fair value	Income (loss) from a change in market risk	
Sensitive instruments	10%	5%		-5%	-10%
Short-term financial assets as at December 31, 2022	33	16	325	(16)	(33)
Short-term financial assets as at December 31, 2021	36	18	355	(18)	(36)

- The securities held by the Company are marketable securities with a market price. Their fair value as at December 31, 2022 was calculated by multiplying the market price on December 31, 2022 by the par value held by the Company on that date.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 25 – Financial Instruments (cont.):

D. Risk management policy (cont.):

2. Sensitivity of the Company's liabilities to CPI changes:

	Increase in liabilities from a CPI increase		Carrying amount	Decrease in liabilities from a CPI decrease	
	3%	1%		-1%	-3%
Linked marketable debentures as at December 31, 2022	268	89	8,935	(89)	(268)
Linked marketable debentures as at December 31, 2021	298	99	9,946	(99)	(298)

	Increase in liabilities from a CPI increase		Carrying amount	Decrease in liabilities from a CPI decrease	
	3%	1%		-1%	-3%
Long-term fixed interest loans as at December 31, 2022	18	6	615	(6)	(18)
Long-term fixed interest loans as at December 31, 2021	8	3	273	(3)	(8)

* The balances include interest payable and exclude the Company's Debentures (Series O), which are unlinked.

E. The Company's cash management policy:

The Company, subject to the decision of the Board of Directors, reserves the right to invest the cash balances managed by it in investment portfolios mainly according to the following limits:

1. Up to 25% shares.
2. Up to 20% debentures with a BBB rating or unrated.
3. The remainder in debentures with an A rating or above.
4. Up to 15% of the portfolio in foreign currency.
5. Duration of up to 4 years.

The investment policy also includes maintenance of a cash buffer as shall be from time to time. Therefore, at an overall level, the percentage of investment in securities is lower than the above.

F. Management of Company's capital:

The Company includes as capital its ordinary share capital, premium, capital reserves and surplus.

The Company's main capital management goal is to ensure the ability to constantly provide return to its shareholders by increasing capital or distributions (payment of dividends). In order to meet this goal, the Company strives to maintain a leverage ratio that reasonably balances risks and yields, while maintaining a financing basis that allows the Company to meet its investment and working capital needs in order to achieve the above goals, whether by changing its dividend distribution policy, issuing new capital, or reducing its debt, the Company does not only consider its short-term position, but its long-term goals as well.

NOTE 25 – Financial Instruments (cont.):

F. Management of Company's capital (cont.):

According to the deeds of trust of the debentures signed by the Company, it undertook that in the event that its equity falls below NIS 1.75 billion (with respect to Series F), NIS 2.75 billion (with respect to Series J-K and M), NIS 3 billion (with respect to Series N-Q) and NIS 3.3 billion (with respect to Series R, S and T) under its last known financial statements, it will refrain from making a distribution (as defined in the Companies Law) to its shareholders (including a situation whereby following such distribution the Company's equity decreases as aforesaid), until its equity increases above the foregoing amount in its financial statements. In those deeds, the Company also undertook to refrain from distribution if on the date of the distribution decision or as a result of the distribution, the Company fails to meet the financial covenants agreed with the trustee in the deeds of trust.

"Equity" in this regard means the Company's equity under its financial statements, including minority interests.

As at December 31, 2022, the Company's equity is NIS 10.4 billion. Beyond the foregoing and subject to the provisions of any law, there are no restrictions on the Company in connection with distribution of dividends or buyback of its shares.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 26 – Rental and Other Income:

Composition:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Rent	1,208	1,022	806
Management fees	300	272	214
Electricity income	115	100	90
Services and miscellaneous	50	30	5
Total	1,673	1,424	1,115

NOTE 27 – Maintenance and Operating Costs:

Composition:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Salaries and incidentals	64	49	41
Maintenance expenses	146	133	122
Electricity	113	98	94
Depreciation	3	1	1
Marketing and advertising	25	23	18
Others	82	69	47
Total	433	373	323

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 28 – General and Administrative Expenses:

Composition:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Salaries and incidentals	40	29	30
Cost of share-based payment	5	6	3
Professional and consulting fees	9	9	8
Compensation to chairperson of the board	3	2	3
Depreciation	5	3	2
Provision for doubtful and bad debts	-	-	1
Others	14	12	10
Total	76	61	57

NOTE 29 – Other Income (Expenses), Net:

In 2020-2022, this item includes mainly expenses related to disposal of assets, various legal disputes and amortization of excess costs.

NOTE 30 – Financing Expenses/Income, Net:

Composition:

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
1. Expenses for:			
Interest and linkage on debentures	639	426	175
Interest and linkage on long-term loans from banks and others	44	20	33
Non-recurring expenses for loans provided	-	-	36
Short-term loans	2	21	3
Short-term financial assets and others	36	13	15
	721	480	262
Less financing capitalized for investment property under construction	(49)	(30)	(8)
	672	450	254
2. Income for:			
Short-term financial assets, deposits and others	9	36	12
Long-term loans provided	14	10	6
Loans to equity accounted investees	10	7	10
	33	53	28
Total financing expenses, net	639	397	226

NOTE 31 – Earnings (Loss) Per Share:

Basic earnings (loss) per share:

Presented below are the earnings (loss) per year attributable to Company shareholders and par value of the shares taken into account to calculate basic earnings (loss) attributable to holders of an ordinary share of NIS 1 par value of the Company.

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Calculation of basic earnings (loss) per share:			
Earnings (loss) per year attributable to ordinary shareholders	1,391	1,473	(250)
Weighted number of shares used to calculate earnings (loss) per share:			
Weighted number of shares used to calculate basic earnings (par value in thousands)	47,480	47,456	47,438
Weighted number of shares used to calculate diluted earnings (par value in thousands)	47,557	47,506	47,439
Basic and diluted earnings (loss) (NIS)	29.30	31.06	(5.26)

NOTE 32 – Controlling Shareholders, and Related and Interested Parties:

A. Income (expenses)

	Year ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Financing income from loans to equity accounted investees	10	7	10
Income from provision of services to the controlling shareholder	1	1	1
Rent and related expenses	(2)	(2)	(2)

B. Fees and salary:

	No. of recipients in 2022	Year ended		
		December 31, 2022	December 31, 2021	December 31, 2020
Salary and benefits of interested parties *	2	9	9	6
Salary of directors not employed in or on behalf of the Company	6	1	2	1

* In 2022, including the cost of share-based payments of NIS 1 million (in 2021 - NIS 2 million and in 2020 - NIS 2 million).

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 32 – Controlling Shareholders, and Related and Interested Parties (cont.)

C. Balances:

	December 31, 2022	December 31, 2021
Loans to equity accounted investees	164	178

D. Transactions with shareholders, and interested and related parties:

1. On December 23, 2020, the general meeting of Company shareholders approved (subsequent to approval by the Compensation Committee and Board of Directors) an extension of the current terms of tenure of the chairperson of the Board for another three-year term ended December 31, 2023. The scope of the engagement will be a 75% position and the monthly consideration in respect of the services will be a total of NIS 156,000 linked to the CPI of December 2020. The chairperson of the Board notified the Company of her decision to limit the total management fees and annual bonus to which she is entitled under her terms of tenure to an annual maximum of NIS 4.5 million for services equivalent to a full-time position (from which an annual maximum of NIS 3.375 million for services equivalent to a 75% position is obtained). The chairperson of the Board will also be entitled to letters of exemption and indemnification, and inclusion in officers' insurance policy under the same terms as those of all Company officers.

2. For information about the Company CEO's terms of employment, see Note 22.C.3.

3. On December 23, 2020, the general meeting of Company shareholders approved (subsequent to approval by the Compensation Committee and Board of Directors) the Company's engagement in a service agreement with Rona Angel (the daughter of Liora Ofer, chairperson of the Board and a controlling shareholder of the Company (through private companies wholly-owned by her)), as Director of Growth and Strategy in the Company. The service agreement will be valid for a three-year term from December 23, 2020 until December 23, 2023. The volume of services to be provided by Rona Angel will not fall below the number of hours attributed to a 60% position. The monthly consideration in respect of the services will be NIS 15,000 plus duly required VAT. In addition to the above, Rona Angel will be entitled to letters of exemption and indemnification, and inclusion in officers' insurance policy under the same terms as those of all Company officers.

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 33 – Changes in Liabilities Deriving from Financing Activities:

Below is the reconciliation between the opening balance and closing balance of liabilities for which the underlying cash flows were classified or will be classified as cash flows from financing activities in the statement of cash flows:

	Debentures	Loans from banks and others	Total cash flow from financing activities
Balance as at January 1, 2021	9,354	1,391	
Issue of debentures (less issuance expenses)	902	-	902
Repayment of debentures	(608)	-	(608)
Repayment of long term loans from banks and others	-	(89)	(89)
Short-term credit from banks and others	-	(301)	(301)
Total changes in cash flows from financing activities	294	(390)	(96)
Issue of debentures deposited in trust (less issuance expenses)	1,101	-	
Revaluation of financial liabilities	215	8	
Reduction of premium and excess cost	(40)	-	
Balance as at December 31, 2021	10,924	1,009	
Issue of debentures less issuance expenses	264	-	264
Repayment of debentures	(670)	-	(670)
Receipt of short-terms loans from others	-	575	575
Repayment of long term loans from banks and others	-	(245)	(245)
Short-term credit from banks and others	-	(2)	(2)
Total changes in cash flows from financing activities	(406)	328	(78)
Repayment of debentures by deposit in trust	(1,102)	-	
Revaluation of financial liabilities	452	18	
Reduction of premium and excess cost	(25)	-	
Balance as at December 31, 2022	9,843	1,355	

Notes to the Financial Statements as at December 31, 2022 (NIS millions)

NOTE 34 – Assets Classified as Held for Sale:

On May 26, 2020, a wholly-owned subsidiary of the Company signed an agreement for the sale of its interests in the Ofer Lev Ashdod Mall (excluding its interests in affordable housing on the land). The sale agreement was conditional to a precondition, namely approval of a new urban building plan in respect of the land. On December 28, 2021, the urban building plan was approved and the precondition was met. In 2022, the transaction for the sale of the interests in Ofer Lev Ashdod Mall (excluding the interests in the affordable housing on the land) was finalized for an amount of NIS 237 million plus duly required VAT (NIS 205 million, net of transaction costs and taxes). Subsequent to the reporting date, a NIS 6 million rebate was received in respect of the betterment levy.

NOTE 35 – Segmental Reporting:

A. **General:**

The system of reports forwarded to the Company's key decision makers, for allocation of resources and assessment of the performance of the operating segments, is based on the different operating sectors in which the Company operates. Following closure of a transaction for the acquisition of 50% of the share capital of Aviv Yizum (Aviv Entrepreneurship), on July 3, 2022, as stated in Note 10.A, the Company started reporting about operating segments, including the income producing segment and another segment (that includes the residential and urban renewal real estate development and construction operations as well as the Company's digital operations).

The segmental figures also include the operations, assets and liabilities of equity-accounted associates, according to the Company's share of these companies, and are canceled in the adjustments column.

B. **Analysis of results by operating segment:**

	Year ended December 31, 2022				
	Income producing assets	Other	Total	Adjustments	Consolidated
Revenue from external sources	1,686	103	1,789	(116)	1,673
Expenses	415	93	508	(75)	433
Sector results (gross profit)	1,271	10	1,281	(41)	1,240
Net increase (decrease) in value of investment property	1,315	2	1,317	(93)	1,224
General and administrative expenses					76
Marketing and advertising expenses					18
Company's share of profits of equity-accounted companies, net					89
Other expenses, net					19
Operating profit					2,440
Financing expenses, net					639
Profit before income taxes on income					1,801
Sector assets	24,148	531	24,679	(26)	24,653
Unallocated assets (*)					868
Total					25,521
Sector liabilities	15,239	248	15,487	(334)	15,153
Information on capital additions	732	189	921	(190)	731

* Cash and cash equivalents of NIS 543 million and short-term financial assets of NIS 325 million

NOTE 35 – Segmental Reporting (cont.):

B. Analysis of revenue by type of use (cont.):

	Year ended December 31, 2022
Commercial	1,282
Offices and hi-tech parks	362
Other	29
Total	1,673

NOTE 36 – Subsequent Events:

A. Credit facility from Bank Leumi of Israel Ltd.:

On January 22, 2023, the Company signed a NIS 147 million credit facility agreement with Bank Leumi for a period until November 2024. The credit facility will be used solely for payment of the consideration to the seller for the acquisition of land in Tel Aviv, as set forth in Note 13.C.4. The credit facility was used to pay the said consideration. A lien on the above acquired land will be used to secure the credit facility. The credit facility bears annual interest of Prime plus a 0.6% margin, which will be paid quarterly starting from the first quarter of 2023.

B. Declared dividends:

On March 12, 2023, the Company's Board of Directors declared the distribution of dividends amounting to NIS 260 million (including a non-recurring dividend of NIS 200 million), which will be paid on April 27, 2023.

C. Subsequent to the balance sheet date, the mediation agreement signed by the Company with parties not affiliated with it was improved, whereby the sale agreement of 2013 will be canceled and Harel Mall Ltd. will sell its entire interests in Harel Mall, so that the Company will hold 100% of the interests in the mall.

Under the mediation arrangement, the Company paid a total of NIS 32 million (net of receipts received and receivable) to third parties in the arrangement and to the Israel Tax Authority, it derecognized the outstanding loans provided (by a subsidiary) in the past to Harel Mall Ltd, and paid a net amount of NIS 157 million to the buyers and for loans received (by a subsidiary). As part of the sale of the mall by Harel Mall Ltd. to the Company, the Company and Harel Mall Ltd. will also pay taxes in an amount that is not material to the Company.

Following finalization of the mediation arrangement, the Company holds (directly) all the interests in Harel Mall, which is located in Mevaseret Zion. Harel Mall includes 11,600 square meters of commercial space that in 2022 generated NOI of NIS 15 million (unaudited). The land on which the mall is located also has unutilized building rights for 7,400 square meters commercial and employment uses, 1,300 square meters residential and 800 square meters buildings and public institutions.

D. Subsequent to the balance sheet date, the Company finalized its engagement in two separate agreements for the supply of most of the electricity consumption of its properties from renewable energy resources and is eligible for 205 International Renewable Energy Certificates (I-RECs) from Doral Energy From Nature Ltd. ("Doral") and a wholly-owned partnership of Shikun & Binui Energy Ltd. ("Shikun & Binui"). Under the agreements, the Company will gradually purchase electricity as from January 2024 in a volume estimated (presently, subject to actual consumption and linkage to the generation component set from time to time by the Electricity Authority) at a total cost (of both agreements together) of NIS 100 million per year, for a 10-year term. The agreements include the standard terms and mechanisms in agreements of this type, including termination of the agreements in standard cases, including material changes (defined in the agreements) in the generation component set from time to time by the Electricity Authority.

E. On March 12, 2023, subsequent to the balance sheet date, the Company's Board of Directors approved (after obtaining the Compensation Committee's approval) the allocation of 163,027 options (non-marketable) convertible into Company shares to 6 of its officers (not directors or the CEO) and 30 managers and other employees in the Company, under an employee plan. The allocation is subject, among other things, to obtaining the approval of Tel Aviv Stock Exchange Ltd. to list the shares from exercise of the options, which as at the report publication date has not yet been received.

Part B

Report of the Board of Directors on the State of the Company's Affairs

For the period ended December 31, 2022

Dear Investors,

We are pleased to present to you Melisron's Periodic Report for the year ended December 31, 2022.

Melisron concluded the year significantly with further growth, increase of all operational parameters and development of additional growth engines that will reinforce its stability and capacities. In 2022 and the beginning of 2023, the Company continued to implement its strategic plan by executing several substantial transactions, including: the acquisition of 50% Aviv Yizum and entering the residential real estate and urban renewal sector, purchase of a 4,500 sq.m plot on Lincoln Street in Tel Aviv that is zoned for the construction of an office building, purchase of the Harel Mall in Mevaseret Zion, acquisition of 70% of the rights in land zoned for the construction of an open commercial center in Yavne in joint venture with Yohananoff, purchase of land in the Shchakim project through Aviv Yizum for the construction of 733 residential apartments, among others.

In February 2023, the Company signed groundbreaking agreements in the green energy sector and announced that it was switching to Doral Energy and Shikun & Binui Energy for most its properties' electricity consumption as of 2024. Melisron is one of the first companies in the country to switch to renewable energy for its electricity consumption.

The strategic plan is intended to reinforce and preserve the core operations through improving the malls and office parks, while simultaneously developing additional operations in new areas of the real estate industry.

At the same time, the Company continues to act to strengthen and develop its core businesses that will preserve its leading position in the shopping mall sector, focusing this year on completing the renovation of the Ofer Mall Ramat Aviv and starting construction on its third floor, continuing the renovation and deep store mix changes at the Ofer Kiryon Mall and completion of the construction of office blocks C and D at the Ofer Petach Tikva Park and Building C at the Ofer Carmel Park. This while promoting programs for improving and reinforcing rights in the Company's various properties.

We believe that with our superior properties, good relationships with our tenants, visitors and ongoing trust of the capital market, we can continue, even in these challenging times of increasing interest and inflation, to generate value for our investors.

Thank you all for your trust and confidence.

Liora Ofer

Chairperson of the Board of Directors

מליסרון

Key Milestones

- **1987** Year of establishment
- **1992** Public offering
- **2011** British purchase
- **2014** Entry to TLV 35 Index

Equity and debt data

- **NIS 11 billion** Market value as of 12.3.23
- **AA- /STABLE** Company's rating
- **AA** Rating bond series
- **3.59** Average duration
- **2.05%** Effective weighted linked interest

Malls- 17

- **497 sqm thousands + 20,000 parkings** Managed rental area
- **2,300** Number of teants
- **NIS 15.5 billion** Managed asset value
- Occupancy rate **98.9**

High-tech and office parks-5

- **357 sqm thousands+ 6,000 parkings** Managed rental area
- **330** Number of teants
- **NIS 5.5 billion** Managed asset value
- Occupancy rate **98.2**

Single tenant properties-5

- **41 sqm thousands** Managed rental area
- **NIS 1.1 billion** Managed asset value

Real estate under construction

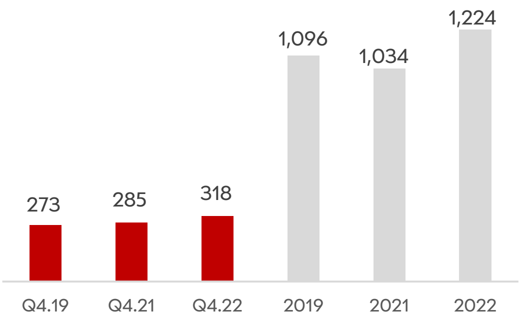
- **144 sqm thousands** Rental area Company's) (share
- **NIS 238 million** Estimated NOI at full occupancy

Development properties

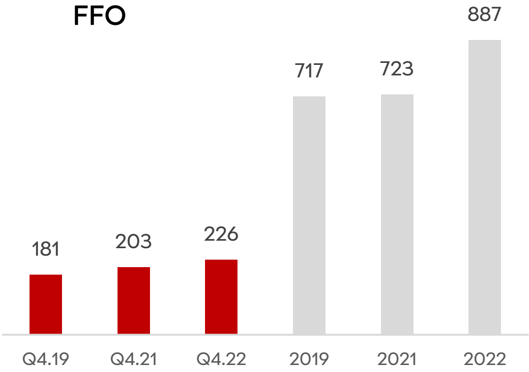
- **233 sqm thousands** Rental area Company's) (share
- **NIS 220-246** Estimated NOI at full occupancy

The Company's Results for 2022 and Q4/2022 compared to the Corresponding Periods in 2021 and 2019 (Pre-Covid 19 pandemic) (NIS Millions)

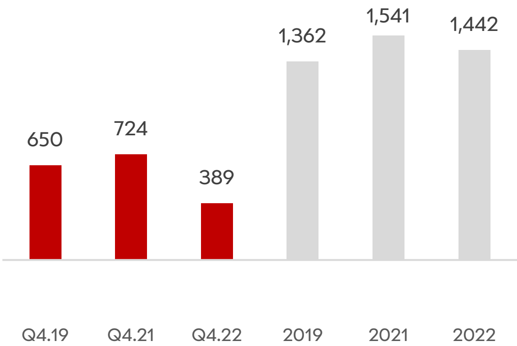
NOI (Owners' shares)



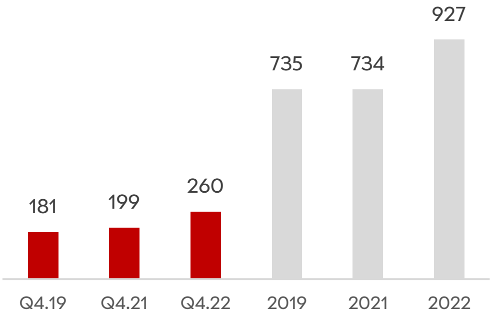
FFO



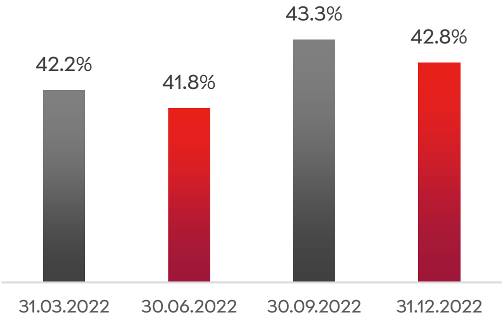
Net Profit (Loss)



Cash flows from Operating Activities



LTV



* The FFO as per the Securities Authority method amounted to NIS 491 and 155 million in 2022 and in Q4 2022, respectively, See page 43 of this Directors Report.

From the CEO's Desk

Melisron comes to the end of an active year with improvement of all the indicators, including buyer traffic, tenants' sales and operational indicators.

