

Jerusalem Economic Corporation Ltd.

Management Discussion

Members of Board of Directors

Eliezer Fishman - Chairman

Ronit Even

Ran Oren

Arie Gans - External Director

Yehiel Ziskind

Gabi Trabelsi - External Director (1)

Moshe Licht - External Director (2)

Anat Manipaz

Eyal Fishman

Hilel Peled

Corporate Management

Oded Shamir - CEO

Ohad Shapira - VP

(1) Term as board member started August 20, 2007.

(2) Term ended August 20, 2007.

Management discussion of the state of corporate affairs for the six-month period ended June 30, 2007

All data in the report are consolidated data unless stated otherwise.

1. The Company and its Business Environment

a. The Company's areas of activity

The Company's activities, independently and through subsidiaries including Industrial Building Corporation Ltd. ("Industrial Buildings") which is held at a rate of 65.07% as at the date of this report, are in the various areas of real estate, including the acquisition and development of land and the lease and sale of income producing real estate for commercial, industrial and residential use.

The Company operates in these areas of activity in numerous countries around the world including Israel, the USA, Canada, Germany, France, the Netherlands, Poland, Switzerland, Portugal, the Ukraine, Lithuania, India and Macedonia through foreign subsidiaries and trustees as well as in Russia through Mirland, which is directly and indirectly held by the Company at a rate of 44.79%.

b. Highlights for the Reported Period

1. Profitability

The Company's operating income in the reported period amounted to approximately NIS 780 million as opposed to approximately NIS 495 million in the previous year. An increase of about 58%. The Company's operating income in the second quarter amounted to approximately NIS 558 million compared to approximately NIS 356 million in the corresponding period last year. The increase is mainly a result of the expansion of foreign activities and revenues from sale of apartments in the Manhattan Project, as well as increase in fair value of investment real estate.

The Company's net income in the reported period amounted to approximately NIS 428 million compared to approximately NIS 98 million in the corresponding period last year.

The Company's net income in the second quarter amounted to approximately NIS 405 million compared to approximately NIS 159 million in the corresponding period last year.

2. Shareholders' Equity

The Company shareholders' equity increased in the reported period by NIS 870 million, amounting to NIS 4,925 million. The increase was mainly due to Company income as well as to conversion of debentures and exercise of options in the period, after deduction of dividends amounting to NIS 250 million.

2. **Condensed data of operations for the period, NIS in thousands**

	<u>January to June 2007</u>	<u>January to June 2006</u>
Revenues from rent	534,751	444,860
Revenues from sale of apartments and commercial space	391,410	10,161
Total other operating revenue	99,017	93,769
Total costs	<u>498,552</u>	<u>192,282</u>
Gross profit	526,626	356,508
Increase in fair value of real estate	395,812	192,444
Selling, general and administrative expenses	142,794	53,641
Operating income	<u>779,644</u>	<u>495,311</u>
Other revenues, Net	77,690	12,082
Financing expenses, net	<u>348,190</u>	<u>357,880</u>
Pre-tax income	509,144	149,513
Tax	81,399	56,701
Income (loss) from affiliates	<u>244</u>	<u>5,209</u>
Income (loss) after tax	<u>427,989</u>	<u>98,021</u>
Income (loss) attributable to minority	200,889	13,887
Income attributable to the shareholders	<u>227,100</u>	<u>84,134</u>
Net profit per year	<u>427,989</u>	<u>98,021</u>

3. **Company balance sheet - select data**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Balance sheet total	21,571,854	16,792,106
Shareholders' equity and minority interests	4,924,866	2,471,017
Investment real estate	15,918,516	12,746,746
Real estate for investment and development	543,092	190,521
Inventory of land for residential construction	252,173	414,278
Current assets	2,488,333	1,768,993
Current liabilities	3,160,651	3,350,956
Non-current liabilities	13,486,337	10,970,133
Deferred tax liability	1,541,129	1,229,946

4. **Principal holdings**

a. **Industrial Buildings**

As of June 30, 2007, the Company holds 64.19% of the shares of Industrial Buildings Ltd. ("Industrial Buildings").

Market value of the investment as of June 30, 2007 NIS 2,161 million.

Market value near the publication date of this report NIS 1,961 million.

Outstanding investment balance in the Company's books as of June 30, 2007
NIS 1,875 million.

Excess value as of the publication date of this report NIS 86 million.

Due to acquisition of additional shares subsequent to the report date, the Company holds, as of the publication date of this report, 65.07% of Industrial Buildings.

b. **Mirland Development Corporation PLC, ("Mirland")**

Mirland had its IPO on the AIM stock exchange in London in Q4 of 2006.

The holding rate in Mirland as of the report date:

Company's direct holdings: 27.10%.

Industrial Buildings: 27.04% (Industrial Buildings is 64.19% held by the Company).

The Company's direct holdings in Mirland, with the addition of Industrial Buildings' relative share ("Company's share, directly and indirectly") as of June 30, 2007 is 44.46%.

Market value of the investment as of June 30, 2007 2,120 NIS million

The direct and indirect market value of the investment near the date of approval
of the financial statements NIS 1,821 million

Outstanding investment balance in the Company's books as of June 30, 2007
NIS 890 million

Excess value as of the publication date of this report * NIS 931 million

* including the Company's share in Industrial Buildings, as reflected in section
a. above

Holding rate in Mirland has changed due to acquisition of Mirland shares and changes to holding rate of Industrial Buildings. Holding rate in Mirland soon prior to publication of the financial statements:

Company's direct holdings: 27.20%

Industrial Buildings: 27.04% (Industrial Buildings is 65.07% held by the Company).