Net operating income (NOI) has grown and at the end of the year amounts to NIS 1,270 million (according to figures for the fourth quarter 2022), funds from operations (FFO) also increased and at the end of the year amounts to NIS 910 million, tenants' sales increased this year by an average of 5% and occupancy rates in the shopping malls and offices were 99%. In addition, the average rent in new contracts signed this year rose by 8%. The upward trend of sales continued in January and February 2023 as well.

The Company went back to distributing dividends this year and in 2022 distributed dividends in an amount of NIS 180 million. Furthermore, on March 12, 2023, the Company announced, after approval of the 2022 financial statements, a dividend in the amount of NIS 260 million (including a one-time dividend of NIS 200 million).

During the year and subsequently, the Company continued full speed ahead with implementing its strategic plan for growth and diversification of its sources of income. As part of this plan, several important and strategic measures for further development of the Company were completed this year:

1. In February 2023, a bridging agreement was completed under which the 2013 sale agreement for the Harel Mall in Mevaseret Zion will be canceled and Harel Mall Ltd. will sell all of its rights in the Mall to the Company, so that the Company will hold 100% of the rights in the Mall. In 2022 the Harel Mall yielded NOI of NIS 15 million. In addition, the land on which the Mall is located has unused building rights for 7,400 sq.m commercial and employment use, 1,300 sq.m residential use and 800 sq.m for public buildings and institutions. We are making every effort to integrate in the Mall the shopping and leisure experience according to the standards characteristic of Melisron's Ofer Malls and to exercise our additional rights in it.

2. In October 2022, the Company purchased a 4,500 sq.m plot of land on Lincoln Street in Tel Aviv that currently has an old building used for commercial space and offices over basement levels, for consideration of NIS 298 million. The Company plans to construct an office building on the land, by increasing the building rights to 25,500 sq.m.

3. In July 2022, the Company acquired 50% of Aviv Real Estate Development and Management Ltd. ("Aviv Yizum"), a private company that specializes in the development, construction and

sale of residential real estate, focusing on large-scale and urban renewal projects, with the aim of it becoming an important substantial layer for diversification of Melisron's business in the real estate sectors. During the year, Aviv Yizum purchased significant land in Herzliya and Tel Aviv, on which 850 residential apartments will be built. In addition, the Company signed several other urban renewal projects on which 1,600 residential apartments are to be built.

4. In June 2022, an agreement was signed with M. Yohananoff & Sons (1988) Ltd. for the purchase of and participation in the establishment of a 24,000 sq.m open commercial center in Yavne (the Company's share is 70%).
5. Also, in 2022 the Company purchased 20,500 sq.m of land in the Kanot Junction area. The land is in the process of rezoning for industrial and logistics uses.

Alongside the new acquisitions, the Company continues construction and occupation of the projects under development: In the Landmark Project, the structure of Tower A was completed and 86% of the space in the Tower has been leased; in Ofer Carmel Park the construction of the 23,000 sq.m Building C was completed and the entire space has been leased, and the building will yield NOI of NIS 24 million for the year. The Company is continuing to lease space in Buildings C and D in the Petach Tikva East Park, and recently signed an agreement for over 8,000 sq.m, so that to date, 64% of the space has been leased.

The Company is continuing to improve its properties by developing more than 230,000 sq.m (an increase of 25%), which once fully occupied is expected to increase annual NOI by over NIS 200 million. The projects include the office towers in Beer Sheva, Rehovot, Ofer Carmel, Offer Hasharon Mall, Ofer Nof Hagalil and Ofer Park Yokne'am alongside the expansion of commercial space in Nof Hagalil, Adumim and Hasharon Mall and construction of two rental residential complexes of 400 residential apartments.

During the year the Company expanded its long term bonds and took bank loans in an amount of NIS 1.4 billion at attractive interest rates and with that managed to keep the real average annual interest rate on the debt low (2.05%). In addition, the Company maintained cash balances of NIS 900 million and binding unsecured credit facilities of NIS 500 million.

We believe that together with our tenants and employees, and our professional reputation, we can continue growing and developing the businesses, and get through this challenging period stably due to the increase in interest and inflation in the country.

Goals and Targets

The Company operates and manages its businesses with the aim of generating value for its investors by producing cash flows from the income producing properties and selling of apartments, increasing the value of the properties and developing new businesses. To achieve these goals the Company operates as follows:

- Frequent investments in property renovations and appearance, diversifies and adjusts its product mixes, appreciates its existing properties, and makes the highest and best use of its rights;
- Developing and constructing projects
- Creating digital and technological innovations to reinforce relations with customers, improve the purchase experience, and increase sales;
- Maintaining and improving its financial resilience by extending the duration of its debt, reducing financing costs, and maintaining direct access to the capital market.
- Developing operations in new areas of the real estate industry

The Company implements its strategic plans for generating measures to reinforce and maintain its core operations through improving the shopping malls and office parks, and promoting measures for supporting its core operations while at the same time acting to develop operations in new areas by improving existing properties through mixed uses as well as by entering new areas of operation in the real estate industry, firstly in residential building.

We stress that the CEO's comments with respect to assessments, projections, and expectations related to the Company's future operations, and the Company's goals and targets as stated above, constitute forward-looking information, as this term is defined in the Securities Law-1968, which is based on the Company's subjective assessments at the time of this Report, and the realization of which, either in entirety or in part, is not certain, or may be realized otherwise than expected (and may significantly differ from expectations) due to factors that are not in the Company's control such as changes in market conditions, the duration required to approve building plans, prices of building inputs, as well as realization of the risk factors described in Section 31, Chapter A of the Company's Periodic Report as at December 31, 2022.

New contracts, renewals, and exercise of options in 2022

In 2022, the Company signed the following 786 contracts:

Commercial	Options exercised and contracts renewed	Tenant substitutions
No. of contracts	480	123
Signed area (sqm thousand)	76	16
Annual income (NIS million)	154	40
Real increase in rentals	7%	18%

Offices	Options exercised and contracts renewed	Tenant substitutions
No. of contracts	35	6
Signed area (sqm thousand)	29	1
Annual income (NIS million)	24	1
Real increase in rentals	2%	1%

New contracts on areas that were vacant for over one year and new developments	Commercial	Offices
No. of contracts	117	25
Signed area (sqm thousand)	13	52
Annual income (NIS million)	21	69

Composition of the Company's properties, by risk factors and returns

The Company's Rental Properties

	Area (Company's share)	Occupancy rate	Value attributable to rental properties	Value attributable to rights and construction	NOI in the reporting period	Weighted discount rate	Weighted tenancy duration	% of NOI
	sqm thousands	%	NIS millions			%	Years	%
Regional shopping centers	262	99.7%	10,425	233	669	7.01%	4.2	55%
Outlets and power centers	85	98.9%	1,725	353	112	7.08%	2.4	9%
City malls	40	99.2%	719	104	49	7.49%	2.9	4%
Neighborhood malls	53	98.7%	1,069	22	69	7.16%	3.0	6%
High-tech and office parks	319	98.2%	4,543	1,918	262	6.86%	3.6	21%
Single-tenant properties	41	100%	1,114	4	63	5.95%	10.0	5%
Total	**800**	**98.7%**	**19,595**	**2,634**	**1,224**	**6.95%**	**3.65**	**100%**

Notes:

1. The figures for high-tech and office parks include offices in the shopping mall buildings or adjacent to them.
2. The occupancy rate for the Outlets and Power Centers excludes an area of 5,000 sq.m in the Hutsot Hamifratz complex that was leased as an event venue, for which the contract was canceled due to the Covid-19 pandemic. Including this area, the occupancy rate is 96.4%.
3. The construction of Buildings C and D in the Petach Tikva East Park was completed and the buildings are in advanced stages of occupation. These buildings are not included in the occupancy rates in the foregoing table.

Properties by category

Regional shopping centers		Local malls		Offices	
Regional malls	**Outlets and power centers**	**City malls *)**	**Neighborhood malls **)**	**High-tech and office parks**	**Single-tenant properties**
Ofer Ramat Aviv	Ofer Bilu Center	Ofer Hasharon Netanya	Ofer Marom Center	Ofer Park Petah Tikva West	Ikea Rishon Letzion
Ofer Hakiryon	Hutzot Hamifratz	Ofer Lev Hadera	Ofer Kenyoter	Ofer Park Petah Tikva East	Hamashbir Latzarchan, Kikar Zion
Ofer Grand Mall Haifa	Ofer Nof Hagalil		Ofer Edumim	Ofer Park Yokne'am	Housing in Ashdod
Ofer Grand Mall Petah Tikva	Ofer Hagiva		Ofer Sirkin	Ofer Park Hacarmel	Country Sports Club, Haifa
Ofer Rehovot			Ofer Nahariya	Ofer Buildings Millennium House	BE, Eilat Promenade
Ofer Grand Mall Be'er Sheva					

*) In March 2022 the Company completed the sale of the Ofer Lev Ashdod Mall. For further information see the main developments in the operating segments in the reporting period and subsequently on page 36 of this Directors' Report.

**) In February 2023 the Company completed the acquisition of the Harel Mall. For further information see transactions in the period on page 19 of this Directors' Report.

Key Features of Property Categories – Commercial Properties

1. Regional shopping centers

Regional Malls

The regional shopping centers are visited daily by diverse populations groups that come from in and outside the city in which the malls are located. These malls offer a complete consumer experience that includes entertainment and leisure activities, dining, and culture.

Key features of the regional malls:

- Prime location in the heart of metropolis cities that offer their surrounding towns a broad range of services that include employment, education, culture, and other services;
- The majority of these malls have an area in excess of 35,000 sqm, which allows them to include a wide range of brands and offer shoppers numerous and diverse opportunities;
- Convenient access to major transportation arteries.

The regional malls were key consumer magnets, leading national figures in the number of visitors, tenant sales, and source of attraction for major chain stores.

Office Buildings in Regional Malls*

These office complexes constitute a target of attraction that complements the malls' operations and function as a community-based site of service providers that serve individuals from the entire region.

Key features:

- Tenants are mainly service providers, such as clinics, municipal institutions, and other service providers that are obligated to ensure accessibility by the general public using public transportation. At the same time, these tenants are natural drivers of traffic to their adjacent shopping malls;
- Long-term leases;
- Proximity to the food, entertainment, and cultural offerings in regional shopping centers (mixed uses);
- Mixed-use expansions are expected in the future, with healthcare clinics, hotels, and offices.

Outlets and power centers

Outlets are typically located in the outskirts of cities, and include a variety of stores, specifically outlet stores and factory outlets of national and international chains, which are differentiated by their sale of surplus merchandise at discounted prices.

The main advantage of these complexes stems mainly from the growth in discount shopping, and the fact that the stores are outdoor stores. These centers have shown increased strength in the past few years.

Key features:

- These centers are located on large tracts of land, which makes it possible to create large outlet stores;
- Simple and inexpensive above-ground construction with few systems ensures low maintenance costs;
- Expansive parking available.

* Office space in the regional malls is presented as part of the high-tech and business parks

2. Local malls

City Malls

Key features:

- Mainly serve target audiences in the city and its environs;
- Located in city centers and in the heart of high-demand residential areas;
- Typical retail area of up to 20,000 sqm.

The Company is taking steps to transform city malls into expanded neighborhood malls by:

- Adjusting the tenant mix to include banks, educational institutions, gyms, medical clinics, neighborhood cafes, and other services that satisfy the need of the surrounding community, in order to strengthen the community's ties to the mall and increase the number and frequency of visits;
- Obtaining approval for new city building plans and regulatory approval that will allow the highest and mix use of these land reserves in city centers and on mall rooftops for housing, office areas, and other uses.

Neighborhood Malls

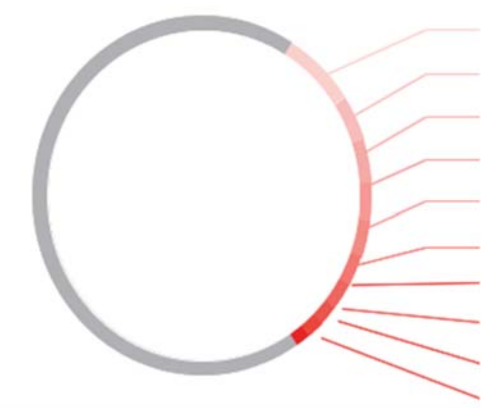
Key features:

- Located in residential neighborhoods - walking distance from home (high visit frequency);
- Satisfies the basic consumption needs of the neighboring residents
- Quick and accessible alternative to regional malls that require transportation

Neighborhood malls showed growth in the past two years, mainly as a result of their proximity advantage and high frequency of visits close to consumers' homes.

The Tenant Mix in Melisron's Malls*

Melisron's major tenant groups according to percentage of revenue from the shopping malls:



8.4%	Fox Group	Fox, American Eagle, Nike, Fox Home, Laline, Mango, Billabong, Children's Place, Sack's, Yanga, Foot Locker, Shilav, Flying Tiger, Dream Sport
4.4%	Castro	Castro, Eve Roche, Hoodies, Carolina Lemke, Urbanica, Top Ten
3.8%	Hamashbir Latzarchan	
3.5%	Inditex	Zara, Bareshka, Pull & Bear, Massimo Dutti, Stradivarius, Leftis
2.8%	Superpharm	
2.7%	Golf Group	Golf, Golf & Co, Golf Kids, Adika, Kitan, Intima, Polgat
2.3%	Shufersal	Shufersal, BE Pharm
2.1%	Al Srad Group	Factory 54, Original's, Diesel, Levi's, Puma, Tommy Hilfiger, Paul & shark
1.8%	Renuar Group	Renuar, Twenty Four Seven
1.5%	Brill Group	Gali, Lee Cooper, Nine West, Solog, Timberland, Lee Cooper Kids

* Each tenant group's share of revenue is calculated as a share of total mall income from rentals and management fees only, and not a percentage of the Company's total revenues.

Mall Revenue mix by Sector in 2022

Leisure and Recreation 10%

- 8% Dining and Cafes
- 1% Cinemas
- 1% Gyms

Health Services and Businesses 15%

- 8% Private Service Providers
- 6% Clinics and Pharma
- 1% Hotels

Consumer Goods 75%

- 46% Fashion and Apparel
- 4% Departmental Stores
- 5% Supermarkets
- 20% Others

Ofer Hakiryon

Trends in the Retail Shopping Sector

The retail shopping mall segment continued to grow in 2022. Numerous tenants recorded record sales and there was much demand for expanding store space and opening new stores. All this, despite the fact that the number of international flights returned to its pre-Covid levels.

Main Trends in the Retail Shopping Sector in 2022:

Demand to increase store areas – As a result of the huge growth in sales, the demand for significant increase in retail space by Israeli and international fashion brands increased, due to their estimate that larger stores will allow them to offer a broader mix of products, to enhance their customers' shopping experience, and increase their sales.

Entry of new international brands, mainly through the large chains - in 2022 we witnessed the entry of many new international chains such as: 21 Forever, Luluemon, Alo yoga, Jumbo, Carrefour, Victoria's Secret, Sunglass Hut, and others. The entry of these brands generates additional demand for nation-wide retail store space.

Flourishing restaurants and cafes - since the beginning of 2022, sales of the restaurants and cafes in the Company's shopping malls have recovered vastly, following two years of declining sales.

Slowing down of online growth - to provide their customers solutions during lockdowns the shopping chains developed and improved their online capacities, that increased significantly during this period. As the lockdowns ended, the rate of online growth slowed down and many companies have reported a decline in profitability from this sector, mainly due to the high logistics costs and high rate of returns. Such slowdown of growth was not only recorded in Israel, but also among the global online giants such as Amazon, Asus and Shopify. Therefore, for many retailers, the online sector constitutes a complementary sales outlet in addition to the physical stores and not in place of them.

Anticipated population growth – According to the Central Bureau of Statistics, Israel's population was approx. 9.7 million at end December 2022 and is expected to reach 10 million by 2024, reflecting average annual growth of over 2%. By 2048, population is expected to reach approx. 15 million. Of all OECD countries, Israel leads with an average of 3.1 children per household, a trend that supports continued growth in private consumption.

Return of the regional malls to center stage - during the Covid pandemic visitor traffic at the regional malls declined. In 2022 this trend was reversed, visitors returned to the regional malls, and demand for rental space increased, as did sales.

Cinemas - it would appear that the cinemas have not yet returned fully to pre-Covid scope of business. This can be explained by the lack of blockbuster movies together with consumer habits resulting from the growing streaming services.

Concerns of possible decline in private consumption due to the increase in interest rates and high inflation rates - the inflation that began to climb in 2021 following the lifting of the Covid restrictions and rise in demand increased in 2022 and reached an annual rate of 5%. The rising inflation is mainly due to the ongoing conflict between Russia and Ukraine, during which the US and EU adopted economic sanctions against Russia and the shutdown of the gas pipeline from Russia to Europe. As a result, prices of energy, food and metals imported from the conflicting countries increased. In an attempt to curb inflation, the central banks worldwide significantly raised interest rates. The hike in interest rates together with the rising inflation has caused concerns worldwide of the start of a recession.

Increase in the scope of international flights together with changes in their mode of operation - in 2022 international flight traffic almost returned to its pre-Covid levels. Thus, this year some 8.4 million Israelis were recorded as traveling abroad, compared to 9.2 million in 2019. However, as a result of a sharp increase in flight prices and airport staff shortages that led to numerous flight delays and passengers' preference for traveling with only a small carry-on trolley, flight patterns changed compared to pre-Covid, thereby mitigating the potential harm to retail shopping in Israel.

Key Features of Property Categories – Office Space

3. Offices

Office buildings and high-tech campuses

Features:

- Properties constructed according to high-tech industry standards, creating convenient, lavish workplaces that benefit from new and advanced system infrastructure.
- Mixed uses, which reflect employees' changing needs
- Benefit from economies of scale in management and operating costs
- Flexibility permits adjustments to tenants' changing needs for space as their operations grow
- Supports long-term growth through the development of additional building rights on the land.

Singe-tenant properties

Features

- Require limited Company managerial resources
- Leased to Class A tenants under long-term contracts

Trends in the office sector in 2022

The year 2022 started out continuing the 2021 trend as a year of record demand for offices as a result of the surge in the high-tech market and unicorn IPOs. Later in the year the sector slowed down and the high-tech shares dropped by 30% on average, both in Israel and worldwide, which led to the demand for office space to slow down. The Company believes that in 2023 the prices that increased significantly in Tel Aviv in the past two years will begin to slow down (but not to the pre-Covid prices), and with regard to the areas in which the Company operates, no great changes are expected. It is important to note that there wasn't any extraordinary rise in prices in these areas in 2021.

In 2022, the Company signed new leasing contracts and renewed contracts for an area of 31,000 sq. m, with real rental fee growth of 2%, and contracts for 52,000 sq.m (the Company's share) in properties under construction that are expected to yield income for the Company of NIS 70 million. Average occupancy in the office properties increased this year from 97.1% at the end of 2021 to 98.2% at reporting date. In 2022, the Company signed two contracts for 56% of the space in Tower A of the flagship Landmark project in Sarona, Tel Aviv (held in equal shares with a partner). After the signing of these contracts, 86% of the space in Tower A has been leased. Tower A is expected to be occupied from the end of 2023. Furthermore, the Company has begun marketing Tower B of the project, which is expected to be completed in 2026. In the Ofer Carmel Park, the Company completed occupation of 23,000 sq.m space in Building C, the construction of which was completed in August 2022, and it yields annual NOI of NIS 24 million. In the Ofer East Park, this year the Company signed three contracts (one of which was signed at the beginning of 2023) for 14,300 sq.m, where occupancy is 64%.

74% of the Company's offices are leased to major tenants that are well established in the high-tech, biomed, and healthcare services sectors and have experienced significant growth in their businesses in recent years. The size of the Company's high-tech parks is an advantage for tenants, as it gives tenants flexibility to expand in the future as their needs increase. In fact, many companies that lease offices in the Company's properties have gradually increased their areas:

- Nvidia (formerly, Melanox) in Ofer Park Yoken'am expanded from 3,350 sqm to 38,000 sqm;
- Cyberark: in Ofer Park Petah Tikva expanded from 843 sqm to 12,900 sqm;
- Cellebrite in Ofer Park Petah Tikva expanded from 830 sqm to 6,800 sqm;
- Novocure in Ofer Carmel expanded from 400 sqm to 3,900 sqm;
- Insightec in the Ofer Carmel Park expanded its space from 2,500 sq.m to 10,000 sq.m.
- Medtronic (formerly, Given) in Ofer Park Yokne'am expanded from 1,939 sqm to 10,465 sqm

Major tenants, by sector:

Key Features of Property Categories – Housing

Rental residential projects

Features:

- The increase in interest rates and housing prices make it difficult for new households to obtain sufficient equity to purchase a first home and therefore, the Company believes that demand for rental housing is expected to increase.
- The inventory of institutionally owned rental housing in Israel is low and therefore an increase in demand is expected to lead to an increase in rent paid.
- High interest rates impair the financial viability of long term rental projects, therefore many companies will reconsider whether to enter the sector.
- As a result of the rising interest rates, there has been a decline in recent months in the value of the land offered by the ILA tenders that are marketed by the government company, Apartment for Rent

Residential projects for sale

Features:

- There is a huge gap between demand and supply, which is expected to continue to grow over time and therefore, the Company believes, in the mid to long-term, housing prices are expected to continue increasing at a higher rate than the GDP growth rate.
- In the wake of the increase in interest on mortgages it is possible that buyers will have difficulty in buying and financing new apartments, which could lead to a slowdown in sales in the short to mid-term, due to expectations that the prices will drop.
- The Company estimates that such decline in demand is temporary and if there is no solution regarding supply, the pending demand will accumulate.
- The rise in interest has an adverse effect on real estate developers who took loans to purchase land for which they don't have building permits.
- The Company estimates that as part of the decline in demand, real estate developers are expected to reduce the pace of development of the projects that will lead, among other things, to impairing supply in the mid to long-term.
- The effect of the interest on the developer is lower in urban renewal complexes due to the fact that no significant costs are accrued on the land component prior to obtaining a building permit.

Trends in the residential sector in 2022:

In 2022 housing prices increased by an average of 20%, a 12 year record, and at the same time also the number of mortgages and demand for housing. The price increase reflects the high demand in the market up to the third quarter of 2022 and possible includes the temporary effect of the amendment to the Sale Law that came into effect in July 2022, which minimizes the linkage of new apartment prices to the construction input index.

In recent months there has been a decline in the sale of apartments, which is partly due to, among other things, the increase in apartment prices and the interest hike that increase the cost of mortgages, which in turn pushes potential apartment buyers out of the market. The Target Price program also has a dampening effect on free market demand, as does the increase in purchase tax for investors.

On one hand the number of building starts last year reached 73,000 apartments, a 28-year record, and is expected to continue increasing in the coming quarters to 80,000 apartments per year. On the other hand, building completion is only 50,000 apartments, lower than the current market need for apartments (60,000 finished apartments per year according to government estimates).

The increase in apartment prices and the rise in interest rates, and the difficulty in obtaining new mortgages has led to a price increase of 6.3% in the rental market, the highest increase in 15 years.

The Company believes that stabilization and also drop in the prices, if any, will enable Aviv Yizum to increase its inventory of apartments and will generate opportunities for tenders on land in areas of demand. Furthermore, Aviv Yizum's operations focus mainly on the urban renewal sector, which is naturally less exposed to financing costs (and therefore lower the Company's exposure to interest hikes). Moreover, the fact that Aviv Yizum is the execution contractor in that projects that it develops, allows Aviv Yizum to control all the value and quality components, and among others, is reflected in cautious business plans that also take into account profitability without an increase in the housing prices.

Implementation of the Company's Strategic Plan

In 2022, the Company continued to progress with its implementation of its strategic plan, which is based on two main courses of action:

1. Activities within the Company's core operations, designed to add value to its core businesses by adjusting them to fit changing market trends, and consequently to support the Company's status as the leader of Israel's shopping mall sector.
2. Activities designed to diversify the Company's operations and the risks stemming from the concentrated profile of its current portfolio, and to promote growth in additional segments that offer synergistic effects with the Company's operations as a real estate company, all while adjusting the Company's operations to its available resources in each case.

A. Implementing activities in the Company's core business areas

- Improvement and optimization of the Company's portfolio of commercial properties and conclusion of its current development projects:
  - In the reporting period the Company acted in a number of directions in which it places emphasis: Completing the extensive renovation of the Ofer Ramat Aviv Mall, expanding the store space in the Mall and began building the third floor, continuing the deep store mix changes at the Ofer Kiryon as part of which some 80 tenants changed their location and size by new construction (yet to be completed), product mix changes and start of renovations in the food court of the Ofer Grand Petach Tikva Mall, as well as renovations and improved facade of several of the Company's properties.
- Further development operations, including completing construction and 100% occupancy of Building C in the Ofer Carmel Park and significant progress in the construction of the Landmark project in Tel Aviv, and all by meeting the planned time schedules. The Company began construction of a 17,000 sq.m building at Hutzot Hamifratz this year, having already signed contracts for most of it, and a 6,000 sq.m office building at Ofer Nof Hagalil.
- Activities that support the Company's core businesses:
  - After the acquisition of Grouper in 2021, the Company continued to develop its digital division and during the year it launched an advanced version of the Company's customer club app, My Ofer. In addition, the Company continued the development of the hybrid mall that it intends to launch in 2023.

B. Implementing actions to diversify the Company's operating segments

- **Maximization and appreciation of the existing property portfolio by making highest and best use of existing and future rights in its properties in order to develop mixed-use projects:**
  - The Company invested extensive efforts in the reporting period to advance mixed-use plans in all the Company's properties. The Company considers future development as one of its major growth engines, through the increase of real estate properties zoned for offices, rental housing, and other uses. For additional information, see the section on future development in the Company's properties on page 31 of the Directors' Report.
- New project development:
  1. Apartments for sale - during the year the Company announced the acquisition of 50% of the shares of Aviv Yizum, a private company that specializes in the development, construction and sale of residential real estate, focusing on large-scale and urban renewal projects. With this acquisition, the Company entered a

new sector with significant growth potential, complementing the commercial and office sector. For further information see page 24 of this Directors' Report.

2. Rental housing – through the development of two projects in the Company's existing properties (Be'er Sheva and Netanya), with a total of approx. 400 housing units.

- **New transactions carried out by the Company this year as part of its strategic plan:**

1. Purchase of a 4,500 sq.m plot of land on Lincoln Street in Tel Aviv, currently with a City Building Plan for the construction of a 17,500 sq.m building. The Company is working on increasing the CBP for a 25,500 sq.m building. For further information see page 24 of this Directors' Report.
2. Engagement with Yohananoff in an agreement for the purchase of land and partnership in the construction of a 24,000 sq.m open commercial center that will contain stores and offices, in Yavne. For further information see page 27 of this Directors' Report.
3. Purchase of 20,500 sq.m of land in the Kanot Junction area. The land purchased is part of a 250,000 sq.m complex zoned for agriculture, where the local Regional Council is promoting a plan under the authority of the district committee for rezoning of the complex from agriculture to logistics (industry and warehouses) and offices. For further information see page 28 of this Directors' Report.
4. Purchase of a 9,000 sq.m plot located adjacent to Ofer Carmel Park, for consideration of NIS 36 million. The Company will use the land for future expansion of Ofer Carmel Park.

For further information concerning these projects see the chapter on future development of the Company's properties on page 31 of the Directors' Report.

As at reporting date, the Company is progressing and integrating the processes based on its strategic plan and the measures adopted for implementing them in 2022. Such processes may vary over time and are subject to revision from time to time according to changes in the Company's macro-economic and business environment. The Company estimates that certain actions specified in its plan may ripen in the near future while others may ripen over many years or may not come to fruition at all.

The Company believes that in the near future, due to the increase in interest rates and concern regarding a slowdown in the economy, opportunities will open in the market and the Company intends to explore such opportunities.

It should be emphasized that the Company's assessments regarding the features of the Company's property categories, trends in the various sectors in which the Company operates, and the Company's plans to diversify its operating segments, including plans to enter into new operating segments and explore new opportunities, constitute forward-looking information as this term is defined in the Securities Law, and is based on the Company's subjective assessments as of the date of this Report; The Company's assessments and plans may not be realized, either in entirety or in part, or may be realized otherwise than expected (and may significantly differ from expectations), and may be influenced by factors that cannot be assessed in advance and are not in the Company's control, including changes in market conditions, the length of time required to approve construction plans and changes in construction costs, approvals by the relevant authorities, and third-party approvals, a decline in demand by the tenants in the Company's operating segments, including in any new operating segments, and a downturn in the economic situation in Israel, due to, among other reasons, the state of morbidity in Israel and government orders and guidelines regarding economic activity (if such are revised) that may have a significant effect on economic activity in general, and specifically on the scope of the Company's operations.

Summary data on the Company's material properties as at December 31, 2022

Property and location	Effective share of ownership	GLA	NOI for reporting period	Occupancy rate	Cumulative debt burden for the period*	Adjusted annual NOI**	Value of rental property	Value of property under construction and rights
		sqm	NIS millions	%	%		NIS millions	
Ofer Mall Ramat Aviv	100%	32,579	164	100%	10.5%	173	2,605	146
Ofer Hakiryon, Kiryat Bialik***	100%	89,006	149	97.8%	9.6%	174	2,481	42
Ofer Grand Mall, Petah Tikva	100%	52,173	118	99.6%	10.9%	127	1,868	33
Ofer Grand Mall, Haifa	100%	57,316	119	100%	10%	129	1,812	5
Ofer Mall, Rehovot	100%	43,528	94	100%	9.5%	98	1,375	53
Ofer Grand Mall, Be'er Sheva	100%	52,261	83	100%	8.2%	96	1,281	11
Ofer Bilu Outlet Center, Bilu Junction	72%	44,400	70	99%	7.5%	75	1,100	-
Ofer Park West Petach Tikva Park	74%	88,136	81	96.5%	-	88	1,378	3
Ofer Park East Petach Tikva Park****	74%	27,424	34	98.7%	-	43	642	232
Total material properties		486,823	912	98.7%		1,003	14,542	525
Remaining rental properties		356,672	363	98.5%		397	5,916	2,170*****)
Less non-controlling interests		(43,402)	(51)	-		(57)	(863)	(61)
Total rental properties, net		800,093	1,224	98.7%		1,343	19,595	2,634

Total value of investment property, Company's effective share (consolidated extended) (NIS million) **22,229**

* The cumulative debt burden is the ratio of rentals to tenants' revenue for 2022. For information concerning the debt burden including management, see sections 11-16 of the description of the corporation's business in Chapter A of this Report.

** Adjusted NOI includes the annualized effect of revenue from new contracts that have been signed and not yet generated revenue over a full year.

*** Ofer Hakiryon is undergoing a deep change in its store mix with the addition of new construction that resulted in stores being temporarily relocated or closed, which causes a temporary decline in NOI. The Company expects the main part of the construction to be completed in 2023 and the NOI to return to its adjusted annual level.

**** The benefit does not include the area and occupancy of Buildings C and D in the Ofer Petach Tikva East Park, the construction of which has been completed and which is currently in advanced occupancy stages. The NOI for the reporting period includes NIS 4 million with regard to Buildings C and D, respectively. The value of the space occupied that amounts to NIS 155 million, is included in the value of rental property and not in the value of properties under construction and occupancy

***** Includes the Company's share in the landmark project (50%) in Tel Aviv, NIS 1,391 million, that under construction.

Ofer Grand Mall Petah Tikva

Transactions in the period

Purchase of land in Tel Aviv

In January 2023, the Company completed its engagement in an agreement for the purchase of a 4,500 sq.m plot of land on Lincoln Street in Tel Aviv on which an old building is currently situated, that is used for commercial and office space above basement levels, for consideration of NIS 298 million, with duly added VAT. The approved building rights allow for the construction of a 17,500 sq.m office block (above 6 basement floors) and the Company intends to act to increase the building rights. By the balance sheet date, the Company had paid NIS 45 million and taxes in an amount of NIS 17.5 million, and subsequent to balance sheet date, the Company paid the rest of the payments.

Aviv Yizum - Housing

In July 2022, the Company completed the acquisition of 50% of the shares of Aviv Yizum, a private company that specializes in the development, construction and sale of residential real estate, focusing on large-scale and urban renewal projects. Aviv Yizum is a reputed company with years of experience in the real estate and housing sector, it has a C5 registered contractor license and has the execution capacities that allow control of construction quality and high-end finishing, minimizing its dependence on external contractors.

The total investment amounted to NIS 600 million, of which NIS 454 million was injected into Aviv Yizum for the shares allotted (of which at date of closing of the transaction, Aviv Yizum paid off a debt to the seller in the transaction, Aviv & Co. Group Real Estate 1963 Ltd. (the "Seller") in an amount of NIS 90 million) and NIS 146 million was paid to the Seller in return for the shares purchased. The investment in Aviv, which is jointly controlled 50%-50% by the Company and the Seller, is presented in the Company's books according to the equity accounted method as of the third quarter of 2022.

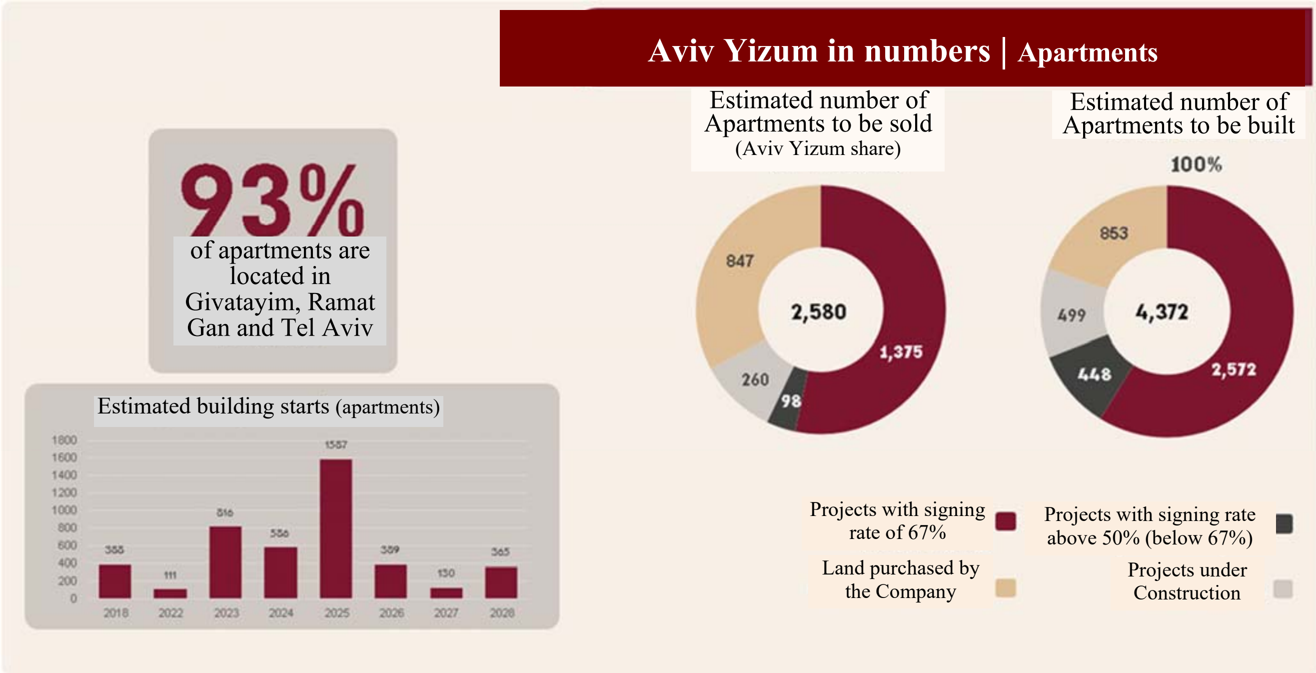
Aviv Yizum objectives:

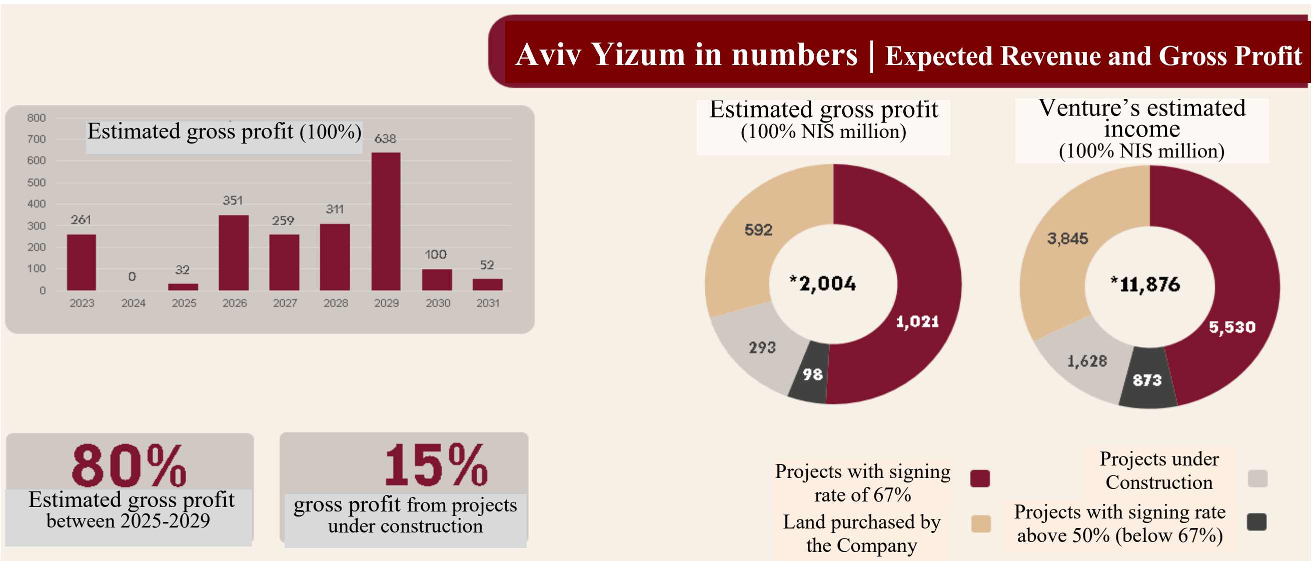
To be a leader in its field in Israel and to build thousands of apartments in areas of demand, in a way that will meet the growing need for housing by development of residential apartments and urban renewal projects that contribute to the improvement of the quality and safety of the residential buildings.

To accumulate and manage a property portfolio of long-term rental apartments that will address a need and provide a solution for housing in Israel.
To preserve the reputation that both controlling companies have accumulated over decades of operations, as professional and reliable, with high-end quality standards and service.

In September 2022, Aviv Yizum won a tender to purchase a 3,700 sq.m plot of land on Tabenkin Street in the Shikun Dan area of Tel Aviv, for NIS 170 million. The approved plan for the land permits the construction of 36 apartments with total area of 6,000 sq.m. Aviv Yizum is moving forward with a new plan that was recently submitted to the local committee, which matches the overall plan (TA-5000), according to which rights will be added to the project for the construction of an additional 84 apartments with total area of 6,000 sq.m. Based on the new plan, if it is approved, the project will include 120 apartments on a 3,000 sq.m plot, after the planned expropriation of an area of 700 sq.m, on which the city will erect a public building.
In December 2022, Aviv Yizum won a tender that was published by the Israel Lands Authority for the purchase of leasing rights (98 years with option for a further 98 years) on a plot in the Kiryat Shchakim complex in Herzliya, of 5,300 sq.m, in return for NIS 916 million with duly added VAT, to which development costs (including permits) of NIS 206 million will be added. The approved plan for this land allows the construction of 733 apartments, 900 sq.m of commercial space and 2,640 sq.m (gross) of public buildings.
In addition, Aviv Yizum won a number of other urban renewal projects that it intends to promote in the coming years.

Aviv Yizum in numbers (for details of all Aviv Yizum projects under planning and construction, see Appendix D to this Directors' Report):





* During projects life. Aviv Yizum's part in the revenues – about NIS 9.9 billion, and in the gross profit about NIS 1.6 billion.

** Gross profit is presented based on the predicted year each project to be concluded, and not based on IFRS. Contractor's profits were not included.

*** In addition, Aviv Yizum is promoting a number of projects that are not shown above, since at this time there is no planning certainty and/or a minimum scope of signatures. A total of 1,600 apartments are expected in these projects (including tenants' apartments).

The Company and its plans to enter the residential development real estate sector, its estimates concerning expected operations of Aviv Yizum and its plans, estimated apartments for construction and sale, estimated commencement of construction, estimated revenues and gross income of Aviv Yizum and the planning approval of the new plan for the land on Tabenkin Street, constitute forward looking information as defined in the Securities Law, 1968, and are based, among other things, on the information the Company has regarding Aviv Yizum. The Company's foregoing estimates and plans may not materialize, in whole or in part, or may materialize differently to expected, even substantially, due to, among other things, factors or effects that cannot be estimated in advance and/or are not in the Company's control, including, among others, the success of the collaboration jointly managed with Aviv Yizum, the Company's ability together with the Aviv Group, to bring about the effective development of Aviv Yizum, a changing economic and geopolitical environment, changes in government policy and authorities acting on its behalf relating to Aviv Yizum's areas of operation, Aviv Yizum's ability to complete the urban renewal projects on the dates and in the scope forecast, and to obtain the required consent from the owners of the rights in the foregoing projects and/or factors and risks involved in Aviv Yizum's operations that are not in the Company's control, each of which, or any combination thereof, may adversely affect the results of the Company's operations and in any case the materialization of such estimates and forecasts.

Partnership with Yohananoff for the construction of a commercial center

In June 2022, the Company engaged with Yohananoff in an agreement for the purchase of land and partnership in the construction of a 24,000 sq.m open commercial center that will contain stores and offices, in Yavne. Under this agreement, the Company acquired 70% of the leasing rights in the land on which the commercial center will be built, for NIS 47 million, so that after completing the transaction the Company holds 70% of the rights in the complex and Yohananoff holds the remaining 30%.

The commercial center that will be constructed will contain, among other things, a 5,000 sq.m Yohananoff supermarket that Yohananoff will lease from the joint venture for 25 years.

The cost of constructing the project is expected to amount to NIS 385 million (according to the value of the land in the transaction), and the projected NOI from the complex is NIS 29 million. The project has an approved CBP and an excavation and shoring permit was received.[1]

[1] The Company's estimates and plans concerning the joint venture with Yohananoff constitute forward looking information, as defined in the Securities Law. The Company's foregoing estimates and plans may not materialize, in whole or in part, or may materialize differently to expected, even substantially, due to, among other things, factors or effects that cannot be estimated in advance and/or are not in the Company's control, including, among others, the success of the joint venture in the construction and management of the complex in Yavne and/or factors and risks that are not in the Company's control.

Acquisition of land in Kanot Junction area

In June 2022, a wholly owned subsidiary of the Company purchased a 16,500 sq.m plot of land in the Kanot Junction area for NIS 29 million. In November 2022, an agreement was signed for the purchase of another 4,000 sq.m adjacent to the plot, for NIS 5 million. The land purchased is part of a 250,000 sq.m complex zoned for agriculture, where the local Regional Council is promoting a plan under the authority of the district committee for rezoning of the complex from agriculture to logistics (industry and warehouses) and offices.

Purchase of land in Tirat Hacarmel

In April 2022, a wholly owned subsidiary of the Company purchased a 9,000 sq.m plot of land located adjacent to the Ofer Carmel Park, for NIS 36 million. The Company will use the land for future expansion of Ofer Carmel Park.

Acquisition of the Harel Mall

Subsequent to balance sheet date, the bridging agreement signed by the Company and parties not affiliated with the Company, was improved, and under which the 2013 sale agreement will be canceled and Harel Mall Ltd. will sell all of its rights in the Harel Mall, so that the Company will hold 100% of the rights in the Mall.