Total Company's share, directly and indirectly, soon prior to publication date of the financial statements: 44.79%.

5. Properties

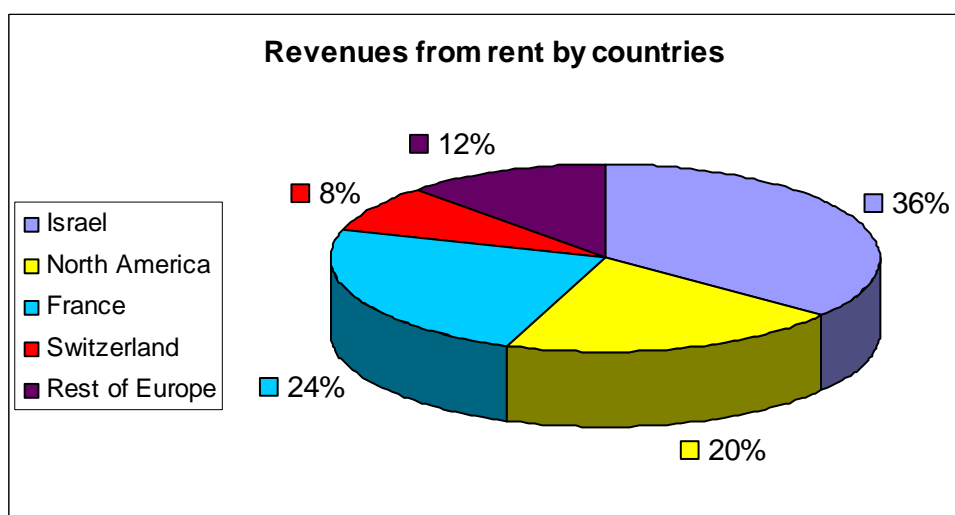
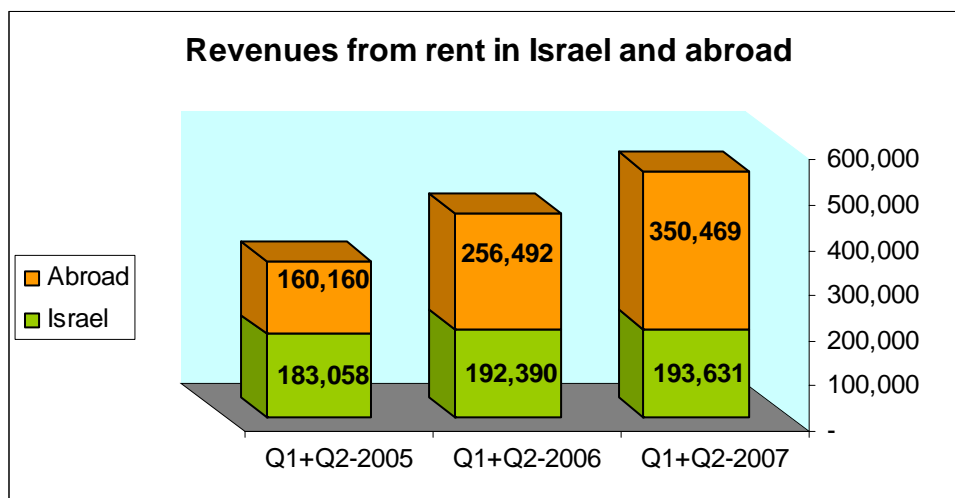
As of the signing date of the financial statements, the Company, along with others, holds about 3.3 million sq. m. of rental space, of which 1.5 million sq. m. abroad.

The Company's properties are leased to some 6,900 tenants. The average occupancy rate of the Company's properties is about 89%, compared to 88% last year and 89% in the previous quarter.

Summary data, rental space and revenues:

	The Company consolidated with the addition of the Company's relative share in affiliates		
	Rate Occupancy	Area Sq. meters	Revenues Rental in the reported period NIS in thousands (1)
	June 30, 2007	June 30, 2007	
<u>Israel</u>			
The Company in Israel	83%	318,648	40,932
Industrial Buildings	90%	1,361,000	144,738
JEC Construction & Supervision	90%	24,639	3,136
SIC - 50% (affiliate) (2)	78%	13,190	4,825
Total Israel	89%	1,717,477	193,631
<u>Overseas</u>			
Europe: the Company (excluding Industrial Buildings)	93%	872,356	191,537
Canada: the Company (excluding Industrial Buildings)	92%	193,458	54,870
Europe: through Industrial Buildings	94%	254,876	49,145
Canada and USA - through Industrial Buildings	73%	246,073	54,917
Total overseas	90%	1,566,763	350,469
<u>Total</u>	89%	3,284,240	544,100
(1) Including rental income included in earnings of affiliates			4,524
(2) SIC - 50% (affiliate)			4,825
Total rental income in financial statements			534,751

Chart - revenues from rent in Israel and abroad in the first quarter of each of the years 2005-2007, NIS in thousands



6. Miscellaneous

- a. The Company is continuing promotion of the possibility of offering its assets in France through foreign subsidiaries on the French Stock Exchange via a REIT.
- b. During the first half of 2007, the Company raised a net total of approximately NIS 740 million from the public and from institutional investors (consolidated) using debentures, and exercise of convertible options into debentures. The Company (excluding Industrial Buildings) raised approximately NIS 575 million, net.