Under the bridging arrangement, the Company paid (net of proceeds that were received and are to be received) an amount of NIS 32 million to third parties in the arrangement and to the tax authorities, and the loan it provided (through a subsidiary) in the past to Harel Mall Ltd. and to the buyer and loans it (the subsidiary) received, in a net amount of NIS 157 million, were written off. Furthermore, as part of the sale of the Mall by Harel Mall Ltd. to the Company, the Company and Harel Mall Ltd. will pay taxes in an amount that is immaterial to the Company.

After completion of the bridging arrangement, the Company holds (indirectly) all the rights in the Harel Mall, which is located in Mevaseret Zion. The Harel Mall contains 11,600 sq.m of commercial space that yielded in 2022 NOI of NIS 15 million. In addition, the land on which the Mall is located has unused building rights for 7,400 sq.m commercial and employment use, 1,300 sq.m residential use and 800 sq.m for public buildings and institutions.

Portfolio of income producing properties under construction

The Company believes that growth through the development of properties offers the best potential for growth and profits in its core operations in the mall and office sectors, and continuously reviews development opportunities in these areas.

Within these activities, the Company (jointly with its partner) is developing its flagship project, Landmark, located in the Sarona area of Tel Aviv. The Company commenced construction of this project in 2017 and as of the date of the Report the Company completed the superstructure frame of Tower A (up to floor 40) and the superstructure frame of Tower B (up to floor 2). The project includes building rights for 166,000 sq.m (gross), of which 140,000 sq.m is for offices, 7,000 sq.m for commercial use, 7,500 sq.m for public buildings and 11,500 sq.m for residential use (8,100 sq.m for marketing) (116 apartments). During the year, the Company signed a huge contract in the Landmark project to rent out an area of 51,000 sq.m and another contract for an area of 5,500 sq.m, thereby bringing the scope of signed contracts to 86% of Tower A, the construction of which is expected to be completed at the end of 2023.

At the same time the Company completed Building C in the Ofer Carmel Park, which has 100% occupancy. In addition, the Company is continuing to promote the occupancy of Buildings C and D in the Ofer Petach Tikva East Park and in 2022 through to reporting date, the Company has engaged in rental contracts for 14,300 sq.m (occupancy of 64%).

Breakdown of the projects in various stages of construction and occupancy that are expected to increase Melisron's revenues and asset pool:

Property	Effective interest in the property	Primary use	GLA	Development stage	Estimated /Actual completion date (Form 4)	Estimated project costs (NIS millions)	Net book value of the project as of December 31, 2022 (NIS millions)	Estimated cost of completion (NIS millions)	NOI at full occupancy	NOI for reporting period
Projects that have been completed and are in process of occupancy:										
Ofer Park Petah Tikva East – Buildings C and D	74%	Offices	33,500	Occupancy	Completed	246	387	24	27	4
Ofer Park Hacarmel- Building C	100%	Offices	23,000	Occupancy completed	Completed	199	323	53	24	1
Projects in progress										
Ofer Ramat Aviv	100%	Commercial	3,000	Under construction	2024	78	77	54	11	-
Ofer Hakiryon – addition of commercial concourse	100%	Commercial	3,000	Under construction	2024	59	68	5	8	-
Hutzot Hamifratz	50%	Commercial	19,000	Under construction	2024	148	95	140	17	-
Landmark, Tel Aviv*	50%	Offices	151,000	Under construction	2023-2026	3,016	2,783	1,492	324	-
Ofer Nof HaGalil- Building F	90.9%	Offices	6,000	Under construction	2024	50	14	47	5	-
Owners' share			144,244			2,145	2,206	988	238	5

* Project costs also include the cost of construction of the 116 units in the project. NOI and areas do not include the housing units in the project, the sale of which is expected to generate approx. NIS 0.5 billion.

As shown in this table, according to the Company's assessment, the expected rate of return in development activities is 11% on project costs.

The Company's assessments in connection with the expected construction completion dates of its development projects set out in this section and the above table, the estimated cost of each project, the estimated cost of completion of each project, the expected rate of return of each project, and the expected revenue from the sale of apartments (if any) in the Landmark project, constitute forward-looking information as this term is defined in the Securities Law, 1968. Actual expenses may 4 significantly differ from the above assessments and their implications, for various reasons, and may also be affected by factors that are not in the Company's control, including changes in project construction costs, changes in project schedules, the actual scope of the projects and their marketing, the duration required to approve construction plans, approvals by the relevant authorities and approvals of third parties, changes in apartment prices, changes in the Company's strategy in connection with the designation of the apartments for sale in the Landmark project, and due to the effects of the Covid-19 pandemic, and realization of the risk factors described in section 31 of Chapter A of the Company's periodic report as at December 31, 2022.

Future development of the Company's income producing properties

The Company owns several additional tracts of land and projects that are in the stage of planning a new City Building Plan or in the process of obtaining a building permit based on mixed uses and a combination of residential, commercial, office, rental housing, and hotel uses. Following is a breakdown of these projects (in NIS million):

Project	Effective share of ownership	Primary use	GLA (sqm)	Status	Expected construction commencement date	Expected construction completion date	Net book value at Dec 31, 2022 (NIS millions)	Estimated cost of Project (NIS millions)	Estimated NOI at full occupancy
Ofer Rehovot	100%	Offices	11,000	CBP, building permit pending	2023	2025	34	105-115	9-11
Ofer Grand Mall Be'er Sheva	100%	Offices and clinics	14,000	Permit received, preparing for start of construction	2023	2025	11	115-120	10-12
Ofer Hasharon	100%	Commercial and offices	7,000	CBP, building permit pending	2023	2027	43	65-70	7-9
Ofer Nof HaGalil	91%	Commercial	21,000	CBP approved, demolition permit received	2023	2025	55	300-310	24-26
Ofer Yavne	70%	Commercial and offices	24,300	Permit received, preparing for start of construction	2023	2026	67	380-390	28-30
Ofer Carmel	100%	Offices	18,000	CBP approved	2024	2026	36	195-205	16-18
Ofer Mall Petach Tikva	100%	Offices and hotels	24,000	CBP approved	2024	2026	33	220-230	21-23
Ofer Yokne'am	100%	Offices	40,000	CBP approval pending	2024	2027	-	390-400	27-29
Ofer Adumim	100%	Offices and commercial	14,800	CBP approved	2024	2026	9	135-145	12-14
Land in Tel Aviv*	100%	Offices	17,500	CBP approved	2025	2028	298	700-710	56-60
Company's share			182,400				561	2,464-2,550	199-221
Ofer Be'er Sheva**	100%	Residential (297 apartments)	35,000	CBP approved, planning for building permit application	2023	2026	58	360-370	15-17
Ofer Hasharon**	100%	Residential (92 apartments)	15,500	CBP approved, building permit pending	2023	2027	46	165-170	6-8
Company's share			50,500				104	525-540	21-25
Total Company share			232,900				665	2,989-3,090	220-246

Projects whose date of construction start, and assessments have not yet been determined:

Project	Effective share of ownership	Primary use	GLA (sqm)	Status	Expected construction commencement date	Net book value at Dec 31, 2022 (NIS millions)	Estimated cost of Project NIS millions)	Estimated NOI at full occupancy
Ofer Ramat Aviv	100%	Commercial, offices, hotels and rental housing	90,000	CBP pending	TBD	73	TBD	TBD
Ofer Grand Haifa	100 %	Hotels	6,000	CBP approved	TBD	5	TBD	TBD
Ofer Kiryon	100 %	Offices	23,000	CBP approved	TBD	42	TBD	TBD
Ofer Mall Petach Tikva	100 %	Commercial	7,000	CBP approved	TBD	-	TBD	TBD
Ofer Carmel	100 %	Offices and employment	23,000	CBP approved	TBD	22	TBD	TBD
Nof HaGalil	91 %	Offices and employment	16,000	CBP approved	TBD	19	TBD	TBD
Hutsot Hamifratz	50 %	Logistics and offices	100,000	CBP approved	TBD	296	TBD	TBD
Land in Kanot Junction area*	100 %	Logistics	20,000	CBP approved	TBD	31	TBD	TBD
Land at Ofer Carmel	100 %	Offices and employment	16,000	CBP approved	TBD	16	TBD	TBD
Company's share			267,600			371		
Total Company's share (all properties)			500,500			1,036		

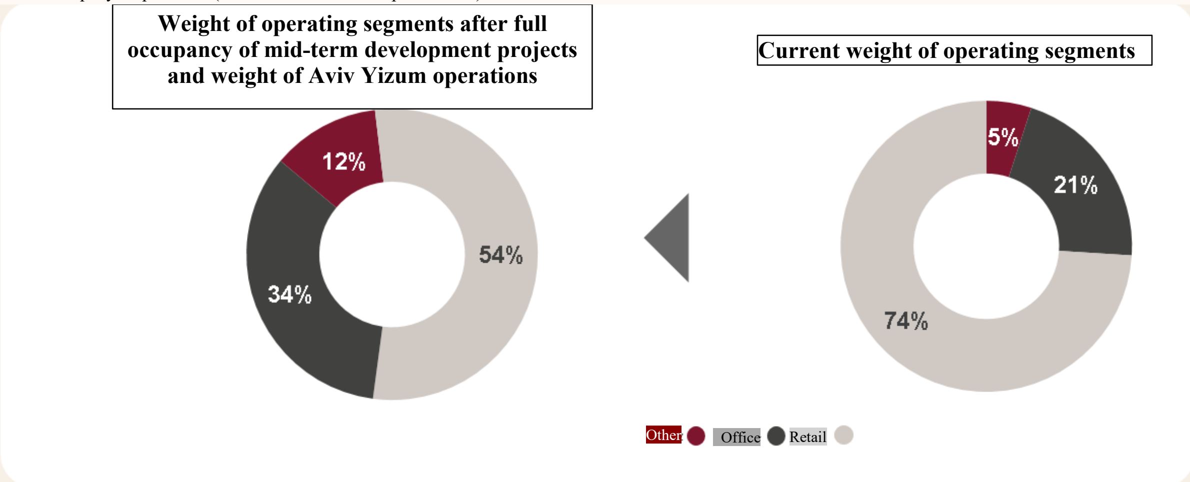
The Company's assessments in connection with the future development of the Company's properties (expected construction completion dates, estimated cost of each project, estimated completion cost for each project, and the projects' expected rates of return) appearing in the table above constitute forward-looking information as this term is defined in the Securities Law, 1968. Actual results may be significantly differ from the above assessments listed in the above table and their implications, for various factors that are not in the Company's control, including changes in project construction costs, changes in project schedules, the actual scope of the projects and their marketing, the duration required to approve construction plans, approvals by the relevant authorities and approvals of third parties, and the effects of the Covid-19 pandemic, and realization of the risk factors described in section 31 of Chapter A of the Company's periodic report as at December 31, 2022.

* Acquisition was completed subsequent to the balance sheet date. As at December 31, 2022, the balance reflects the amount paid by the Company up to that date. The land has an approved City Building Plan for the construction of 17,500 sq.m office space and the Company is working to increase the building rights to 25,500 sq.m. Estimated costs and NOI assume that the building rights will be increased accordingly.

** The Company has designated the apartments for rental.

Operation segments by NOI as of today and after full occupancy of mid-term development projects and weight of Aviv Yizum operations

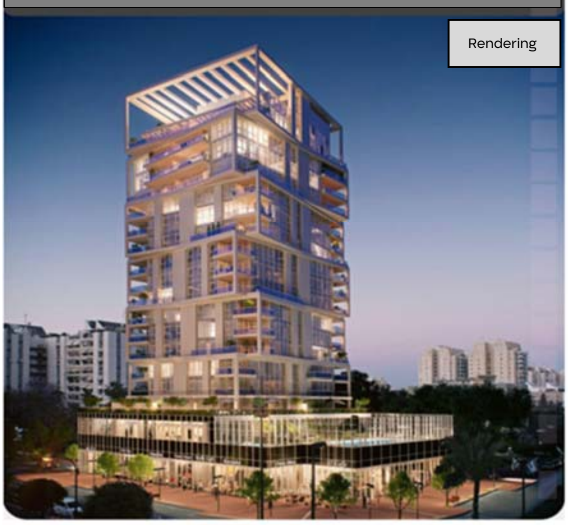
Regarding the Company's reporting of operating segments see Note 35 to the Company's financial statements at December 31, 2022. After completion of development and occupancy of the projects currently under development and for future development included above (not including projects whose development is yet to be decided), the weight of the Company's operations (based on current and expected NOI) will be as follows:



- Offices located in mall buildings or adjacent to them are included under the offices segment
- The Other Operations segment relates to buildings currently rented to a single tenant and in the future, also to rental housing and the Company's share in Aviv Yizum.
- The Company's share in Aviv Yizum is calculated according to average gross profit expected in 2025-2031.

Hahistadrut Givatayim

Aviv on Ahimeir (Tel Aviv)



The Company's assessments regarding the weight of the Company's operating areas (based existing and expected NOI and weighting of Aviv Yizum operations) constitute forward-looking information, as defined in the Securities Law, 1968, and are based, among other things, on the information available to the Company concerning its various operations, including the completion dates of development and occupancy of Aviv Yizum projects that are currently in planning and future development. The Company's foregoing estimates and plans may not materialize, in whole or in part, or may materialize differently to expected, even substantially, due to, among other things, factors or effects that cannot be estimated in advance and/or are not in the Company's control, including, among others, changes in market conditions, time required to obtain approval of building plans for execution, changes in construction costs and/or time schedules of the projects, their actual scope and marketing, the success of the collaboration jointly managed with Aviv Yizum, the Company's ability together with the Aviv Group, to bring about the effective development of Aviv Yizum, a changing economic and geopolitical environment, changes in government policy and authorities acting on its behalf, Aviv Yizum's ability to complete the urban renewal projects on the dates and in the scope forecast, and to obtain the required consent from the owners of the rights in the foregoing projects and/or factors and risks involved in the operations of the Company and/or of Aviv Yizum that are not in the Company's control, each of which, or any combination thereof, may adversely affect the results of the Company's operations and in any case the materialization of such estimates and forecasts.

Financial Debt

Highlights

Financial Management

From early 2021 to the publication of this Report, the Company raised. NIS 3 billion in debenture issues and bank and institutional debts. The Company has the financial flexibility to raise debt on favorable terms and at a long average duration, which was proven during the Covid-19 pandemic. This flexibility supports its continued efforts to appreciate its properties and develop new projects, exploit emerging business opportunities, and enter into new fields of activity.

The principles that guide the Company's Management of its financial debt are:

(1) Maintain sufficient liquid balances;
(2) Extend the average duration of debt;
(3) Maintain strong, stable balance sheet figures;
(4) Maintain a high credit rating.
(5) Lower financing costs;

The composition of the Company's debt includes tradable public bonds, private loans from institutional lenders, loans and credit facilities from banking corporations, and commercial papers.

The Company's Financial Leverage

By reducing its leverage in recent years, the Company contributed to a lower risk profile while maintaining a degree of leverage that supports business development and improved its return on capital.

The Company believes that, as at reporting date, the Company's correct LTV is 50%. The Company's current LTV (as at December 31, 2022) is 42.8%, a decrease of 1% compared to December 31, 2021.

Financial Challenges

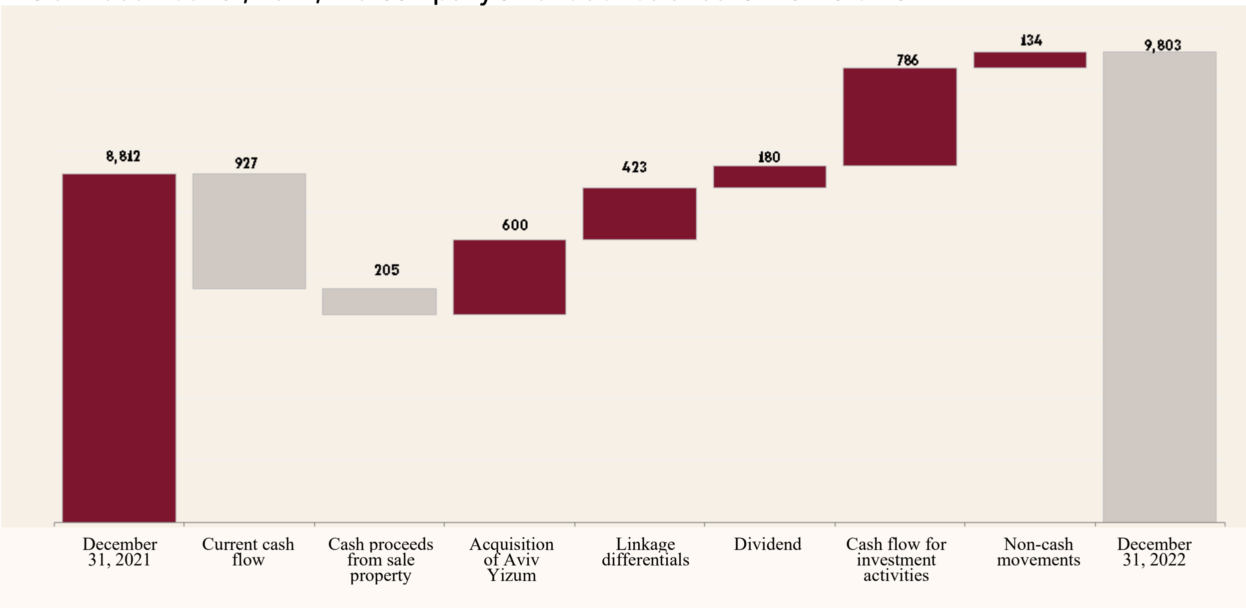
In recent years, the Company has managed to reduce its financing costs and extend the average duration of its debt. In the current market environment, in view of the increase in interest rates, the Company's ability to lower its financing costs has been significantly reduced.

As at reporting date, during the coming year (through to December 31, 2023) the Company is required to repay debt in the amount of NIS 1.18 billion (principal and interest).

As at December 31, 2022, the Company has a cash balance and portfolio of easily disposable financial assets totaling NIS 0.9 billion, and unused binding bank credit in the amount of NIS 400 million (NIS 500 million as at date of publication of this Report).

Change in financial debt, net (expanded consolidated)

As at December 31, 2022, the Company's net debt balance is NIS 9.8 billion.



Source of financing	Details	Average duration	Effective weighted linked interest	Debt principal repayment schedule (NIS million) 2023	2024	2025	2026	2027	2028	2029	2030	2031 and thereafter	Total nominal linked balance December 31, 2022
Bank	Bank[1]	1.13	5.10 %	-	642	-	-	-	-	-	-	-	642
	Other	0.88	6.29 %	7	7	-	-	-	-	-	-	-	14
Institutional lenders	Batch of loans	6.5	1.97 %	31	44	30	30	30	30	30	30	330	585
Public	Series F	0.76	3.81 %	148	-	-	-	-	-	-	-	-	148
	Series J	2.38	1.91 %	35	35	1,428	-	-	-	-	-	-	1,498
	Series K	2.36	2.51 %	33	33	1,348	-	-	-	-	-	-	1,414
	Series M	0.41	5.18 %	139	-	-	-	-	-	-	-	-	139
	Series N	3.10	1.49 %	31	31	31	1,263	-	-	-	-	-	1,356
	Series O①	1.69	3.50 %	235	695	-	-	-	-	-	-	-	930
	Series P	3.86	2.00 %	18	18	18	18	737	-	-	-	-	809
	Series Q	4.46	1.09 %	141	141	28	141	141	141	141	141	211	1,226
	Series R	5.06	0.79 %	9	9	9	9	9	366	-	-	-	411
	Series S	5.74	1.57 %	9	9	9	9	9	9	388	-	-	442
	Series T	6.53	0.79 %	60	60	30	30	30	30	30	1,164	-	1,434
Marketable Securities	Series 3	0.81	3.75 %	99	-	-	-	-	-	-	-	-	99
Total maturities		**3.59**	**2.05 %**	**995**	**1,724**	**2,931**	**1,500**	**956**	**576**	**589**	**1,335**	**541**	**11,147**
Of which, balloon payment secured by pledged assets				-	642②	1,428③	1,263④	737⑤	366⑥	388⑦	1,164⑧	285⑨	6,273
Value of the pledged asset				-	2,751	2,523	1,901	1,292	692	-	1,817	1,100	
LTV of the pledged asset				-	23%	72%⑩	66%	57%	53%	-	64%	26%	
Debt schedule (principal) less balloon payments secured by pledged assets and commercial paper				896	1,082	1,503	237	219	210	201	171	256	4,775

* Marketable securites is issued and/or signed credit facilities are utilized as a short-term interim measure until debt is raised from the public. As such, they were not included in the calculated duration and effective interest of the Group's gross financial debt, and were not included in the annual principal payments excluding balloon payments secured by pledged assets.

** Duration is skewed downward as a result of Bonds Series H, which was repaid in January 2022. Excluding Bond Series H, duration is 3.82 years.

[1] Loans from a bank and Bond Series O are not linked to the CPI.

[2] Balloon components on debts against which Ofer Ramat Aviv Mall was pledged.

[3] Balloon components on debts against which Ofer Hakiryon was pledged.

[4] Balloon components on debts against which Ofer Grand Mall Petah Tikva was pledged.

[5] Balloon components on debts against which Ofer Grand Be'er Sheva was pledged.

[6] Balloon components on debts against which the Company's share in Hutzot Hamifratz was pledged.

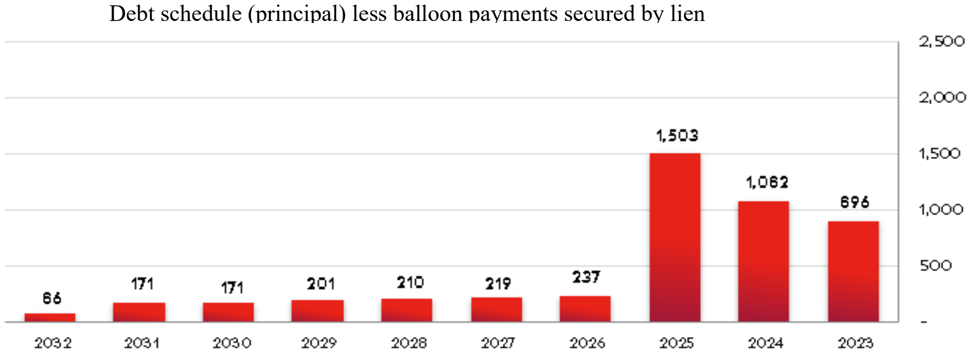
[7] Balloon components on debts against which a second-degree pledge was placed on Ofer Hakiryon.

[8] Balloon components on debts against which Ofer Grand Mall Haifa was pledged.

[9] Balloon components on debts against which Ofer Bilu Center and the shares of Azo-Rit Center Ltd., which holds the property, were pledged.

[10] The calculated LTV rate includes balloon components that are secured by a second degree lien on the Ofer Hakiryon Mall, are payable in 2029.

When settling the balloon payments – the Company may consider removing the pledge or using the pledge to refinance the debt.



Financing is one of the main factors of the Company's success. By diversifying its financing sources and maintaining a high level of liquidity, the Company was able to sustain its development momentum.

Total Blended Cost of Debt

Following is the effective weighted cost of debt (real interest charged to profit and loss) and the nominal cost of debt (cash flow interest) as of the date of the Financial Statements, for each year and over the period of maturity of Melisron's financial liabilities for that year.

	Debt schedule (principal), by year (in NIS millions)								
	2023	2024	2025	2026	2027	2028	2029	2030 onwards	Total
Total debt maturities	**896**	**1,724**	**2,931**	**1,500**	**956**	**576**	**589**	**1,876**	**11,048***
Effective interest (real)	**2.98%**	**3.67%**	**2.16%**	**1.45%**	**1.81%**	**0.93%**	**1.43%**	**1.19%**	**2.05%**
Nominal interest (cash flow interest)	**3.42%**	**3.74%**	**2.0%**	**2.11%**	**2.23%**	**1.10%**	**1.59%**	**1.47%**	**2.18%**
Expected interest savings (annual)**	**-**	**13**							

* Does not include commercial paper.

** Based on the yield to maturity of secured Debentures (Series T) as at March 9, 2023.

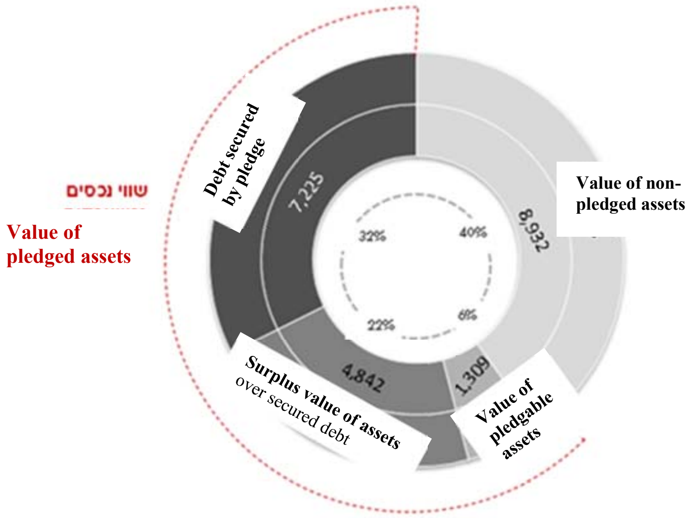
As can be seen, despite the increase in interest rates in Israel and worldwide, the effective weighted interest rate on the Company's debt maturities in 2023 and 2024 (amounting to NIS 2.6 billion) is 3.43%, compared to the yield to maturity of secured bonds currently trading at 2.89% (based on Melisron linked bonds (Series T - that are secured by a first-class lien), with duration of 6.5 years) and unsecured bonds at 2.99% (based on linked Melisron debentures (Series Q), with duration of 4.6 years), therefore, the Company estimates that in 2024 it still expects some savings in financing costs. If the long term interest rate continues to rise and the return on bonds increases accordingly, the Company may not benefit from such savings in financing costs and may even record an increase. Nonetheless, the Company believes that such increase won't undermine its financial stability.

It should be clarified that the Company's assessments concerning the effects of the rise in interest, including its assessment regarding the expected savings in financing costs, and the effects of the Company's financing costs in scenarios of increase in interest and return on bonds, including substantial effects on the Company and its financial stability, constitute forward-looking information as defined in the Securities Law, 1968, based on the Company's subjective assessments at reporting date and there is no certainty that they will materialize, in whole or in part, or they may materialize differently (including materially), among other things, due to factors that are not in the Company's control, including as noted in sections 6 (the financial environment and the effects of external factors on the Company's operations) and 31 (the discussion on the risk factors regarding the Company's operations) of the chapter on the description of the Company's businesses in the 2022 periodic report.

Real interest on financial debt, by year (Melisron's share)*

* Less real non-cash-flow financing expenses in respect of amortization of excess cost.

Value of pledged assets, by segment (Owners' share)



Loan to Value (LTV) of the Company's assets

	December 31				
	2022	2021	2020	2019	2018
	NIS millions				
Total Financial debt (consolidated)	11,198	11,934	10,744	10,746	10,282
Plus – Company's share in debts of equity-accounted investees	-	-	-	96	105
Less – non-controlling interests in the consolidated debt	(49)	(63)	(83)	(91)	(279)
Less – accounting differences	(38)	(101)	(82)	(137)	(92)
Total outstanding (expanded consolidated) financial debt	**11,111**	**11,770**	**10,579**	**10,614**	**10,016**
Less – balances (from expanded consolidated data):					
Cash	(554)	(1,065)	(970)	(994)	(247)
Deposit in trust for repayment of Bond Series H	-	(1,116)	-	-	-
Tradable financial assets	(325)	(355)	(326)	(315)	(279)
Financial assets backed by pledges	(429)	(422)	(391)	(397)	(405)
Company's share:					
In financial debt, net*	**9,803**	**8,812**	**8,892**	**8,908**	**9,085**
value of real estate, inventory of land under development and the investment in Aviv Yizum					
Value of real estate and inventory of land under development (expanded consolidated) **)	22,306	20,356	18,547	19,017	17,127
Investment in Aviv Yizum ***)	603	-	-	-	-
Total assets	**22,909**	**20,356**	**18,547**	**19,017**	**17,127**
LTV ratio	**42.8%**	**43.3%**	**47.9%**	**46.8%**	**53.0%**

* The financial debt shown in the above table is net of accounting differences that are included in the financial debt balances in the Company's balance sheet.

** Investment property shown in the above table includes the "Inventory of development real estate for the construction of apartments for sale."

***The investment in Aviv Yizum is presented as recorded in the books and not separately as per the various items in the table.

Explanation of changes in LTV ratio during the period:

Current cash flows generated by the Company during the reporting period in the amount of NIS 927 million, revaluation of investment real estate in the amount of NIS 1,224 million and the sale of a property that was offset by the CPI increase of 5.28% that led to a financial debt increase of NIS 423 million, investments in investment real estate, acquisition of Aviv Yizum and a dividend that was distributed.

The changes in LTV during the reporting period

LTV rate as at December 31, 2021	**43.3%**
Cash flow from current operations for the reporting period	(4.4%)
Sale of a property	(0.6%)
Revaluation of investment property	(2.5%)
Investment in investment property	2.4%
Investment in Aviv Yizum	1.6%
Increase in value of liabilities with respect to changes in the CPI	2.1%
Dividends paid	0.9%
LTV rate as at December 31, 2022	**42.8%**

Credit Rating

In February 2022, the Company's issuer rating was ratified, leaving the Company's rating as ilAA-\Stable. At the same time the rating of the Company's unsecured bond series was upgraded, thus it is the same as the rating for the secured bond series: ilAA.

In February 2023, the Company's issuer rating and rating of its secured and unsecured bond series were ratified.

Review of Our Performance Measures

NOI (Net Operating Income)

It is the opinion of the Company that NOI is one of the most important parameters for assessing the value of rental property. NOI is also used to measure the disposable cash flows available to service the financial debt assumed to finance the acquisition of a property, where the total NOI is calculated after deducting current maintenance expenses used to preserve the property's current condition. We stress that NOI:

(a) does not represent cash flows from operating activities according to GAAP;

(b) does not represent the cash used to finance all the Group's cash flows including its ability to distribute funds;

(c) does not constitute a substitute for net earnings when assessing the results of the Group's operations; and

(d) refers to all assets, including jointly controlled assets accounted on an equity basis in the Financial Statements.

<u>Development of Annual and Quarterly NOI (NIS millions)</u>

	Q4/2022	Q4/2021	2022	2021	Change from previous year
SP (same property) NOI	329	296	1,270	1,078	18%
NOI from newly built properties	2	-	5	-	
Total NOI for the period	**331**	**296**	**1,275**	**1,078**	**18%**
Non-controlling interests in NOI	(13)	(11)	(51)	(44)	
Owners' share in NOI for the period	**318**	**285**	**1,224**	**1,034**	**18%**

The owner's share in the NOI in 2022 amounted to NIS 1,224 million, an increase of 18% compared to last year. Last year the Company granted its tenants Covid concessions in an amount of NIS 104 million, and an increase in NOI was recorded as a result of the signing of new contracts with increase in rent in the amount of NIS 46 million and increase in CPI of NIS 40 million.

The owner's share in the NOI for the fourth quarter of 2022 amounted to NIS 318 million, an increase of 12% compared to last year. An increase in NOI was recorded as a result of the signing of new contracts with increase in rent and in CPI of NIS 30 million, an increase for newly built properties in the amount of NIS 2 million and Covid concessions that the Company granted to tenants, in the amount of NIS 2 million, in the corresponding quarter last year.

Development of Quarterly NOI (in NIS million):

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
SP (same property) NOI	**329**	**322**	**315**	**304**	**296**
NOI from new properties built	2	2	1	-	-
Non-controlling interests in NOI	(13)	(13)	(13)	(12)	(11)
Total NOI – Owners' share	**318**	**311**	**303**	**292**	**285**

Adjustment of NOI in the Reporting Period to the Gross Profit Presented in the Financial Statements (in NIS millions):

	January-December 2022	January-December 2021
Total NOI - Owners' share	1,224	1,034
Non-controlling interests in NOI	51	44
Share of equity-accounted investees and others	(35)	(27)
Gross profit presented in the Financial Statements	**1,240**	**1,051**

Funds From Operations (FFO)

To provide additional information on the Company's operating results, the following table presents information on Funds From Operations (FFO), which is a globally accepted measure and an appropriate basis for comparing rental property companies. The index was published by NAREIT (the US National Association of Real Estate Investment Trusts) and reflects net reported earnings less income and expenses from any increase/decline in the value of real estate, and non-recurring income and expenses, plus depreciation. The Company believes that in addition to the foregoing, deferred tax expenses in respect of previous years, and financing income or expenses in respect of the CPI linkage of financial assets and liabilities should also be deducted from FFO calculations.

It should be emphasized that the FFO index does not represent cash flows from current operations, does not reflect cash held by the Company and does not replace the reported net profit, in accordance with GAAP.

The Company believes that it is appropriate to analyze the elements that constitute FFO in a top-down manner in order to increase transparency and facilitate an understanding of the factors that affect FFO measures. For information regarding the FFO index, pursuant to the Security Authority guidelines, that amounts to NIS 491 million, see section 1 of Appendix A to this Report.

The FFO (management concept) for 2022 amounted to NIS 887 million (annual rate of NIS 904 million based on the fourth quarter of 2022) compared to NIS 723 million in the corresponding period in 2021, an increase of 23% that is mainly due to:

An increase in the owners' share of NOI in an amount of NIS 190 million, a decrease in real interest expenses of NIS 19 million that is offset by an increasing in administrative and general and marketing expenses, net of other operating loss of NIS 18 million, and tax expenses (including net of the index effects) of NIS 27 million.

In NIS millions	2022	2021	2020	2019
Total NOI – owners' share	1,224	1,034	779	1,096
Less — owners' share in:				
General and administrative expenses (less depreciation and share-based payment)	(65)	(51)	(53)	(55)
Marketing and branding expenses	(18)	(7)	(7)	(5)
Less – Losses from other operations	11	4	-	-
Real interest expenses on financial debt	(175)	(191)	(228)	(251)
Less — real financing expenses (non-cash-flow interest) in respect of amortization of excess cost	(3)	(6)	(9)	(11)
Current tax expenses	(60)	(39)	(28)	(54)
Less — index effects on provisions for current taxes*	(27)	(21)	7	(3)
Total real representative FFO according to the Management's approach	**887**	**723**	**461**	**717**
Change in the CPI in the period	+5.3%	+2.4%	-0.6%	+0.3%

In the fourth quarter of 2022, FFO totaled NIS 226 million (NIS 904 million annualized), compared to NIS 203 million in the corresponding quarter of 2021, reflecting an increase of 11%, which was mainly due to:

an increase of NIS 33 million in owners' share in NOI, offset by an increase in real non-cash financing expenses in the amount of NIS 3 million, and increase of NIS 3 million in general and administrative expenses, which were offset by an increase in current tax expenses (less index effects) in the amount of NIS 3 million.

In NIS millions	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Real representative FFO, according to the Management's approach	**226**	228	221	212	203

* When the CPI in the reporting periods declines/increases, financing expenses decline/increase as a result of financing income/expenses recorded as a by-product of the change in CPI (approx. 85% of the Company's financial debt is linked to the CPI), which causes an increase/decline in provisions for current taxes. The index effect on current taxes is a temporary event that is expected to reverse and therefore the Company generally presents FFO after controlling for this effect.

Capital Expenditure (CAPEX)

To provide additional information on the results of its operations, the Company presents information on the CAPEX measure, which is a globally accepted measure that constitutes an appropriate basis for comparing rental property companies. According to its definition, this measure reflects the cost of the Company's funds used to acquire or upgrade operating equipment and systems and rental properties.

These costs do not include expenses in respect of maintenance of its properties and operating systems, which are recorded as part of the NOI.

CAPEX includes:

- Costs incurred to extend and improve the lifetime of a property and/or its operating systems
- Acquisitions of new systems and equipment that are necessary for the proper operation of the property
- Renovations or expansions to existing rental property buildings
- Adjustments to leased properties.

In 2022, the Company's CAPEX (Company's share) totaled approx. NIS 58 million (0.3% of its asset value), of which approx. NIS 49 million is attributable to commercial uses and approx. NIS 9 million is attributable to office uses.

	For the year 2022	Notes
Cash flows used in investments in investment property (consolidated)	**708**	
Plus – investments in property of equity method investees	5	
Less – share of non-controlling interests in investments	(12)	
Cash flows used in investments in investment property (expanded consolidated)	**701**	
Less:		
Continued investments in real estate projects under construction	337	Mainly includes: Sarona, Buildings C and D in Ofer Park Petah Tikva East, Building C in Ofer Hacarmel.
Purchases of land	161	including: Lincoln Street, Yavne, Kanot Junction and a plot next to Ofer Carmel.
Betterment and development levies that were paid	60	
Expansion and upgrades made in the existing income producing properties with regard to which additional NOI applies	82	The expansions in the income producing properties include, among others, the renovation of the Ofer Ramat Aviv Mall, the deep changes in the store mix at the Ofer Kiryon Mall, and upgrades at the Ofer Bilu Center parking lots, among others,
Participation in tenants' renovation, classified as incentives pursuant to IFRS-16	3	The Company implements IFRS-16 according to which the share of investments granted as incentives to lessees is depreciated over the lease period using the straight-line method.
Total CAPEX – Company's share	**58**	
Attributable to office uses	9	
Attributable to commercial uses	49	

Weighted Capitalization Rate (Cap Rate)

Following is the unaudited calculation of Melisron's cap rate based on Melisron's total rental properties as of December 31, 2022:

Owners' share (expanded consolidated)	(in NIS millions)
Carrying amount of investment property*	22,233
Less — value attributable to vacant areas	(258)
Less — value attributable to projects under construction and rights	(2,633)
Net value attributable to investment property	19,342
Effective NOI cash flow in Q4/2022	318
Grossed up annual effective NOI cash flow in Q4/2022	1,272
Expected additional NOI in respect of investment property**	71
Normalized expected NOI cash flow ***	1,343
Normalized NOI cash flow to net value attributable to investment property rate ****	**6.95%**

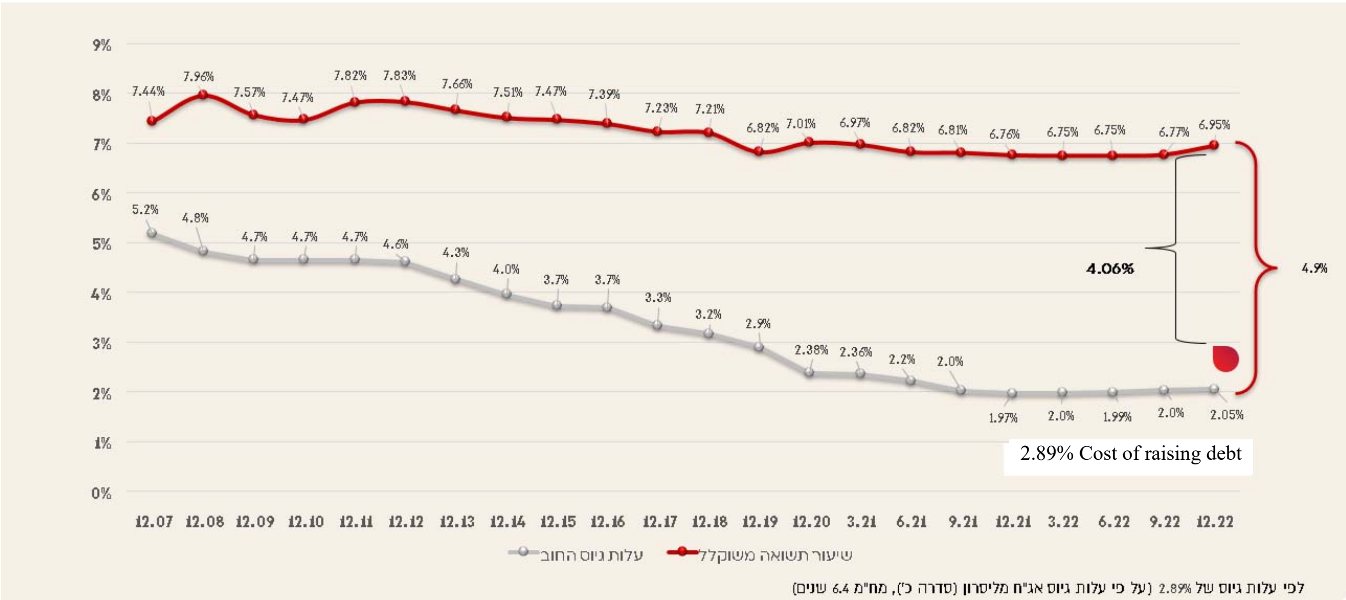
* Including assets of jointly held equity-accounted investees.

** Additional NOI reflects additional rentals based on signed rental agreements and the full contribution of expansions and/or projects under development completed in the period. Expected additional NOI does not include expected NOI in respect of vacant areas pending marketing, or expected NOI in respect of completion of projects under construction and projects under development that were completed during the period. Primarily includes: Signed contracts regarding the deep store mix in the Ofer Kiryon mall, signed contracts for Ofer Carmel Building C, signed contracts regarding Buildings C and D in the Ofer Petach Tikva mall and expected increases in the coming year due to signed contracts..

*** Expected normalized NOI does not constitute the Company's forecast for the year 2023.

****For information concerning the cap rate increase in the quarter see section A in the chapter on the main developments in the operating segments in and subsequent to the reporting period on page 36 of this Directors' Report

Margin between the Melisron's Cap Rate and Weighted Cost of Debt



Cost of raising debt   Weighted rate of return

At 2.89% cost of raising debt (according to cost of raising Melisron debentures (Series T). Average duration 6.4 years

The above graph shows that the margin between the Company's weighted rate of return on its investment property and its weighted cost of debt increased over time. While the Company's weighted financing costs declined dramatically over time, the weighted cap rate for the Company's properties remained stable.

* It should be noted that 85% of the Company's financial debt is linked to the CPI.

** The current yield to maturity of real estate-backed bonds (based on Series T, average duration of approx. 6.40 years).

Financial Review of the Company's Results

The Company's Financial Statements are drafted according to IFRS. Earnings after tax of jointly controlled companies are presented as a single item in the Company's share in equity-accounted investees, net, and the net investments in these investees are presented in the balance sheet in investments in equity-accounted investees. The Company analyzes its business performance according to its relative share in the assets and liabilities that it manages, that is to say, by consolidating its relative share in its jointly controlled companies (as of Q3 2022, including 50% of Aviv Yizum).

Profit and loss (in NIS millions)

	For the year 2022			For the year 2021		
	Consolidated (Audited)	Plus, jointly controlled companies, less non-controlling interests	Expanded consolidated	Consolidated (Audited)	Plus, jointly controlled companies, less non-controlling interests	Expanded consolidated
Gross profit from property rental	1,240	(17)	1,223	1,051	(16)	1,035
Gross income from sale of apartments and others	-	10	10	-	-	-
Total gross income	**1,240**	**(7)**	**1,233**	**1,051**	**(16)**	**1,035**
General and administrative expenses	(76)	(5)	(81)	(61)	(1)	(62)
Advertising, sales and marketing expenses	(18)	(6)	(24)	(7)	-	(7)
Operating income before other income	**1,146**	**(18)**	**1,128**	**983**	**(17)**	**966**
Company's share in earnings of equity-accounted investees, net	89	(89)	-	84	(85)	(1)
Increase in fair value of investment property, net	1,224	57	1,281	1,327	31	1,358
Other income (expenses), net	(19)	-	(19)	3	-	3
Operating profit after other income	**2,440**	**(50)**	**2,390**	**2,397**	**(71)**	**2,326**
Financing expenses, net	(639)	14	(625)	(397)	10	(387)
Profit before taxes on income	**1,801**	**(36)**	**1,765**	**2,000**	**(61)**	**1,939**
Taxes on income	(359)	(15)	(374)	(459)	(7)	(466)
Profit for the period	**1,442**	**(51)**	**1,391**	**1,541**	**(68)**	**1,473**
Profit attributed to non-controlling interests	(51)	51	-	(68)	68	-
Profit for the period - Owners' share	**1,391**	**-**	**1,391**	**1,473**	**-**	**1,473**

Changes in Owners' profit (loss) compared with previous year	(NIS millions)
Attributable to Jan-Dec 2021	**1,473**
Increase in gross profit from property rental and apartment sales	198
Increase in general and administrative, and marketing expenses	(36)
Decrease in appreciation of fair value of investment property	(77)
Increase in other expenses	(21)
Increase in financing expenses, net	(238)
Decrease in tax expenses on income	92
Attributable to Jan-Dec 2022	**1,391**

Increase in gross profit from rental properties - in the amount of NIS 198 million is mainly due to temporary Covid concessions granted to tenants in the corresponding period last year, that amounted to NIS 104 million, from an increase in rents due to an increase in real rent and CPI increase in the period which contributed NIS 86 million, and profit from the sale of apartments (the Company's share in Aviv Yizum less amortization of the original difference attributed to the purchase).