- c. On December 31, 2006, Ma'alot the Israel Securities Rating Company Ltd. determined an initial A/STABLE rating for the issuance of non-negotiable debentures of up to NIS 1 billion. Out of the proceeds for these debentures, approximately NIS 400 million are designated for making new investments and the balance of NIS 600 million is designated to refinance existing debt. During the first quarter of 2007, the Company issued debentures (series F) to institutional investors amounting to NIS 482 million par value (included in section b. above).
The debentures were listed for trading on the Stock Exchange under a shelf prospectus published by the Company in May 2007.
- d. In April 2007, Mondon Investments Ltd. ("Mondon"), in which 36% of the shares are held by the Company and another 36% of the shares are held by Industrial Buildings (which is 65.07% held by the Company), filed a draft prospectus with the Israeli Securities Authority. Mondon is engaged in land acquisition and real estate project development in India. Pursuant to the draft prospectus, Mondon will issue debentures. (for further details, see section 7c below)

c. **Overseas Real Estate**

1) **Acquisitions during the reported period**

During 2007, the Company, through foreign subsidiaries, concluded 13 transactions for the acquisition of income-producing properties and of companies holding income-producing properties in France and Germany with a total area of 347 thousand sq. m. for a total consideration of approximately NIS 579 million.

Below is data for income-producing real estate overseas acquired to date:

Country	Constructed area (sq. m.) 100% (1)	No. of tenants	Occupancy rate	Fair value NIS in thousands As of June 30, 2007
Canada	421,150	2,027	81%	2,261,137
USA	18,381	38	87%	105,367
France	549,298	180	94%	3,609,218
Netherlands	13,000	1	100%	68,701
Poland	54,820	35	76%	152,628
Switzerland	238,404	795	96%	1,571,968
Russia	32,651	51	69%	799,128
Ukraine	6,875	3	100%	23,588
Germany	232,184	992	94%	1,210,652
Total Overseas	1,566,763	4,122	90%	9,802,387

Acquisition of income-producing real estate in 2007 (included in above figures):

France	120,182	4	100%	257,071
Switzerland (3)	43,141	11	93%	241,000
Germany	91,743	244	98%	322,244
Total investments in 2007	346,809	238		579,315

- (1) Including wholly consolidated affiliates, plus our share of affiliates.
- (2) Including our share of consolidated affiliates and affiliates.
- (3) In 2007 the Company concluded further investments in two properties in Switzerland amounting to CHF 11.1 million.

2) **Acquisitions and negotiations for acquisition of income-producing real estate through foreign subsidiaries subsequent to balance sheet date Acquisitions**

Country	City	Target	Constructed area: Sq. meters	Cost NIS million	NOI (3) NIS million
Germany (2)	Berlin	Commercial center and offices	4,000	32.5	3.3
Germany (2)	Somshels	Logistics center	20,000	21.1	2.6
Germany (2)	Ichren	Logistics center	10,000	19.9	1.8
Germany (2)	Hirschorn	Industrial center	7,000 (1.2)	15.4	1.5

Negotiations

Country	City	Target	Area in sq. m.	Cost NIS million	NOI (3) NIS million
France	Around France	Industry	89,889 (1.1)	143	11.9

- (1) The buildings cover an area of
 - (1.1) 352 thousand sq. m. Acquisition is contingent on issuance of REIT in France.
 - (1.2) 24 thousand sq. m.
- (2) Via Industrial Buildings.
- (3) Data concerning NOI of properties is forward-looking information, based solely on preliminary information available to the Company or provided to the Company by the property sellers. There is no certainty that the NOI will indeed be as set forth in the above tables, since this would depend on multiple factors such as occupancy rates, rent amounts, operating expenses for the properties as well as changes in exchange rates of applicable currencies.

3) **Projects under construction and development**

- a. Israel
The Company and Industrial Buildings are developing 7 different projects at Rosh Haayin, Modiin, Ackerstein Towers, Beer Sheva, Shaar Hanegev and Atarot.
- b. Russia
Mirland is developing and constructing various projects around Russia with a total area of 1.5 million sq. m. for office, commercial and residential use.
- c. India
Mondon, a company of which 36% is held by the Company and 36% is held by Industrial Buildings, is in negotiations to acquire various land plots around India. Mondon intends to develop large-scale real estate projects.
- d. Germany
1. In the reported period, the Company is constructing 10 commercial buildings, leased in advance, with a total area of 13,818 sq. meters.
2. In the reported period, Industrial Buildings has acquired land with a total area of 5,000 sq. m. in Dusseldorf in exchange for € million; existing construction rights in this land allow for construction of 15,000 sq. m. for residential, commercial and industrial use.
- e. Manhattan
The Manhattan residential and commercial project: As of the signing date of the financial statements, sale contracts have been signed for 187 of the 191 apartments (98%) in the Manhattan luxury apartment project by a foreign affiliate of Industrial Buildings held at 50%.
In the reported period, 111 apartments were delivered (in addition to the 18 apartments delivered in the last quarter of 2006) for total consideration of US\$ 185 million (Industrial Buildings' share is US\$ 93 million).
As of the balance sheet date, 145 apartments have been delivered for total consideration of US\$ 250 million (Industrial Buildings' share is US\$ 125 million).
- f. Macedonia
A company held at 95% by Industrial Buildings has acquired land for construction of a residential project with total area of 200,000 sq. m. near Skopje, the capital of Macedonia.
- g. Ukraine
The Company is in negotiations to acquire land around Ukraine.

4) **Financing**

- a. In June 2007 subsidiaries of the Company received bank financing for Company properties in France, amounting to €136.9 million. Out of this loan amount, €74.9 million served to repay loans from external credit providers; €17 million served to pay the balance of proceeds for recently acquired properties; and €45 million were transferred to the Company for repayment of owner's loans.

The loans are for a 7 year term and bear interest quarterly at a variable rate based on EURIBOR, but not to exceed 5.25% p.a.

These are non-recourse loans, secured by liens on all 20 properties of the subsidiaries and revenues there from, such that shares, assets and revenues of each subsidiary serve as collateral for all loans.

- b. In June 2007 foreign affiliates of Industrial Buildings received long-term bank financing for some of Industrial Buildings' investments in its properties in France. The loans received are for a 7 year term and bear fixed interest at 5.25% p.a. These are non-recourse loans, secured by the property under lien to benefit the bank. As of the balance sheet date, €3.5 million have been received (NIS 130 million).

- c. In June 2007, Industrial Buildings obtained non-recourse financing amounting to €1.7 million from an overseas financial institution for some of its investments in Germany. These loans are for 6-10 year terms, bearing interest at 5.2%-5.4% p.a.

- d. In July 2007, German partnerships indirectly held by the Company received bank financing for 15 real estate properties in Germany. This bank financing amounts to €40,154 thousand and is designated for repayment of bank credit which the Company had received from banks in Israel. This bank financing is at non-recourse terms for a 7 year term, bearing fixed interest at EURIBOR plus 1.05% margin p.a. To secure this loan, liens have been placed on all properties included in this financing.

d. **Held companies**

1) **Principal subsidiaries**

a. **Industrial Buildings**

As of the date of the publication of this report, the Company holds 65.07% of the shares of Industrial Buildings.

Industrial Buildings is primarily engaged in developing, setting up and acquiring buildings designated for rent and sale for the industry, workshops, trade, residence, high-tech and offices. Industrial buildings owns buildings in Israel and overseas with total area of 1,862 thousand sq. m. with an average occupancy rate of 89%.

Furthermore, Industrial Buildings supplies management and maintenance services for buildings, whether owned by it or not, with an area of 1,003 thousand sq. m. in Israel and overseas which serve tenants of different fields such as high-tech, offices and commerce as well as residence, through a subsidiary and a third party.

A foreign subsidiary, 50% held by Industrial Buildings, is engaged in converting properties into luxury residence including 191 apartments in Manhattan, of which 187 apartment have been sold. For further details see section 1.c(3) above. In addition, Industrial Buildings built the "Tel-Aviv Towers" project in the Nahalat Yitzhak area in Tel-Aviv, which includes four residential towers of 112 residential units over a commercial center and parking facilities.

The Company has constructed two of the four towers. As of the date of the publication of this report, the Company sold 213 apartments out of 224 apartments constructed.

In addition to said activities, Industrial Buildings is carrying out projects for which it provides management services for the planning, performance and supervision of development and infrastructure work for residential and industrial areas for the Israel Land Administration, local municipalities and different organizations.

b. **Mirland**

As of the publication date of this report, the Company directly holds 27.20% of Mirland shares. Industrial Buildings holds 27.04% of Mirland shares. Mirland is a leading property developer for construction and commerce in Russia.

In December 2006 the Company raised \$293 million on the AIM stock exchange in London.

Mirland income for H1 of 2007 amount to \$59 million, compared to a loss of \$0.74 million in H1 of 2006.

In the reported period, Mirland recognized revenues due to increase in fair value of investment real estate of \$69 million.

The total value of Mirland's real estate assets is \$1,036 million - a \$270 million increase over valuations dated September 30, 2006.

Mirland is developing and constructing 10 different projects around Russia with a total area of 1.15 million sq. m. for office, commercial and residential use.

In April 2007, the commercial center in the city of Yaroslavl was completed and occupied successfully. The current occupancy rate is 97%.

2. Financial Position

Current assets and liabilities

As of June 30, 2007, current assets in the balance sheet amounted to NIS 2,488 million, vs. current liabilities of NIS 3,161 million, for a current ratio of 79%.

As of December 31, 2006, current assets in the balance sheet amounted to NIS 3,007 million, vs. current liabilities of NIS 3,841 million, for a current ratio of 78%.

The changed ratio is due to decrease in short term credit, primarily due to reclassification of private debentures amounting to NIS 479 million as long-term liabilities following their listing for trading; due to declared dividend; and due to decrease in inventory of buildings and apartments for sale, net.

The Company is acting to obtain long-term non-recourse foreign bank credit to finance its European investments, which, in as much as obtained, will serve, inter alia, to repay short-term loans in Israel, thereby improving the current ratio.

The credit facilities with certain banks in Israel enable improvement of the current ratio through conversion of current loans into long-term loans. The Company considers this type of conversion from time to time based on capital market conditions.

Inventory of land for residential construction

As of June 30, 2007, inventories of land for residential construction amount to NIS 252 million compared to NIS 447 million as of December 31, 2006. The change is due to classification of land in Russia by Mirland as inventory of buildings and apartments for sale due to start of construction, and due to acquisition of land in Israel by Industrial Buildings.

Investment real estate

As of June 30, 2007, total investment real estate amounts to NIS 15,918 million compared to NIS 13,763 million as of December 31, 2006. The increase in real estate is mainly due to investments in France, Switzerland, Russia and Germany and to increase in fair value.

Investment real estate under development

Total investment real estate under development as of June 30, 2007 amounted to NIS 543 million, compared to NIS 425 million as of December 31, 2006.