Net increase in administrative and general, and marketing expenses - in the amount of NIS 36 million is mainly due to Grouper and Aviv Yizum advertising, sales and marketing expenses (Grouper was consolidated for the first time on June 30, 2021 and Aviv Yizum was consolidated in pro rata consolidation for the first time on July 1, 2022).

Reduction in the increase in value of investment property - an increase in value of NIS 1,281 million was recorded in the period, mainly as a result of the effects of the CPI increase in the period of NIS 926 million, real increase in NOI of certain properties and progress in the marketing and construction of properties under constructions and occupancy, offset by the temporary increase in discounting rate that lowered the valuation by NIS 536 million.

Net increase in financing expenses - in the amount of NIS 238 million is mainly due to an increase in linkage differentials on the Company's debt in the amount of NIS 218 million as a result of the CPI increase in the period and a decrease in income from securities and deposits in an amount of NIS 56 million offset by a decrease in real interest expenses of NIS 38 million.

Decrease in income tax expenses - in the amount of NIS 92 million is mainly a result of a decrease in deferred taxes in the amount of NIS 100 million, mainly due to a decrease in the increase in value of the Company's assets, and utilization of deferred tax assets recorded in the past, a decrease in the tax expenses item for previous years (in the corresponding period expenses of an amount of NIS 51 million were recorded in this item) offset by an increase in current tax expenses in an amount of NIS 27 million for the increase in current income.

Exposure to inflation - all the Company's lease agreements with tenants are linked to the CPI and 85% of the Company's loans are linked to this index. When the CPI increases, the Company's revenues are expected to increase at similar rates, while on the other hand, the Company's financing expenses also increase. The increase in income causes (due to other effects) a corresponding increase in the value of the properties, while on the other hand the CPI linked loan balance also increases. Accordingly, the Company believes that as at reporting date, the hedging against inflation as inherent in the rental contracts, as aforesaid, is effective and therefore the Company's exposure in this regard is not high.

It should be clarified that the Company's assessments concerning its exposure to inflation, including due to the inherent hedging in the rent contracts, constitute forward-looking information as defined in the Securities Law, -1968, based on the Company's subjective assessments at reporting date and there is no certainty that they will materialize, in whole or in part, or they may materialize differently (including materially), among other things, due to factors that are not in the Company's control, including as noted in sections 6 (the financial environment and the effects of external factors on the Company's operations) and 31 (the discussion on the risk factors regarding the Company's operations) of the chapter on the description of the Company's businesses in the 2022 periodic report.

Financial Position (NIS million)	As at December 31, 2022			As at December 31, 2021		
	Consolidated	Plus, jointly controlled companies, less non-controlling interests	Expanded consolidated	Consolidated	Plus, jointly controlled companies, less non-controlling interests	Expanded consolidated
Cash and cash equivalents	543	181	724	1,058	7	1,065
Restricted cash	-	49	49	-	-	-
Short-term financial assets	325	-	325	355	-	355
Short-term loans and deposits	10	-	10	1,137	-	1,137
Trade receivables	35	56	91	43	-	43
Other receivables deferred expenses	47	15	62	29	(1)	28
Inventory of development real estate for the construction of apartments for sale	76	212	288	53	-	53
Group of assets classified as held for sale	-	8	8	200	-	200
Total current assets	**1,036**	**521**	**1,557**	**2,875**	**6**	**2,881**
Long-term loans and trade payables	165	258	423	159	259	418
Investments in equity-accounted investees	1,185	(1,183)	2	509	(509)	-
Intangible assets and goodwill	598	220	818	595	-	595
Long term inventory	-	96	96			
Long-term financial assets and other assets	66	-	66	12	-	12
Fixed assets	9	1	10	10	-	10
Investment property	22,462	(229)	22,233	20,379	(276)	20,103
Total non-current assets	**24,485**	**(837)**	**23,648**	**21,664**	**(526)**	**21,138**
Total assets	**25,521**	**(316)**	**25,205**	**24,539**	**(520)**	**24,019**
Liabilities to banking corporations and others	149	10	159	982	(62)	920
Current maturities of debentures	859	-	859	1,755	-	1,755
Trade payables and service providers	275	-	275	145	(5)	140
Other payables	157	35	192	194	-	194
Customer advance payments on sale of apartments	-	70	70	-	-	-
Provisions for taxes	122	1	123	124	-	124
Total current liabilities	**1,562**	**116**	**1,678**	**3,200**	**(67)**	**3,133**
Debentures	8,984	-	8,984	9,169	-	9,169

Financial Position (NIS million)	As at December 31, 2022				As at December 31, 2021		
Liabilities to banking corporations and others	1,206	17	1,223		27	-	27
Deferred taxes	3,268	35	3,303		2,984	(17)	2,967
Liabilities in respect of employee benefits, net	3	-	3		2	-	2
Other liabilities and provisions	130	2	132		56	(1)	55
Total non-current liabilities	**13,591**	**54**	**13,644**		**12,238**	**(18)**	**12,220**
Equity attributable to Company's shareholders	9,882	-	9,882		8,666	-	8,666
Non-controlling interests	486	(486)	-		435	(435)	-
Total equity	**10,368**	**(486)**	**9,882**		**9,101**	**(435)**	**8,666**
Total equity and liabilities	**25,521**	**(316)**	**25,205**		**24,539**	**(520)**	**24,019**
EPRA NAV			**13,185**				**11,633**
EPRA NAV per share (NIS)	**277**						**245**

Explanations regarding material changes (expanded consolidated) during the year:
Since July 1, 2022 50% of Aviv Yizum was consolidated by pro rata consolidation for the first time, which affected many items.

Trade receivables - most of the increase is due to the first time consolidation of Aviv Yizum in the amount of NIS 58 million.

Inventory of development real estate for the construction of apartments for sale - most of the increase is due to the first time consolidation of Aviv Yizum in the amount of NIS 212 million.

Intangible assets and goodwill - most of the increase is due to intangible assets and goodwill generated from the acquisition of Aviv Yizum, in the amount of NIS 220 million.

Investment property- The value of investment property as of December 31, 2022 was approx. NIS 22.2 billion (Melisron's effective share), representing an increase of approx. NIS 2.1 billion from its value as of December 31, 2021. The increase stems mainly from the appreciation of NIS 1,281 millionas mainly resulting of the effect of the CPI increase in the period, the real increase in NOI of certain properties, and progress made in marketing and development of projects under construction, as well as from investments in assets and properties under construction in an amount of NIS 548 million and the purchase of new properties in an amount of NIS 161 million.

Financial debt, net (debt less cash and short-term financial assets) – the net financial debt as at December 31, 2022 amounted to NIS 9.8 billion, an increase of NIS 991 million compared to December 31, 2021. The increase is mainly due to the acquisition of Aviv Yizum, investment in existing real estate, purchase of new real estate and increase in CPI that is offset by an increase in cash originating from current cash flows and proceeds from the disposal of real estate.

Trade and other payables - most of the increase is due to the first time consolidation of Aviv Yizum in the amount of NIS 35 million.

Advance payments from customers for the sale of apartments - most of the increase is due to the first time consolidation of Aviv Yizum in the amount of NIS 70 million.

Reserve for deferred taxes - the balance of the reserve for deferred taxes as at December 31, 2022, amounted to NIS 3.3 billion (the Company's share), an increase of NIS 336 million compared to December 31, 2021. The increase is mainly due to deferred taxes resulting from the increase in value of investment real estate.

Liquidity and Financing Sources

Net cash flow from ongoing operating activities

Cash flows generated from operating activities amounted to NIS 927 million, compared with NIS 734 million in the corresponding period in the prior year. The increase is due to an increase in operating income in the amount of NIS 163 million that resulted mainly from the Covid concessions granted to tenants in the corresponding period last year and from an increase in rents due to the increase in real rent and index increase, a decrease in net interest payments of NIS 45 million, offset by an increase in net tax payments of NIS 19 million.

Cash flows used in investing activities

Cash flows used for investment activities in the period amounted to NIS 1,183 million, compared with cash flows of NIS 543 million used for investment activities in the previous year. Cash flows used in investing activities in the reporting period included mainly the investment in Aviv Yizum in an amount of NIS 600 million, the investment in investment property and investment property under construction in the amount of NIS 490 million, the purchase of land in an amount of NIS 161 million, payment of development and betterment levies and taxes in an amount of NIS 90 million, payables with respect to investment property in the amount of NIS 50 million, investment in fixed and intangible assets in an amount of NIS 22 million, offset by proceeds from the disposal of investment property in an amount of NIS 205 million, and repayment of loans to equity accounted investees in an amount of NIS 23 million. In the corresponding period last year, most of the cash flows used in investment activities in the reporting period included mainly investment in investment property and investment property under construction in the amount of NIS 392 million, the cancellation of the sale (partial) of the Nahariya Mall in an amount of NIS 67 million, payment for the compensation component in an amount of NIS 53 million, acquisition of a first time consolidated company in an amount of NIS 42 million, investment in fixed and intangible assets in an amount of NIS 7 million and long term loans in an amount of NIS 5 million, offset by the repayment of loans to equity accounted investees in the amount of NIS 18 million.

Cash flows used in financing activities

Cash flows used for investment activities in the period amounted to NIS 259 million, compared with cash flows of NIS 100 million used for investment activities in the previous year. The significant components of the cash flows used in financing activities in the reporting period include mainly redemption of debentures and settlement of loans to banks and others in the amount of NIS 915 million, and the distribution of a dividend in the amount of NIS 180 million, offset by a loan received from other financing corporations and the issue of debentures in the amount of NIS 839 million. The significant components of the cash flows used in financing activities in the corresponding period last year included mainly redemption of debentures and settlement of loans to banks and others in the amount of NIS 697 million, the repayment of short term loans in an amount of NIS 301 million and a dividend distributed to non-controlling interests in an amount of NIS 3 million, offset by net proceeds from the issue of debentures in an amount of NIS 902 million (excluding the issue of Debentures (Series T) in the amount of NIS 1.1 billion that was recorded under financing and investment activities that do not involve cash flows).

Liquidity risk

As at December 31, 2022, the Company had a working capital deficit in the amount of NIS 526 million, compared with a working capital deficit of NIS 325 million at December 31, 2021. The deficit is mainly due to current maturities of debentures and marketable securities in the amount of NIS 99 million.

Below is information regarding unpledged real estate properties as of the date of the Report:

Unpledged investment property	NIS 8.9 billion
Unpledged investment property to total investment property	40%
Secured debt to investment property	32%
Secured debt to pledged investment property (Pledged Properties LTV)*	60%

*The Company has additional real estate valued at approx. NIS 1.3 billion that is pledged against unutilized credit facilities (including the aforementioned balance, Pledged Properties LTV is approx. 53%).

In view of the above, and after the Board of Directors reviewed, among other things, the sources for settling the Company's existing and expected liabilities, with emphasis on settling the liabilities that the Company is obligated to repay in the two-year period beginning from December 31, 2022, the Company's sources of credit and unutilized credit facilities, the cash flows from operating activities that the Company generates, and in view of the scope of its unpledged assets, the Board of Directors believes that the Company has no liquidity problem despite the working capital deficit of NIS 526 million (consolidated) as of December 31, 2022. Furthermore, the Company's Board of Directors believes that there is no reasonable concern that the Company will not settle its existing and expected liabilities when they are due.

Borrower group

The Company and its investees may be restricted under the Proper Banking Practice Directives issued by the Supervisor of Banks, including by, among other things, restrictions on the volume of loans that an Israeli bank can provide to a "single borrower", a "borrower group" and to the six largest borrowers and largest borrower group of the bank (as these terms are defined in the foregoing directives). The Company, its investees and its controlling shareholder (including some of their affiliates and/or direct or indirect family members) are defined as a single "borrower group" for the purposes of the Proper Banking Practice Directives.

Following the acquisition of 50% of Aviv Yizum, the scope of the Company's credit from Israeli banks was added to the total credit of the borrower group that the Company belongs to, which accordingly affected the credit available to the companies of this borrower group, from certain banks in Israel or on the Company's ability to invest in companies that have taken loans from the same banks. The Company adopted required measures to comply with the Bank of Israel requirements to recognize the separation of the Company from certain companies included in the foregoing borrower group so that as at reporting period, such separation was recognized by the Bank of Israel and subsequently the restriction on the scope of credit available to the Company's borrower group does not effectively restrict the Company's operations as at reporting date.

Main Developments in the Operating Segments in and after the Reporting Period

A. Valuations as at December 31, 2022:

The value of the Company as at December 31, 2022, as in every year, was revised by evaluations of its properties conducted by external appraisers. The evaluations included adjustment of the representative NOI of the properties based on the current lease data and the Company's forecast regarding the terms of the rental contracts. The change in NOI was mainly due to the revision of the rental contracts signed during the period and updates regarding the CPI effect on the rental income. Furthermore, the fair value of projects under construction was revised, mainly due to the progress made in marketing them (signing of rental contracts). In addition, the appraisers expressed the current market risks (increased interest rates, inflation and the risk of entering a recession) by increase the discounting rate for representative incoming proceeds for a fixed period until expected return to normal operations, which is equivalent to an increase in the basic discounting rate for commercial rental income of 0.25%

The Company recorded in its financial statements for 2022 a net increase in value of investment real estate in the amount of NIS 1,190 million.

B. Disposal of Investment Property:

During the reporting period a wholly owned subsidiary of the Company closed a transaction for the sale of its rights in the Ofer Lev Ashdod Mall (excluding its rights in the residential complexes on the land) for proceeds of NIS 237 million with the addition of VAT, for further information see Note 34 to the financial statements as at December 31, 2022.

C. Purchase of land:

1. In April 2022, a wholly owned subsidiary of the Company purchased a 9,000 sq.m plot of land located adjacent to the Ofer Carmel Park, that will be used for expansion of the Park, for consideration of NIS 36 million.
2. In June 2022, the Company engaged in an agreement with M. Yohananoff & Sons (1988) Ltd. for the acquisition of and partnership in the development, planning and execution of a project for the construction of an open commercial center that will include commercial

and office uses, of an area of 24,000 sq.m in Yavne. Under the agreement the Company acquired 70% of the leasing rights in the land on which the project will be constructed for an amount of NIS 47 million (so that, subsequent to the transaction the Company holds 70% of the ownership rights in the land).

3. In June 2022, a wholly owned subsidiary of the Company purchased a 16,500 sq.m plot of land for NIS 29 million in the Kanot Junction area. In November 2022, an agreement was signed for the purchase of another 4,000 sq.m adjacent to the plot, for NIS 5 million. The land is part of an overall complex zoned for agriculture and is in the process of obtaining approval of a detailed Urban Building Plan by the local Council, with the agreement of the district committee, for rezoning for industry, logistics and offices. After rezoning, the Company expects that it will be able to build a logistics center on the land that will serve as an income producing property of the Company[2].
4. In October 2022, the Company engaged in an agreement with a party that is not affiliated with the Company, for the purchase of a 4,500 sq.m plot of land on Lincoln Street in Tel Aviv on which an old building is currently situated, that is used for commercial and office space above basement levels, for consideration of NIS 298 million, with duly added VAT.
   The approved building rights allow for the construction of a 17,500 sq.m rental office block (above 6 basement floors) and the Company intends to act to increase the building rights. By the balance sheet date, the Company had paid NIS 45 million and taxes in an amount of NIS 17.5 million, and subsequent to balance sheet date, the Company paid the rest of the payments.

D. Acquisition of 50% of the shares of Aviv Real Estate Development and Management Ltd.:

In May 2022, the Company engaged in an agreement with Aviv & Co. Group Real Estate 1963 Ltd. (the "Seller") and a wholly owned company of the Seller, Aviv Real Estate Development and Management Ltd. ("Aviv Yizum") to acquire 50% of the share capital of Aviv Yizum (a company that operates in the development and construction of residential real estate and urban renewal). Upon completing the transaction in July, 2022, Aviv Yizum allotted to the Company, and the Seller sold to the Company, shares of Aviv Yizum constituting 50% of Aviv Yizum's share capital, for total consideration of NIS 600 million (of which NIS 146 million was paid to the Seller for the purchased shares and NIS 454 million was paid to Aviv Yizum for the allotted shares), reflecting (before payment and before deducting Aviv Yizum's debt to the Seller, in an amount of NIS 90 million, which was repaid once the transaction was completed) Aviv Yizum company value of NIS 836 million.

The investment in Aviv Yizum is presented in the Company's books according to the equity accounted method, as of the third quarter of 2022. For further information see page 24 of this Directors' Report.

E. Loans from an institutional entity:

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[2] The Company's estimates and plans concerning the land purchased in the Kanot Junction area constitute forward looking information, as defined in the Securities Law, 1968. The Company's foregoing estimates and plans may not materialize, in whole or in part, or may materialize differently to expected, even substantially, due to, among other things, factors or effects that cannot be estimated in advance and/or are not in the Company's control, including, among others, failure of the rezoning process and/or factors and risks that are not in the Company's control.

In July 2022, Bilu Center Azo-Rit Ltd. ("Bilu Center"), which is 72% held (indirectly) by the Company through the subsidiary, Shopping Center (Azo-Rit) Ltd., 100% held by the Company ("Shopping Centers"), engaged in an agreement with an institutional entity for provision of loans amount to NIS 175 million, that will be used to repay existing loans of Bilu Center that as at June 30, 2022, amounted to NIS 222 million. The loans are secured by a lien on the Company's rights in the Ofer Bilu Center open outlet complex and by Shopping Centers and the Company's guarantees.

The foregoing loans are linked to the CPI and bear annual interest of 1.77% - 1.89%. The loan principal and interest are repayable in 40 installments as follows: The loan principal will be repaid in 39 equal installments of 1.43% each that will be paid each quarter as of October 14, 2022, through April 14, 2032 (inclusive), with a final principal payment of 44% to be repaid on July 14, 2032. The interest on the loans will be paid once per quarter as of October 14, 2022 through July 14, 2032, on the same dates.

In August 2022, the same institutional entity provided the Company with a credit line of NIS 400 million. This line of credit is additional credit to the foregoing debt of NIS 175 million taken for Bilu Center as aforesaid.

In August 2022, the foregoing line of credit was utilized for a loan in the amount of NIS 400 million for a term of 10 years. The loan is secured by a first degree lien on the holdings of Shopping Centers in Bilu Center stock, which also holds 50% of the rights in the Ofer Hagiva Mall, and by guarantees provided by Shopping Centers. For further information, see Note 19B to the financial statements of the Company as at December 31, 2022.

F. Renewal of the employment contract of the CEO:

In September 2022, the general meeting of shareholders of the Company approved (after approval by the compensation committee and board of directors) extending the term of office of the Company's CEO, Ophir Sarid, for a further term of three (3) years as of November 1, 2022.

In November 2022, the Company CEO was granted 79,095 options, after obtaining approval of the Tel Aviv Stock Exchange Ltd. ("TASE"), following approval by the general meeting of the shareholders of the Company as aforesaid.

For further information see section 12 of the chapter on the description of the corporation's businesses in this quarterly report and Note 22C to the Company's financial statements as at December 31, 2022.

G. Dividend announced

In August 2022, the Company board of directors announced the distribution of a dividend in the amount of NIS 120 million. The dividend was paid on September 5, 2022. For further information, see the immediate report issued by the Company on August 15, 2022 (Ref. No.: 2022-01-083517), presented here by way of reference.

In November 2022, the Company board of directors announced the distribution of a dividend in the amount of NIS 60 million. The dividend was paid on December 12, 2022. For further information see the immediate report issued by the Company together with this Report, the details of which are noted here by way of reference.

In March 2023, the Company announced the distribution of a dividend in the amount of NIS 260 million (including a one-time dividend of NIS 200 million). The dividend will be paid on April 14, 2023. For further information see the immediate report issued by the Company together with this Report, the details of which are noted here by way of reference.

H. Expansion of Debentures

In November 2022, the Company issued as part of a private offering to classified investors, pursuant to the First Schedule of the Securities Law, 1968, NIS 287 million par value debentures (Series T) by way of expansion of an existing debenture series. The issue was at a price of NIS 0.92 per NIS 1 par value Debenture (Series T), for total proceeds (gross) of NIS 264 million and at effective interest of 2.32%.

I. Agreements for the purchase of electricity

Subsequent to the balance sheet date, the Company engaged in two separate agreements for the provision of most of the power consumption in its properties from renewable energy sources and is eligible to acquire an International Renewable Energy Certificate 205, from Doral Power from Nature Ltd. ("Doral") and a wholly owned partnership of Shikun & Binui Energy Ltd ("Shikun Energy"). Under these agreements the Company will purchase, gradually starting from January 2024, power estimated (to date, subject to actual consumption and linked to the generation component as set from time to time by the Electricity Authority) at a total cost (for both agreements together) of NIS 100 million per year, for a period of 10 years. The agreements include generally accepted terms and mechanisms for agreements of this type, and including, termination of the agreements upon occurrence of generally accepted events, including in the event of material changes (as defined in the agreements) of the generation component that will be set from time to time by the Electricity Authority (the "Green Energy Consumption Agreements").