Other non-current assets

As of balance sheet date, this item amounted to NIS 2,008 million compared to NIS 1,734 million as of December 31, 2006.

The main increase is due to goodwill created in investees.

Long-term loans and debentures from banks and others and long-term liabilities

The long-term loans and liabilities in the balance sheet amounted to NIS 11,923 million as of June 30, 2007, compared to NIS 10,095 million as of December 31, 2006.

The increase is primarily due to loans from banks in Israel and abroad and to capital raised by debentures offered to the public for financing the Company's investments in real estate overseas, as well as from the re-classification set forth above in the section on current assets and liabilities.

Total non-recourse loans in the consolidated balance sheet amounted to NIS 4,836 million.

Shareholders' Equity

Shareholders' equity amounted to NIS 4,925 million as of June 30, 2007, compared to NIS 4,055 million as of December 31, 2006.

Equity attributable to Company shareholders amounted to NIS 2,915 million as of June 30, 2007, compared to NIS 2,452 million as of December 31, 2006.

The increase in equity attributable to shareholders in the reported period is mainly due to conversion of stock options into shares totaling NIS 325 million; to conversion of debentures into shares totaling NIS 83 million; to income of NIS 428 million in the reported period; and to increase in capital reserve for foreign currency translation adjustments of foreign operations amounting to NIS 77 million. Capital increase was partially offset by a declared dividend amounting to NIS 250 million.

3. Operating results

The Company's net income amounted to NIS 428 million compared to a loss of NIS 98 million in the corresponding period last year.

The analysis of operating results in the reported period is as follows:

Rental revenues

The Company's total rental revenue amounted to NIS 535 million, compared to NIS 445 million last year.

The increase in revenues is mainly due to revenues from buildings acquired abroad during the reported period.

The Company's consolidated rental revenues in Israel amounted to NIS 189 million, compared to NIS 183 million in the corresponding period last year.

The Company's consolidated rental revenues overseas amounted to NIS 346 million, compared to NIS 262 million in the corresponding period last year.

Revenues from sale of apartments and commercial space

Revenues for this item amounted to NIS 391 million, compared to NIS 10 million in the corresponding period last year. The increase is due to sale of apartments in the Manhattan project totaling NIS 384 million recorded in the reported period from delivery of 111 apartments.

Revenues from management fees

Revenues from management fees amounted to NIS 94 million, compared to NIS 92 million in the corresponding period last year. The increase is due to increased revenues from acquired buildings, partially offset by a decrease in revenues of Industrial Buildings due to sale of a commercial center and to discontinued management of two buildings.

Maintenance expenses

Maintenance expenses are mainly paid by the tenants. Maintenance, insurance and municipal tax costs for unoccupied properties are paid by the Company. The increase in maintenance expenses is primarily due to maintenance and management expenses for properties acquired overseas.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to NIS 143 million during the reported period, compared to NIS 54 million in the corresponding period last year. The change is primarily due to increase in selling costs due to delivery of apartments in New York; to a non-recurring expense amounting to NIS 23 million for recording lease of a property in Russia; and to general and administrative expenses incurred in Europe and North America due to expansion of overseas management, supervision and control operations.

Operating income

The Company's operating income amounted to NIS 780 million compared to NIS 495 million in the corresponding period last year - an increase of NIS 285 million, or 58%.

The growth in operating income is primarily due to expansion of overseas operations and to delivery of 111 apartments in the Manhattan residential project in New York, as well as due to increase in fair value of investment real estate.

Financing

Financing expenses - In the reported period, financing expenses amounted to NIS 368 million, compared to NIS 367 million last year. Despite increase in total credit, financing expenses have not materially changed between periods.

In the reported period, financing expenses increased by NIS 8 million due to increase in long-term credit, and by NIS 5 million due to increase in short-term credit. This increase was mostly offset by a lower increase rate in the Consumer Price Index for H2 of 2007. (The CPI increase rate in 2007 was 0.27%, compared to 1.26% in 2006).

Financing revenues - In the reported period, financing revenues amounted to NIS 140 million, compared to NIS 63 million last year.

Income from negotiable securities - in the reported period, financing revenues due to gains from negotiable securities amounted to NIS 60 million, compared to NIS 3 million in the corresponding period last year.

Deposits - In the reported period, financing revenues increased by NIS 33 million due to deposits with Mirland.

Other revenues

This item amounted to net revenues of NIS 78 million, compared to NIS 12 million in the corresponding period last year. In the reported period, this item includes gains due to decline in holding share as a result of Mirland issuance to external parties amounting to NIS 42 million, and gains due to decline in holding share in Industrial Buildings due to conversion of debentures by external parties amounting to NIS 28 million. The item also includes revenues of NIS 6 million due to negative excess cost from acquisition of a property in Switzerland by Industrial Buildings.

Taxes on income

In the reported year, tax expenses amounted to NIS 81 million, compared to NIS 57 million last year. The increase is primarily due to recording of current taxes and to changes in provision for deferred taxes due to increase in fair value of investment real estate.

4. Cash flow

The cash balance as of year start amounted to NIS 1,732 million, plus net cash from current operations amounting to NIS 370 million, plus net credit raised amounting to NIS 461 million, plus proceeds from realized investment real estate amounting to NIS 34 million, plus proceeds from exercise of stock options into shares amounting to NIS 94 million, plus proceeds from capital issuance to minority in a subsidiary amounting to NIS 131 million, plus proceeds from short-term investments, net amounting to NIS 257 million.

Served the Company primarily for:

Investments in real estate, fixed assets and other assets including advance on account of investment, amounting to NIS 808 million; investment in long-term deposits and debt amounting to NIS 264 million; acquisition of shares of subsidiaries from minority shareholders amounting to NIS 80 million; net acquisition of initially consolidated subsidiaries amounting to NIS 254 million (including an investment in real estate of NIS 695 million); dividend payment to minority in a consolidated subsidiary amounting to NIS 17 million; investment in affiliates amounting to NIS 166 million; and investment in companies previously proportionately consolidated amounting to NIS 24 million.

Remaining cash and cash equivalents at the end of the period, after deducting translation differences of NIS 38.9 million, amounted to NIS 1,644 million.

5. Changes to Share Capital and Convertible Securities

	<u>Convertible debentures (Series C)</u>	<u>Options (Series 6)</u>	<u>Share Capital</u>
Issued to external entities as of December 30, 2006	47,470,307	4,901,345	47,917,897 *
<u>Changes to capital held by external entities in the reported period</u>			
Conversion into shares	<u>(42,973,050)</u>	<u>(3,609,764)</u>	<u>5,328,686</u>
Issued to external entities as of June 30, 2007	4,497,257 **	1,291,581 ***	53,246,583
Conversion ratio	1:25	1:1	-
Share capital, fully diluted	179,890	1,291,581	54,718,054
Share capital held by subsidiary			<u>2,554,348</u>
Total share capital on a fully diluted basis:			<u>57,272,402</u>

* excluding interest in subsidiary.

** Convertible debentures (Series C) - during the period from the balance sheet date to the publication date of this report, the public has converted an additional NIS 457 thousand par value debentures into 18 thousand shares.

*** Options (Series 6) - during the period from the balance sheet date until the publication date of this report, the public has converted NIS 160 thousand par value options into 160 thousand shares for total consideration of NIS 4.2 million.

6. Exposure to market risk and its management

The person in charge of managing market risks is the Chairman of the Board of Directors, Mr. Eliezer Fishman.

As a rule, the Company finances its foreign investments by obtaining foreign bank loans in currencies identical to the investment currencies as well as working capital from its own resources in Israel, by raising credit in the investment currency. The free cash flow obtained from income-generating real estate overseas serves the foreign currency denominated credit in Israel.

During the reported period, there was no material change in the exposure to market risks as reported in the executive summary report for 2006.

7. Other events

- a. On March 27, 2007, the Board of Directors of Industrial Buildings decided to set the overseas investment budget (self financing) of Industrial Buildings at US\$ 700 million, net of the current monetary balance received from overseas as return of investment.

This amount excludes non-recourse loans for financing asset acquisition.

On March 27, 2007, the Board of Directors of the Company decided to set the overseas investment budget (self financing) of the Company at US\$ 500 million, net of the current monetary balance received from overseas as return of investment (in addition to the aforementioned budget for Industrial Buildings).

This amount excludes non-recourse loans for financing asset acquisition.

b. Investments and realizations in Israel

- 1) In February 2007, Industrial Buildings acquired 100% of shares of Oniv Holdings Ltd., which holds 50% of the Power Center in Be'erot Yitzhak. In June 2007, Oniv acquired an additional 24%, such that as of the report date Industrial Buildings holds 74% of the Power Center.

- 2) Industrial Buildings acquired, through a limited partnership held at a rate of 90%, rights to land covering some 220 thousand sq. m. on which about 740 residential units and commercial space can be constructed near Moshav Zur Natan, north of Kochav Yair.

- 3) Industrial Buildings sold, through a subsidiary, 50% of its rights to land on the southern outskirts of Haifa to a company controlled by the Haifa Economic Corporation on which the parties intend to jointly construct a park for companies engaged in life sciences. The designated area's lease potential will be 60 thousand sq. m. to be constructed in phases.

- c. On December 12, 2006, the Audit Committee and Board of Directors of the Company and on January 31, 2007, the General Meeting approved the Company's engagement in a joint venture with Industrial Buildings, Durban and a private company owned by Mr. Eliezer Fishman, whereby the parties will establish a joint company to engage in the real estate sector in India for commercial, storage, logistics, office and residential use. The Company holds 36% of the shares of Mondon, a company incorporated in Cyprus whose remaining shares are held as follows: Industrial Buildings - 36%, Durban - 18% and the private company owned and controlled by Mr. Eliezer Fishman and his family - 10%.

In April 2007, Mondon Investments Ltd. ("Mondon"), filed a prospectus with the Israel Securities Authority based on Mondon's annual financial statements for the year ended December 31, 2006.

Due to delay of the offering, Mondon intends to file with the Israel Securities Authority a draft prospectus based on financial statements for June 30, 2007.

Mondon will engage in real estate operations in India. Pursuant to the draft prospectus, Mondon will issue debentures. However, terms of said issuance including its extent and timing have yet to be determined and there is no certainty that the aforementioned transaction would be concluded.