J. Expiry of employee options

On March 12, 2023, subsequent to balance sheet date, the Company's board of directors approved (after obtaining the approval of the remuneration committee) allotment of 163,027 options (non-negotiable) convertible for Company shares, to 6 officers (who are not directors or CEO) and 30 additional managers and employees of the Company, as part of a plan for employees. For further information, see the plan for employees issued by the Company together with the publication of this Report. The allotment is subject, among other things, to obtaining the TASE approval for listing the exercised shares deriving from the exercise of the options for trading, which is yet to be obtained as at date of publication of the Report.

1. Corporate Governance

1.1. Appointment of directors

a) On April 27, 2022, the special general meeting of shareholders of the Company approved the appointment of Ms. Rinat Gazit to a third term of office as an external director of the Company, commencing from the end of her second term in office (i.e. For a three year term beginning on May 26, 2022) and the appointment of Mr. Shlomo Zohar to a second term of office as an external director of the Company from the end of his first term in office (i.e. For a three year term beginning on May 6, 2022). For further information see the immediate report issued by the Company on March 14, 2022, concerning the convening of a general meeting of shareholders (Ref. No.: 2022-01-029410) and immediate report dated April 27, 2022 regarding the results of the general meeting (Ref.No.: 2022-01-051763), presented here by way of reference.

b) For further information concerning the appointment of Ms. Dorit Salinger as an independent director and Mr. Roi Azar as a director of the Company, see immediate reports issued by the Company on August 15, 2022 (Ref. Nos.: 2022-01-083520 and 2022-01-083523, respectively) noted in this report by way of reference.

1.2. Termination of office of directors:

For further information concerning the termination of office of independent directors, the late Mr. Avshalom Mussler and Ms. Segi Eitan, see immediate reports issued by the Company on July 21, 2022 (Ref. Nos.: 2022-01-077055) and on June 7, 2022 (2022-01-057924, respectively) noted hereby by way of reference.

1.3. Directors with accounting and financial expertise

According to Section 92(a)(12) of the Companies Law 1999 ("the Companies Law"), the Company's Board of Directors decided that the minimum number of directors with accounting and financial expertise is two directors, taking into consideration the Company's type, size, and the scope and complexity of its operations, among other things. As at the date of the report, six directors with accounting and financial expertise serve on the board (Shuki Oren, Shlomo Sharf, Rinat Gazit, Shlomo Zohar, Dorit Salinger, and Yitzhak Nudri Zizov). For information on the experience and education of these directors, see Section 15 of the Additional Information Chapter of this Periodic Report in the Company's period report for 2022 published on March 13, 2023 (Ref. No.:), presented here by way of reference.

The qualifications and positions of the board members noted above give them the skills and understanding that allow them to achieve an in-depth understanding of the Company's Financial Statements and introduce on the Board of Directors' agenda issues and questions related to the Company's financial reports.

1.4. Independent directors

As of the publication date of this Report, the Company's by-laws do not include the provision in the Companies Law concerning appointment of independent directors, as this term is defined in the Companies Law. It should be noted that in practice, five directors who meet the criteria of an independent director serve on the Board of Directors (and who include the three external directors who serve on the Company's board).

1.5. Nomination Committee for new external directors

Following the corporate governance study conducted on the Company by Entropy Corporate Governance Consulting Ltd., the Company adopted a policy on the composition of the Board of Directors and the manner of selecting external directors for the Company and decided to establish the Nomination Committee, which is a sub-committee comprising four directors, in which decision making is based on an independent majority (two external directors and one independent director) and which will be responsible for examining potential candidates' suitability for service as new external directors in the Company.

1.6. Internal auditor

Internal auditor: CPA Yisrael Gewirtz

Beginning of service: Fahn Kanne & Co. (February 21, 2010), Mr. Yisrael Gewirtz on behalf of Fahn Kanne (August 14, 2022)

Qualifications: CPA

The internal auditor meets the conditions defined in Sections 3(a) and 8 of the Internal Audit Law 5752-1992 (hereinafter, "the Internal Audit Law") and Section 146(b) of the Companies Law 5759-1999.
The internal auditor does not hold securities of the Company or of any entity related to the Company.
The internal auditor has no material business or other connections with the Company or any entity related to the Company.
Mr. Gewirtz is not an employee of the Company. He renders internal auditing services to the Company as an outside supplier. Mr. Gewirtz also provides consulting services to the Company, through Fahn Kanne Control Management Ltd. (in which he serves as the CEO) concerning the examination and implementation of processes related to the internal control of the Company's financial reports ("ISOX").

In August 2022, the auditing firm, Fahn Kanne & Co ("Fahn Kanne"), which provides the Company with internal auditing services, gave notice of the classification of Mr. Yisrael Gewirtz, a partner at Fahn Kanne that has provided the Company's actual internal auditing services for many years, as the Company's internal auditor, replacing Mr. Yossi Ginosar, the CEO of Fahn Kanne. It is clarified that the foregoing change does not constitute a change of the internal auditor of the Company which remains Fahn Kanne & Co. (through the partner, Mr. Yisrael Gewirtz).
Until August 14, 2022, Fahn Kanne classified Yossi Ginosar, CPA, as the internal auditor of the Company (pursuant to the decisions of the audit committee and board of directors of the Company on February 16, 2010 and February 21, 2010).
As aforesaid, as of August 14, 2022, CPA Gewirtz is classified as the internal auditor of the Company. Mr. Yisrael Gewirtz was chosen for the position, among other things, in view of his

qualifications and vast internal auditing experience, and after Mr. Gewirtz declared that he meets all the qualifications required by law to fill the position of internal auditor, and taking into account the Company's type and size, and the scope and complexity of its operations.

Identity of the organizational officer in charge of the internal auditor: The Chair of the Board of Directors is in charge of the internal auditor.

Work plan: The Company's internal auditor works according to a multi-annual work plan that was approved by the Company's Audit Committee.

Considerations in determining the Company's current and multi-annual audit plan: The internal auditor recommended an annual and multi-annual audit plan based on a study of control risks. The plan was then approved by the Audit Committee and the Board of Directors. The multi-annual plan is based on performing audits in all the divisions of the Company and its subsidiaries once every several years, according to priorities determined by the Company Management and the internal auditor. The work plan grants the internal auditor discretion to modify the audited topics subject to a formal approval of the Audit Committee.

The number of hours is determined according to the requirements of the approved multi-annual audit and accordingly, the budget is adjusted every year in order to meet the multi-annual work plan.

Scope of employment: The internal auditor was employed for 1,400 hours in the reporting year.

Professional standards used by the internal auditor in performing the audit: On his own notice, the auditor reported that the audit in the reporting period was conducted according to the generally accepted professional standards for internal audits, as defined in Section 4(B) to the Internal Audit Law.

The internal auditor was given documents and information as he requested, as stated in Section 9 of the Internal Audit Law, and was also given continuous and unmediated access to the Company's information systems, including its financial data.

The dates on which written reports of the internal auditor's findings were submitted to the chair of the Board of Directors and the Chair of the Audit Committee, and the dates on which a discussion was held by the Audit Committee on the findings of the internal audit: Written reports of the findings of the Company's internal auditor were presented to the Company's Management on a regular basis throughout the reporting period.

Subsequent to the audit reports were submitted to the Company Management and the Company Management expressed its opinion, discussions were held by the Audit Committee on the topics of the reports and the conclusions emerging from them. The internal auditor's written reports were submitted to the Audit Committee as follows:

Report and topic	Sent to the Company	Reviewed by the Audit Committee
Nof HaGalil Mall	February 2022	March 2022
Implementation of the 2021 recommendations regarding the issue of work safety (engineering department)	February 2022	March 2022
Donations	February 2022	March 2022
Implementation of the Securities Law enforcement program	April 2022	May 2022
Ofer Park Yokne'am	April 2022	May 2022
Ofer Park Carmel	April 2022	May 2022
Risk Survey 2022	July 2022	August 2022
Summary of findings of 2016-2021 audit reports of properties	July 2022	August 2022
Ofer Ramat Aviv	August 2022	November 2022
Grouper	August 2022	November 2022

Scope, nature, and continuity of the internal auditor's activities and work plan: It is the opinion of the Board of Directors that the nature and continuity of the internal auditor's work and plan are reasonable and appropriate for achieving the purpose of the internal audit.

Scope of the internal auditor's remuneration: In consideration for the services rendered by the internal auditor to the Company in 2022, the Company paid the internal auditor approx. NIS 350 thousand. It should be noted that the internal auditor's fees are a function of the number of hours of his work as defined by the Audit Committee, and therefore may change according to changes in the number of hours of work. The Company's Board of Directors believes that the remuneration granted to the internal auditor is acceptable and does not affect the internal auditor's professional judgment.

1.7. Disclosure on the auditors' fees

The auditor of the Company is the firm of Deloitte Brightman Almagor and Co.
Below is information on the auditors' fees in Melisron (and its subsidiaries):

	2022	2021
Auditing, services related to auditing and tax services(1) (2) (in NIS thousands)	1,505	1,340
Other services (in NIS thousands)	-	5
Total (in NIS thousands)	1,505	1,345

[1] The fee includes the Company's share in the payment to Deloitte by Aviv Yizum for the period commencing July 1, 2022.

[2] In 2021 and 2020, the Company paid other accountants in the subsidiaries NIS 38 thousand each year (Melisron's share).

The auditors' fee is a function of the number of auditing hours performed. The auditors' fee is approved by the Company Board of Directors, after the Balance Sheet Committee discusses the scope of the auditors' work and fee and the adequacy of the auditors' qualifications for performing the Company's audit.

1.8. Procedure for classifying and approving related-party transactions

With regard to the classification and approval of the transactions of the Company (and of its subsidiaries) with the controlling shareholder of the Company or in which the controlling shareholder has a personal interest, or with an officer of the Company or in which such officer has a personal interest, for the purpose of classifying and approving such transactions as extraordinary transactions and for the purpose of classifying them as negligible transactions, see section 2 of the chapter on additional information about the Company in Chapter D of the Company's periodic report as at December 31, 2022.

1.9. Matters related to the delineation of operations

On March 8, 2023 and March 12, 2023, subsequent to reporting date, the Company's audit committee and board of directors, respectively, approved, subject to the approval of the general meeting of shareholders of the Company, which is expected to convene shortly after the date of publication of the Report, a restricted operations arrangement between the Company and Ms. Liora Ofer, Chairman of the Company's board of directors and the controlling shareholder of Ofer Investments, valid for three (3) years from date of approval, under which Ms. Liora Ofer undertakes that, so long as she is classified as the controlling shareholder of the Company and serves simultaneously as an officer of the Company, she (and her relatives (as defined in the Companies Law) if any of them also serve as officers of the Company) will refrain, and will exercise her powers of control in private companies under her control (and including Ofer Investments, and for the avoidance of any doubt, the corporations under the control of the Company, directly or indirectly) in order for them to refrain from carrying out any new transaction in restricted operations, other than transactions and operations defined as extraordinary, unless subject to granting first right of offer to the Company to exercise them and carry them out itself, and all as set out in the restricted operations arrangement.

The Company is expected to issue a report of convening of a general meeting shortly after publication of this Report, pursuant to the dates set by law

1.10. Donations

The Company's policy with regard to donations has been set for an amount that will not exceed 0.5% of its net profit. Since the beginning of 2022 through to date of publication of this Report, Melisron has donated an amount of NIS 1 million.

2. Financial Reporting

2.1. Critical accounting estimates

Preparing the Company's Financial Statements according to IFRS requires that Management prepares estimates and makes assumptions that affect the amounts presented in the Financial Statements.

These estimates occasionally require judgments regarding uncertain environments and have a material impact on the presentation of the data in the Financial Statements.

Below is a description of the critical accounting estimates used in preparing the Company's Financial Statements, in the development of which the Company Management was required to make assumptions about circumstances and events and entail a significant degree of uncertainty. In using its judgment to determine the estimates, the Company Management relies on past experience, various facts, external factors, and reasonable assumptions, in view of the appropriate circumstances for each estimate. Actual results may differ from Management's estimates.

Investment property – The Company assesses the value of most of its investment property on a quarterly basis. The generally accepted approach to estimating the value of investment property is the income approach, and the appropriate discounting rate is determined on the basis of the specific risk factors of the evaluated property.

Assessment of risk factors takes into account environmental factors, property classification (offices or commercial), location, competition, demand, expected taxes and levies, building plans, etc. Management is also required to assess expected revenues, occupancy rates in the property, etc. These estimates are based on approved budgets drafted by the Company Management and which rely, among other things, on agreements signed with tenants and the Company's past experience in managing and holding investment property. The Company Management reviews these estimates on a quarterly basis.

See information on external evaluations performed by the Company on properties defined as very material properties, and attached to this Report as an appendix. These estimates were supplemented by assumptions that affect the PPA, as determined in the valuations by experts regarding the allotment for the acquisition of 50% of Aviv Yizum as set out in Note 10 to the financial statements and valuation of impairment of goodwill as at December 31, 2022, as set out in Note 11 to the Company's financial statements as at December 31, 2022.

2.2. Information on valuations

The following investment property evaluations are attached to this Periodic Report: Ofer Ramat Aviv Mall and Ofer Hakiryon, which were classified as very material evaluations according to Legal Opinion No. 105-23: "Parameters for reviewing materiality of valuations." For information on these properties, which are classified as very material properties according to the proposed amendment to the Securities Regulations "Guidelines for Anchoring a Disclosure Related to Investment Property Operations," see paragraph 13.1 and

13.2, respectively, of the Description of the Company's Business, Chapter A of this Report. Furthermore, according to the Company's obligations according to several of its bond indenture (Series M) and according to Legal Opinion No. 103-29 "Findings related to adequacy of disclosure on guarantees and/or pledges granted by reporting corporations to secure repayment of debt instruments," evaluations of Ofer Grand Mall Haifa, Ofer Grand Mall Petah Tikva, Ofer Mall Rehovot, Hutzot Hamifratz, and Ofer Grand Mall Be'er Sheva are attached to this Periodic Report. For the disclosure of valuations pursuant to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, see Sections 11.1 (for Park Ofer Petah Tikva West)), 11.2 (for Ofer Bilu Outlet Center), 12 (Landmark Tel Aviv), 13.1 (for Ofer Mall Ramat Aviv), 13.2 (for Ofer Hakiryon), 14.1 (Ofer Grand Mall Haifa), 14.2 (Ofer Grand Mall Petah Tikva), 14.3 (Ofer Grand Mall Be'er Sheva), 14.4 (for Hutzot Hamifratz, Haifa) and 15 (for Ofer Rehovot Mall) of the Description of the Company's Business chapter, Chapter A of this Periodic Report.

2.3. Events after the date of the statement of financial position

See Note 36 to the Financial Statements as of December 31, 2022.

We wish to thank the Company's Management and employees for their significant contribution and devoted work.

Liora Ofer	Ophir Sarid
Chair of Board of Directors	CEO

Today: March 12, 2023

APPENDIXES

Appendix A – Detailed supplemental tables

Appendix B – Specific disclosure to bondholders: Melisron

Appendix C – Details of Aviv Yizum Projects

Appendix A – Detailed Supplemental Tables

Expanded consolidated profit or loss statement (in NIS millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021	For the year ended December 31, 2020
Revenue from rentals and others	1,725	1,402	1,095
Maintenance and operating costs	492	367	317
Gross profit	**1,233**	**1,035**	**778**
Marketing and advertising expenses	(24)	(7)	(7)
General and administrative expenses	(81)	(62)	(58)
Operating profit before other revenues (expenses)	**1,128**	**966**	**713**
Company's share in losses of equity-accounted investees, net	-	(1)	-
Increase (Decrease) in fair value of investment property, net	1,281	1,358	(738)
Other revenues (expenses) net	(19)	3	(10)
Profit (Loss) from ordinary activities after other revenues (expenses)	2,390	2,326	(35)
Financing expenses	(658)	(440)	(250)
Financing income	33	53	27
Profit (Loss) before taxes on revenues	**1,765**	**1,939**	**(258)**
Income from taxes on income (Tax expenses on income)	(374)	(466)	8
Profit (Loss) for the year	**1,391**	**1,473**	**(250)**

Debt schedule of expanded consolidated financial debt, net

Below are the Company's (expanded consolidated) liabilities due for payment after December 31, 2022 (in NIS million):

	Bonds	Loans from banks and financial institutions	Less non-controlling interests in consolidated loans	Marketable securities and short-term loans	Loans against collateral	Total
Current maturities	858	50	(3)	99	(20)	984
Second year	1,031	693	(3)	-	(151)	1,570
Third year	2,901	30	(3)	-	-	2,928
Fourth year	1,470	30	(3)	-	-	1,497
Fifth year and onward	3,546	452	(37)	-	(258)	3,703
Total maturities	**9,806**	**1,255**	**(49)**	**99**	**(429)**	**10,682**
Balance of premium						38
Total expanded consolidated financial debt, gross*						**10,720**

* Does not include the Company's share in Aviv Yizum loans amounting to NIS 77 million.

Funds From Operations (FFO) according to ISA guidelines

To provide additional information on operating performance, information is presented below on Funds From Operations (FFO), which is a measure that is accepted globally and constitutes a basis for comparing investment property companies. The industry index is published by NAREIT (the US National Association of Real Estate Investment Trusts) and reflects net reported earnings less income and expenses from any increase/decline in the value of real estate, and non-recurring income and expenses, plus depreciation. The Company Management believes that deferred tax expenses, tax expenses in respect of previous years, and financing expenses or income in respect of an increase or decline in the value of financial assets and liabilities should also be deducted from FFO calculations, in addition to the above.

It should be stressed that FFO does not represent cash flows from operating activities, does not reflect the cash in the Company's hand, and does not replace net earnings reported according to GAAP.

In NIS million	2022	2021	2020
Net profit (loss) for the period	**1,442**	**1,541**	**(243)**
<u>Adjustments</u>:			
Less – adjustment to fair value	(1,224)	(1,327)	741
Less – depreciation and amortization	8	5	2
Less – other (non-cash flow) financing income	30	(22)	(12)
Benefit in respect of employee option plan	5	6	4
Less – financing expenses not related to the financial debt	(6)	1	42
Less – profits of jointly controlled companies	(89)	(84)	(2)
Less – other expenses (income)	19	(3)	10
Less – loss from other operations	11	4	-
Less – deferred taxes, taxes in respect of previous years, and capital gains tax	301	422	(33)
FFO jointly controlled companies	28	23	20
Less – non-controlling interests in FFO	(34)	(27)	(21)
Total nominal FFO attributable to shareholders according to the ISA	**491**	**539**	**508**
Linkage differences in respect of financial assets and liabilities	423	205	(54)
Total real FFO according to Management's approach	**914**	**744**	**454**
Less –index effects on provisions for current taxes*	(27)	(21)	7
Total representative real FFO according to Management's approach (less inflationary effects on taxes)	**887**	**723**	**461**
Change in the CPI in the reporting period	**5.3%**	**2.4%**	**(0.6%)**

* When the CPI in the reporting periods declines/increases, financing expenses decline/increase as a result of financing income/expenses recorded from a change in the CPI (approx. 85% of the Company's financial debt is linked to the CPI), which causes an increase/decline in provisions for current taxes. The index effect on current taxes is a temporary event that is expected to reverse and therefore the Company typically presents FFO after controlling for this effect.

Appendix B – Specific Disclosure to Bondholders: Melisron

Series	Rating company	Rating at issue	Rating at reporting date	Total par value at issue date (including expansions and swaps) in NIS thousands	Type of interest	Nominal interest rate	Effective interest rate at issue date	Listed for trade on the TASE (Yes/No)	Dates of interest payments	Nominal par value December 31, 2022 in NIS millions	CPI-linked nominal par value December 31, 2022 in NIS millions	Carrying amount December 31, 2022 in NIS millions	Interest payable December 31, 2022 in NIS millions	Market value December 31, 2022 in NIS millions	Materiality
Bonds F 9/10/2011 expansions: 10/01/2012 11/01/2012 2/05/2013 15/06/2014 31/03/2015	Maalot	AA	AA	1,060,073	Fixed	4.9%	1.3%-5.1%	Yes	Fixed semi-annual interest 10/4 and 10/10 in 2012-2023	133	148	149	2	154	Not material
Bonds J 31/03/2015 Exchanges: 28/01/2017 23/10/2017 Expansions: 24/02/2019 16/04/2020	Maalot	A+	AA	1,528,817	Fixed	1.76%	1.33%-2.29%	Yes	Fixed semi-annual interest on 10/1, 10/7 in 2016-2025	1,367	1,498	1,493	12	1,477*	Material
Bonds K 31/03/2015 Expansions: 19/04/2016 12/01/2017 08/06/2017	Maalot	A+	AA	1,469,530	Fixed	2.3%	2.19%-2.82%	Yes	Fixed semi-annual interest 10/1, 10/7 in 2016-2025	1,290	1,414	1,408	15	1,404*	Material
Bonds M 05/05/2016	Maalot	AA-	AA	1,765,784	Fixed	5.85%	5.18%	Yes	Fixed semi-annual interest 30/5 and 30/11 in 2016-2023 (single payment in 2023 on 30/5)	119	139	139	1	143	Not material

* Market value takes into account the ex-day prior to balance sheet date and therefore is lower that the carrying amount.

Series	Rating company	Rating at issue and at reporting date		Total par value at issue date (including expansions and exchanges) in NIS thousands	Type of interest	Nominal interest rate	Effective interest rate at issue date	Listed for trade on the TASE Yes/No	Dates of interest payments	Nominal par value December 31, 2022 in NIS millions	CPI-linked nominal par value December 31, 2022 in NIS millions	Carrying amount December 31, 2022 in NIS millions	Interest payable December 31, 2022 in NIS millions	Market value December 31, 2022 in NIS millions	Materiality
		at issue	at reporting date												
Bonds N 19/04/2016 Exchanges: 05/03/2018 11/04/2018 Expansion: 30/10/2019 16/04/2020	Maalot	AA-	AA	1,370,403	Fixed	2.15%	0.52%-2.29%	Yes	Fixed semi-annual interest 27/4 and 27/10 in 2016-2026 (2016 – single payment on 27/10, and in 2026 single payment on 27/4)	1,235	1,356	1,383	5	1,360	Material
Bonds O 19/04/2016 Expansions: 12/01/2017 08/06/2017	Maalot	AA-	AA	1,062,425	Fixed	3.5%	3.15%-3.79%	Yes	Fixed semi-annual interest on 30/6 and 30/12 in 2016-2024 (in 2016 single payment on 30/12)	930	930	931	-	915	Not material
Bonds P 12/01/2017 Exchange: 05/03/2018 Expansion: 06/09/2018	Maalot	AA-	AA	827,516	Fixed	2.35%	1.69%-2.49%	Yes	Fixed semi-annual interest on 01/4 and 01/10 in 2017-2027	743	810	821	5	820	Not material
Bonds Q 06/03/2018 Expansion: 30/10/2019 01/03/2021 21/04/2021	Maalot	AA-	AA-	1,221,743	Fixed	2.25%	0.75%-2.38%	Yes	See notes to Appendix B below	1,122	1,226	1,287	14	1,136*	Material
Bonds R 03/03/2020	Maalot	AA	AA	400,000	Fixed	0.65%	0.79%	Yes	Fixed semi-annual interest on 01/01 and 01/07 2020-2028 (2020 – payment only on 01/07)	380	409	406	1	372*	Not material
Bonds S 18/08/2020	Maalot	AA	AA	428,000	Fixed	1.43%	1.57%	Yes	Fixed semi-annual interest on 01/01 and 01/07 2021-2029	411	443	440	3	409*	Not material
Bonds T 17/08/2021 01/11/2022	Maalot	AA	AA	1,398,495	Fixed	0.25%	0.38%-2.32%	Yes	Fixed semi-annual interest on 01/01 and 01/07 2022-2030 (2030 – payment on 01/01 only)	1,354	1,433	1,386	2	1,210*	Material

* Market value takes into account the ex-day prior to balance sheet date and therefore is lower that the carrying amount.

Notes to Appendix B:

1. Series F debt principal - 2.5% on October 10, 2014 and October 10, 2015, 7.5% on October 10, 2016, and the balance is repaid in 7 equal installments of 12.5% each payable on October 10 of the years 2017-2023.
2. On January 1, 2022, Series H was redeemed in full.
3. Series J and K debt principal - 20 installments as follows: 19 equal installments of 1% of the debt principal each, payable semi-annually, on January 10 and July 10, beginning on January 10, 2016 and ending on January 10, 2025 (inclusive). The balance of the principal (81%) is payable in a single installment on July 10, 2025.
4. Series M - 15 installments as follows: 14 equal semi-annual installments of 6.66% each, payable semi-annually on November 30 and May 30 in each of the years 2016 to 2022 (inclusive), and an additional payment equal to 6.76% payable on May 30, 2023.
5. Series N – 20 installments as follows: 19 equal installments of 1% each of the debt principal payable semi-annually on April 27 and October 27, from October 27, 2016 to October 27, 2025 (inclusive) and the final principal payment equal to 81% of the debt principal is payable on April 27, 2026.
6. Series O - 19 installments as follows: 17 equal installments of 1% each of the debt principal payable semi-annually on June 30 and December 30, from December 30, 2016 to December 30, 2024 (inclusive), where the first principal payment is payable on December 30, 2016; an additional payment equal to 20% of the debt principal payable on December 30, 2023; and an additional payment equal to 63% of the debt principle payable on December 30, 2024.
7. Series P - 21 installments as follows: 20 equal installments of 1% each of the debt principal payable semi-annually on April 1 and October 1, beginning on April 1, 2017 and ending on April 1, 2027 (inclusive). The balance of the principal (80%) is payable in a single installment on April 1, 2027.

8. Series Q – 27 unequal installments payable semi-annually on January 1 and July 1, as set forth in the following schedule of principal installments:

Principal payment date (January and July)	Proportion of principal (semi-annually)
In 2019	1.5%
In 2020	1.0%
In 2021-2022	2.0%
In 2023-2024	5.0%
In 2025	1.0%
In 2026-2032 (in 2032, a single installment only on January 1	5.0%

Interest on the bonds is payable semi-annually on January 1, and July 1, beginning on July 1, 2018, and ending on January 1, 2032 (inclusive).

9. Series R - 17 installments as follows: 16 equal installments of 1% each of the debt principal payable semi-annually on January 1 and July 1, beginning on July 1, 2020 and ending on January 1, 2028 (inclusive). The balance of the principal (84%) is payable in a single installment on July 1, 2028.

10. Series S - 18 installments as follows: 17 equal installments of 1% each of the debt principal payable semi-annually on January 1 and July 1, beginning on July 1, 2021 and ending on January 1, 2029 (inclusive). The balance of the principal (83%) is payable in a single installment on July 1, 2029.

11. Series T – 18 installments as follows: 6 equal installments of 2% each of the principal payable semi-annually on January 1 and July 1, beginning from January 1, 2022 and ending on January 1, 2024 (inclusive), 11 equal installments of 1% of the principal are payables semi-annually on January 1 and July 1, beginning on January 1, 2025 and ending on January 1, 2030 (inclusive). The balance of the principal (77%) is payable in a single installment on July 1, 2030.

12. For information on the right to make early repayment of Bond Series F, see paragraph 7 of the bond indenture (Series F) attached as Appendix 2 to the chapter on bond indentures in the Company's Periodic Report for the Year 2014.

13. For information on the right to make early repayment of Bond Series J, see paragraph 7 of the bond indenture (Series J) attached as Appendix A to the shelf offer report dated March 30, 2015 (Ref. no. 2015-01-066691).

14. For information on the right to make early repayment of Bond Series K, see paragraph 8 of the bond indenture (Series K) attached as Appendix B to the shelf offer report dated March 30, 2015 (Ref. no. 2015-01-066691). For information on an undertaking to refrain from registering a floating pledge on the Company's assets, see paragraph 5.5 to said indenture.
15. For information on the right to make early repayment of Bond Series M, see paragraph 8 of the bond indenture (Series M) attached as Appendix B to the shelf offer report dated May 4, 2016 (Ref. no. 2016-01-059503).
16. For information required under the Company's bond indenture (Series M) regarding the inter-company bonds that replaced Bond Series C of British and was signed between the Company and British, see Note 5 to the separate financial information for December 31, 2021.
17. For information on the right to make early repayment of Bond Series N, see paragraph 7 of the bond indenture (Series N) attached as Appendix A to the shelf offer report dated April 18, 2016 (Ref. no. 2016-01-050488).
18. For information on the right to make early repayment of Bonds Series O, see paragraph 8 of the bond indenture (Series O) attached as Appendix B to the shelf offer report dated April 18, 2016 (Ref. no. 2016-01-050488). For information on an undertaking to refrain from registering a floating pledge on the Company's assets, see paragraph 5.5 to said indenture.
19. For information on the right to make early repayment of Bond Series P, see paragraph 7 of the bond indenture (Series P) attached as Appendix A to the shelf offer report dated January 11, 2017 (Ref. no. 2017-01-005040).
20. For information on the right to make early repayment of Bond Series Q, see paragraph 9 of the bond indenture (Series Q) attached as Appendix A to the shelf offer report dated March 4, 2018 (Ref. no. 2018-01-017334).
21. For information on the right to make early repayment of Bond Series R, see paragraph 7 of the bond indenture (Series R) attached as Appendix A to the shelf offer report dated March 1, 2020 (as amended on March 1, 2020 and March 3, 2020 (Ref. nos. 2020-01-017572, 2020-01-017623, and 2020-01-017860, respectively).
22. For information on the right to make early repayment of Bond Series S, see paragraph 7 of the bond indenture (Series S) attached as Appendix A to the shelf offer report dated August 15, 2020 (Ref. no. 2020-01-079504).
23. For information on the right to make early repayment of Bond Series T, see paragraph 7 of the bond indenture (Series T) attached as Appendix A to the shelf offer report dated August 15, 2021 (Ref. no. 2020-01-065470).

24. The trustee of bonds (Series F, J, M, N, P, R, S, and T) – Reznick Paz Nevo Trusts Ltd. The person in charge of the series is Attorney Michal Avatalyon-Rishoni. Tel: 03-6389200, Fax: 03-6389222, michal@rpn.co.il. Mailing address: 14 Yad Harutzim, Tel Aviv, 67778.

25. The trustee of bonds (Series K, O, and Q) – Hermetic Trusts (1975) Ltd. The contact person is Attorney Dan Avnoni. Tel: 03-5274867, hermetic@hermetic.co.il. Mailing address: 113 Hayarkon Street, Tel Aviv, POB 3524 Tel Aviv 61034.

26. As at the date of this Report and in the reporting period, the Company was in compliance with all the conditions and covenants according to the Company's bond indentures, and at the date of this Periodic Report there are no conditions that provide grounds for calling the bonds for immediate payment.

27. The Company was not required by the trustees of the Company's bond series to perform any action with respect to the bonds in the reporting period.

28. As at the approval date of the Financial Statements, all the unsecured bonds of the Company, and its real estate-backed bonds are rated ilAA. For further information see the immediate report dated February 28, 2022 (Ref. No. 2022-01-024553), whereby the information contained therein is noted here by way of reference. The Company's Bond Series K, M, O, and Q are not secured.

29. To secure Bond Series F, the Company pledged approx. 121 million shares of British Israel Investments Ltd ("British") of NIS 1 par value each, including all the rights stemming from and related to them. The number of pledged shares is a function of the remaining principal of Bond Series F, the shareholders' equity of British, and the number of issued shares of British. For information on the mechanism of the collateral for Bond Series F, see paragraph 6 of the bond indenture (Series F) attached as Appendix 2 to the chapter on bond indentures in the Company's Periodic Report for the Year 2014. Pursuant to the provisions of law and the Company's undertakings under the bond indenture (Series L and M), the Financial Statements of British as of December 31, 2022 are published concurrently with this Report. The collateral value as of December 31, 2022 — was 2.8%, and immediately before the publication of this Report, that is on March 7, 2022 — was 2.8%. The issued share capital of British immediately before the publication of this Report is 170,268,320 ordinary shares of NIS 1 par value each.

30. To secure Bond Series J, a second-degree pledge was registered on the Company's rights in Hakiryon complex in Kiryat Bialik (after final redemption of Series E as stated above, the charge became a first-degree pledge), including the accruals and insurance benefits stemming from these rights. For information on the value of the Hakiryon complex, see updated appraisal that is published concurrently with this Report. For

information on the mechanism of the collateral for Bond Series J, see paragraph 6 of the bond indenture (Series J) attached as Appendix A to the Company's shelf offer report published on March 30, 2015 (Ref. no. 2015-01-066961).

31. To secure Bond Series M, British gave an autonomous unconditional guarantee (with the exception of the conditions in the letters of guarantee), unlimited in amount, irrevocable with the exception of changes on the same terms that changes may be made to the Company's indentures for bond (Series M), as relevant, to secure performance of all the Company' obligations to bondholders (Series M), as relevant. In addition, a single first-degree charge, unlimited in amount, was registered in favor of each of the trustees of bondholders (Series M) on all the Company's rights under inter-corporate bonds between it and British, in which British is obligated to the Company under Bond Series C of British (which were delisted from the TASE), as relevant. For additional information, on the mechanism of the collateral for Bond Series M, see paragraph 6 of each of the bond indenture (Series M), as relevant, attached as Appendix B to the shelf offer report dated May 4, 2016 (Ref. no. 2016-01-059503).

32. To secure Bond Series N, a first-degree charge unlimited in amount was registered on the entire rights of Avnat Ltd (a wholly owned subsidiary of the Company) in Ofer Grand Mall Petah Tikva, including the adjacent tower (hereinafter jointly, "the Mall"), including the right to accruals and insurance benefits in respect of the Mall..

33. To secure Bond Series P, a first-degree charge was registered on the ownership rights of M.L.A. in real estate attributable to Ofer Grand Mall Be'er Sheva including M.L.A.'s right to accruals and insurance benefits in respect of the pledged property. For additional information, on the mechanism of the collateral for Bond Series P, see paragraph 6 of the bond indenture (Series P), attached as Appendix A to the shelf offer report published by the Company on January 11, 2017 (Ref. no. 2017-01-005040).

34. To secure Bond Series R, Hutzot Hamifratz Ltd (in which the Company holds 50%; "the Mortgagor") registered a pledge on 50% of the undivided rights in Hutzot Hamifratz (defined in the bond indenture), including 50% of the Mortgagor's rights to receive insurance benefits and 50% of the Mortgagor's rights to receive accruals from Hutzot Hamifratz (including lease agreements) including accruals from the sale of additional existing or future rights in Hutzot Hamifratz and/or any pledgeable properties that are added as collateral and/or that replace Hutzot Hamifratz, at the time. For additional information, on the mechanism of the collateral for Bond Series R, see paragraph 6 of the bond indenture (Series R), attached as Appendix A to the shelf offer report published by the Company on March 1, 2020 (as amended on March 1, 2020 and March 3, 2020) (Ref. nos. 2020-01-017572, 2020-01-017623, 2020-01-017860, respectively).

35. To secure Bond Series S, a second-degree pledge was registered on the Company's rights in Hakiryon complex including the sub-complexes: Hakiryon Mall, Bialik City, the

gas station, and Hakiryon Towers located in Kiryat Bialik. For additional information on the mechanism of the collateral for Bond Series S, see paragraph 6 of the bond indenture (Series S), attached as Appendix A to the shelf offer report published by the Company on August 16, 2020 (Ref. no. 2020-01-079504).

36. To secure bonds (Series T), a caveat and commitment to register a mortgage were registered, and the Company registered a first-degree pledge on the accruals, insurance benefits, and rights to register as owners of the Haifa Grand Mall Complex that is wholly owned by the Company. For additional information on the mechanism of the collateral for Bond Series T, see paragraph 6 of the bond indenture (Series T), attached as Appendix A to the shelf offer report published by the Company on August 15, 2021 (Ref. no. 2021-01-065470).

37. The collateral to secure the Company's bonds, described above, is valid by law and according to the Company's incorporation documents.

38. Following is information on the Company's compliance with financial covenants according to the provisions of the indentures of the bonds listed above. It should be noted that as of the date of this Report, the Company is in compliance will all the following financial covenants:

Series	Financial covenant	Test date – December 31, 2022	Test date – September 30, 2022
Bonds Series J, Series K, Series M, Series N, Series O, Series P, Series Q, Series R, Series S, Series T	According to the most recent consolidated financial statements, the Company's shareholders' equity does not fall below NIS 2.5-NIS 2.9 billion (for the relevant series) for two consecutive calendar quarters or more. For this purpose, shareholders' equity is the Company's shareholders' equity according to its consolidated balance sheet, including non-controlling interests.	Shareholders' equity – NIS 10.4 billion	Shareholders' equity – NIS 10 billion
Bonds Series K, Series M, Series O, Series P, Series Q, Series R, Series S, Series T	The Company's equity ratio including non-controlling interests, according to the most recent consolidated financial statements, plus net deferred tax liabilities, does not fall below 20%-23% (according to the relevant series) of the Company's balance sheet according to the most recent consolidated financial statements for two consecutive calendar quarters or more. For this purpose, total balance sheet means the Company's total balance sheet less cash, cash equivalents, and tradable securities.	Equity ratio – 55%	Equity ratio – 55%
Bond Series M	The ratio between total liabilities and total assets (LTV) of British (as these terms are defined in paragraph 5.5.3 of the bond indentures Series M), according to the most recent reviewed or audited financial statements that were published as relevant, will not exceed 55%.	0.8%	0.9%

For the information required under the bond indenture (Series M) of the Company regarding the inter-corporate bonds that replaced Bond Series C of British and that was signed between the Company and British, see Note 5 to the report on separate financial information for December 31, 2021, Chapter C to this Periodic Report.

39. Bond Series F is linked (principal and interest) to the CPI published in respect of August 2011.

40. Bond Series J and Series K are linked (principal and interest) to the CPI published in respect of February 2015.

41. Bond Series M is linked (principal and interest) to the CPI published in respect of November 2009.

42. Bond Series N is linked (principal and interest) to the CPI published in respect of February 2016.

43. Bond Series O is unlinked (principal and interest).

44. Bond Series P is linked (principal and interest) to the CPI published in respect of November 2016.

45. Bond Series Q is linked (principal and interest) to the CPI published in respect of January 2018.

46. Bond Series R is linked (principal and interest) to the CPI published in respect of January 2020.

47. Bond Series S is linked (principal and interest) to the CPI published in respect of July 2020.

48. Bond Series T is linked (principal and interest to the CPI published in respect of July 2021.

Appendix C - Details of Aviv Yizum Projects

Projects under construction

Project	Company's effective share in the project	Date of commencement of construction	Estimated date of completion of construction	Total number of units under construction	Total number of units for marketing in the project	Total number of residential apartments sold	Percentage of engineering completion (%)	Total expected income from the project (NIS million)	Total expected costs (NIS million)	Total expected gross profit (NIS million)	Expected surplus balance upon completion, including equity invested in the project (NIS million)	Equity invested in the project	Gross profit recognized by December 31, 2022
Aviv in Achimeyer	85%	November 2019	March 2023	64	64	64	91%	640	533	107	172	89	45
Aviv in Haumah residences	51%	December 2018	Phase A July 2022 Phase B March 2023	266	254	207	Phase A - 100% Phase B - 94%	617	494	123	174	80	59
Aviv in Henkin Street Tel Aviv	51%	December 2020	August 2023	30	15	15	84%	98	75	23	28	11	15
Aviv in Hanetzach Street Ramat Hasharon	60%	June 2021	July 2023	28	16	15	76%	61	53	8	14	8	4
Aviv in pods	80%	April 2022	July 2025	111	74	57	3%	212	180	32	48	24	-
Total				499	423	358		1,628	1,335	293	436	212	123
Total Aviv share				311	260	222		1,115	919	196	296	146	78

Projects in planning

Project	Company's effective share in the project	Commencement of the construction	Percentage of tenants that have signed contracts	Planning status	Total number of existing apartments building	Total number of apartments in building after construction	Total number of apartments designated for sale	Total expected income from the project (NIS million)	Total expected costs (NIS million)	Total expected gross profit (NIS million)
Reading, Tel Aviv.	85%	2023	95%	Conditional building permit received	36	82	46	188	152	36
Hamakor, Ramat Gan	84.75%	2023	100%	Permit committee decision was taken	24	72	48	121	101	20
Histadrut Complex C, Givatayim	85%	2024	100%	Application for building permit was submitted	115	322	207	758	614	144
Histadrut Complex D, Givatayim	85%	2023	96%	Working on drafting application for building permit	48 + 8 stores	142	86	332	257	75
Histadrut Complex E, Givatayim	85%	2023	90%	Working on drafting application for building permit	48	134	86	313	255	58
Histadrut Complex F, Givatayim	85%	2025	74%	Plans submitted for CBP approval	208	582	374	1,297	1,058	239
Histadrut Complex K, Givatayim	85%	2024	90%	Permit committee decision was taken	50	160	110	371	289	82
Histadrut Complex J, Givatayim	85%	2024	84%	Permit committee decision was taken	50	160	110	358	287	71
Maoz Aviv, Tel Aviv	80%	2024	88%	Prior to approval of architectural design and submitting application for building permit	96	266	170	590	484	106
Sokolov, Tel Aviv.	85%	2025	86%	Local committee recommendations received. Prior to submitting CBP to district committee	33 + 2 commercial units	99	66	169	143	26
Ma'ale Hashuava, Ramat Gan	85%	2025	98%	Local committee recommendations received. Prior to submitting CBP to district committee	47 + storeroom	132	85	233	199	34
Hefetz Chaim, Tel Aviv	70%	2023	91%	Building permit with terms received	32	64	32	119	101	18
Hagilad, Tel Aviv.	75%	2025	85%	Preparing application for permit	28	41	13	86	74	12
Haroeh Hagat, Ben Gurion Street, Ramat Gan	85%	Unknown	78%	Preliminary planning with the municipality	66 + 10 commercial units	186	120	403	331	72

Projects with signature rate exceeding 50% submitted, but legal required majority not yet obtained

Project	Company's effective share in the project	Commence ment of constructio n	Percentag e of tenants that have signed contracts	Planning status	Total number of existing apartments in building	Total numbe of apartments in building afte constructio
Uziel, Ramat Gan	85%	2027	78 %	Preliminary planning with the municipality	48 + 2 commercial units	130
Total					929	2,572
Total Aviv share					781	2,159

Project	Company's effective share in the project	Commence ment of constructio n	Percentage of tenants that have signed contracts	Planning status	Total number of existing apartments in building	Total number of apartments in building after construction	Total number of apartments designated for sale	Total expected income from the project (NIS million)	Total expected costs (NIS million)	Total expected gross profit (NIS million)
Noah, Tel Aviv.	30%	Unknown	70%	Preliminary planning with the municipality	96	179	83	416	364	52
Yaffet, Tel Aviv.	42.5%	2026	62%	Preliminary planning with the municipality	97	269	172	457	411	46
Total					193	448	255	873	775	98
Total Aviv share					70	168	98	319	284	35

Land purchased by the Company

Project	Company's effective share in the project	Commenceme nt of construction	Planning status	Total number of apartments in the project	Total expected income from the project (NIS millions)	Total expected costs (NIS million)	Total expected gross income (NIS millions)

Land purchased by the Company

Project	Company's effective share in the project	Commencement of construction	Planning status	Total number of apartments in the project	Total expected income from the project (NIS millions)	Total expected costs (NIS million)	Total expected gross income (NIS millions)
Shchakim project, Herzliya	100%	2025	CBP approved, design plan advanced by the local committee and building permits	733 + 1,170 sq.m commercial use	3,370	2,824	546
Tabenkin, Tel Aviv.	95%	2026	CBP approval pending	120	475	429	46
Total				**853**	**3,845**	**3,253**	**592**
Total Aviv share				**847**	**3,821**	**3,232**	**590**

In addition, Aviv is promoting several additional projects that are not presented above, for which at this time there is no planning certainty and/or minimal signatures obtained. Total number of apartments expected in these projects (including apartments belonging to the residents) 1,600 apartments.