- d. On February 7, 2007, a subsidiary of Industrial Buildings entered into an agreement with Haifa Life Sciences Park Company Ltd. (in this paragraph: "the partner") in connection with an area of 32 thousand sq. m. of the partner's overall park area. According to the agreement, 50% of the rights to said plot were sold to the partner for a consideration of NIS 22.3 million in order to establish an industrial park for companies engaged in life sciences. The joint venture will include buildings for rent with a total area of 60 thousand sq. m. Phase 1 of the project will consist of building a total of 15 thousand sq. m. Subject to certain suspensive conditions yet to be realized, and subject to obtaining approvals and permits, Industrial Buildings estimates that construction work on Phase 1 will commence in the second quarter of 2008 and will last some two years. The budget for the Phase 1 of the project is estimated at approximately NIS 63 million.
There is no certainty with regard to start date and expected cost of construction.
- e. During the reported period, the Company raised approximately NIS 482 million par value debentures (series F) by private placement with institutional investors.
During the reported period, Industrial Buildings issued NIS 161 million par value debentures (series I-J) by private placement with institutional investors.
- f. On March 27, 2007, the board of directors of Industrial Buildings discussed the adjustment of the dividend distribution policy to IFRS and resolved that as of the dividend distribution for 2006, Industrial Buildings will distribute a dividend, subject to the provisions of the law and cash flow needs, at a rate of 40% of the net income net of the changes in the fair value of investment property and deferred taxes in its respect. The board also determined that this policy and its compliance with IFRS will be re-examined following the publication of Industrial Buildings' results for 2007.
- g. On May 15, 2007 the Company published a prospectus for listing for trading and a shelf prospectus for debenture series as follows:
 - 1) NIS 482 million par value debentures (Series F) with principal and interest linked to the Consumer Price Index, redeemable in three equal installments in each year from 2015 through 2017, bearing interest at 5.35% p.a. payable annually on December 31 of each year 2007 through 2017.
 - 2) A shelf prospectus for:
 - a. Up to NIS 518 par value debentures (Series F).
 - b. Up to 12 additional debenture series (Series G-R). Each debenture series will be of par value NIS 600 million, with debenture terms to be set forth in shelf prospectus reports.

- h. On May 15, 2007, Industrial Buildings published a prospectus for listing for trading and a shelf prospectus for debenture series as follows:
- 1) NIS 512 million par value debentures (Series I) with principal and interest linked to the Consumer Price Index, redeemable in three equal installments in each year from 2015 through 2017, bearing interest at 5.05% p.a. payable annually on December 31 of each year 2007 through 2017.
 - 2) NIS 130 million par value debentures (Series J) redeemable in three equal installments in each year from 2011 through 2017, bearing interest at 6.5% p.a. payable annually on December 31 of each year 2007 through 2013.
 - 3) A shelf prospectus for:
 - a. Up to NIS 179 par value debentures (Series I).
 - b. Up to NIS 179 par value debentures (Series J).
 - c. Up to 12 additional debenture series (Series K-V). Each debenture series will be of par value NIS 600 million, with debenture terms to be set forth in shelf prospectus reports.
- i. On May 21, 2007, the Industrial Buildings Board of Directors approved an additional dividend for 2006 amounting to NIS 46,382 thousand, pursuant to the dividend distribution policy dated March 27, 2007.
The dividend was paid in June 2007.
- j. On May 31, 2007, the Company Board of Directors approved a dividend for 2006 amounting to NIS 250 million.
The dividend was paid on July 2, 2007.

8. **Other Events Subsequent to Balance Sheet Date**

On July 29, 2007 the Company Board of Directors approved cancellation of the engagement with "Shemi Bar (J.A.) 1993 Ltd." via an agreement for provision of management services by Mr. Oded Shamir, and has approved the Company's engagement in an employment contract with Mr. Shamir as Company CEO, effective September 1, 2007.

9. **Contribution to the community**

The Company is directly and indirectly involved in activities intended to assist the community through donations to welfare and health activities and through the provision of buildings to serve as venues for charity and welfare activities.

During the reported period, the Company donated, by itself and through Industrial Buildings, NIS 2.1 million to social and health activities.

Furthermore, the Company, by itself and through Industrial Buildings, allocated buildings, free of charge, for charitable and welfare purposes, at a total area of 26,000 sq. m., with a value of NIS 4.1 million in annual rent.

10. Disclosure with regard to approval process of financial statements

The entity in charge of overall supervision within the Company is its Board of Directors. For detailed names and roles of Board members, see immediate report on Company officers dated August 23, 2007.

As part of the approval process of the financial statements by the Company's Board of Directors, the draft financial statements were submitted to board members several days prior to their approval. The Board of Directors met to approve the financial statements on August 29, 2007; this meeting was attended by all board members as well as by a representative of the auditing accountant.

At the board meeting for approval of the financial statements, Company CEO, Mr. Oded Shamir, and CFO, Mr. Ohad Shapira, gave a detailed review of highlights of the financial statements, as well as material issues of financial reporting, including the state of Company business, transactions and events outside the normal course of business, material and critical estimates applied to the financial statements, potential impact on financial statements of significant risk and exposures, accounting policy applied, changes to accounting policy and implementation of the proper disclosure principle to financial statements and management discussion.

During the discussion, board members posed questions and requested clarification of various issues related to the financial statements, and received answer from Company management and from the representative of the auditing accountant; on August 29, 2007 the Company Board of Directors passed a resolution to appoint a balance sheet committee, whose members are: Arie Gans - External Director, Gabi Trabelsi - External Director, Anat Manipaz and Ronit Even; this will be the entity in charge of overall supervision within the Company from this date onwards; the committee will discuss, inter alia, the Company's financial statements, including audit issues related to overall supervision issues, and will submit its recommendations to the Company Board of Directors.

Eliezer Fishman
Chairman of the Board of Directors

Oded Shamir
CEO

Date:
August 29, 2007

Jerusalem Economic Corporation Ltd.

Interim Consolidated Financial Statements as of June 30, 2007

Un-audited

Table of Contents

	<u>Page</u>
Review of Interim Consolidated Financial Statements	2
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Equity	6-10
Consolidated Statements of Cash Flows	11-15
Notes to Interim Consolidated Financial Statements	16-31

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR 2007 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THE ENGLISH TRANSLATION WAS NOT PUBLISHED AND HAS NOT BEEN SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY FOR ITS REVIEW.

■ Kost, Forer, Gabbay & Ksirer
3 Aminadav St.
Tel Aviv, 67067

■ Tel. 6232525- 03
Fax: 03-5622555



To:
The Board of Directors,
Jerusalem Economic Corporation Ltd.

Dear Sir,

Re: Review of interim, un-audited consolidated financial statements
For the six-month and three-month periods ended June 30, 2007

We have reviewed the accompanying interim consolidated balance sheet of Jerusalem Economic Corporation Ltd. ("the Company") as of June 30, 2007, and the related consolidated statements of operations, changes in equity and cash flows for the six-month and three-month periods then ended. Our review was conducted as per the procedures established by the Israeli CPA Association. These procedures included, inter alia: Reading the aforementioned financial statements; reading minutes of shareholder meetings and of meetings of the board of directors and its committees; and clarification sessions with people in charge of financial and accounting issues.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain consolidated subsidiaries, whose consolidated assets constitute approximately 39.2% of total consolidated assets as of June 30, 2007, and whose consolidated revenues constitute approximately 67.8% and 56% of total consolidated revenues for the six-month and three-month periods then ended, respectively. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain affiliates, the investment in which, at equity, amounted to NIS 72.6 million as of June 30, 2007, and the Company's equity in their profits (losses) amounted to NIS (933) thousand and NIS 632 thousand for the six-month and three-month periods then ended, respectively.

Since the review performed is of limited scope, and does not constitute a check under commonly accepted audit standards, we do not express our opinion of the interim consolidated financial statements.

In the course of our review, including review of reports by other accountants, as set forth above, we have not been aware of any issue indicating that material changes would be required to the aforementioned statements in order for them to be deemed as proper interim consolidated statements compiled under International Financial Reporting Standards (IFRS) and disclosure requirements pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv,
August 29, 2007.

Kost, Forer, Gabbay & Ksirer
C.P.A.s

Consolidated Balance Sheets

	As of June 30		As of December 31
	2007	2006	2006
	Un-audited		Audited
	NIS in thousands		
<u>Current assets</u>			
Cash and cash equivalent	1,643,534	344,018	1,731,510
Short-term investments	186,284	239,053	377,348
Trade receivables	160,550	123,454	157,557
Other accounts receivable	275,091	512,792	257,037
Inventory of buildings and apartments for sale, Net	584,978	549,676	483,430
	<u>2,850,437</u>	<u>1,768,993</u>	<u>3,006,882</u>
<u>Non-current assets</u>			
Long-term deposits and receivables	1,753,013	1,484,790	1,555,824 *)
Assets in respect of employee benefits	3,216	3,942	3,216 *)
Investments in held companies	136,141	150,461	126,293
Investment property	15,918,516	12,746,746	13,763,364 *)
Investment property under development	543,092	190,521	424,810 *)
Inventory of land for residential construction	252,173	414,278	447,427 *)
Fixed assets, net	21,016	9,053	13,277
Other assets, net	75,343	740	598
Deferred Taxes	11,684	4,196	24,664
Advance on account of investment	7,223	18,386	9,789
	<u>18,721,417</u>	<u>15,023,113</u>	<u>16,369,262</u>
	<u>21,571,854</u>	<u>16,792,106</u>	<u>19,376,144</u>

(*) Re-classified.

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

Consolidated Balance Sheets

	As of June 30		As of December 31
	2007	2006	2006
	Un-audited		Audited
	NIS in thousands		
<u>Current liabilities</u>			
Credit from banks and others	2,252,887	2,799,016	3,251,334
Trade payables	147,083	104,871	140,035
Other accounts payable	510,681	447,069	449,987
Payables in respect of dividend	250,000	-	-
	<u>3,160,651</u>	<u>3,350,956</u>	<u>3,841,356</u>
<u>Non-current liabilities</u>			
Loans from banks and others	7,107,119	5,736,328	5,928,930
Accrued rental income	14,606	17,325	15,966
Deferred Taxes	1,541,129	1,229,946	1,361,987
Liabilities in respect of employee benefits	6,757	6,130	6,704 *)
Liability component in respect of conversion options of convertible debentures and liability component in respect of convertible option (series 6)			
The Company	86,066	92,898	300,292
Debentures	4,532,633	3,573,268	3,546,974 *)
Debentures convertible into subsidiary's shares	66,934	201,659	196,412 *)
Debentures convertible into Company shares	3,516	52,363	35,639 *)
Other long-term liabilities	127,577	60,216	86,913 *)
	<u>13,486,337</u>	<u>10,970,133</u>	<u>11,479,817</u>
<u>Equity attributable to shareholders of the Company</u>			
Share Capital	359,523	351,760	354,194
Share Premium	662,830	147,153	260,697
Treasury shares	(49,616)	(49,616)	(49,616)
Retained earnings	1,874,469	1,230,158	1,897,369
Capital reserve in respect of available-for-sale financial assets	12,476	(583)	10,729
Other capital reserves	55,675	10,500	(21,634)
	<u>2,915,357</u>	<u>1,689,372</u>	<u>2,451,739</u>
Minority interests	<u>2,009,509</u>	<u>781,645</u>	<u>1,603,232</u>
Total equity	<u>4,924,866</u>	<u>2,471,017</u>	<u>4,054,971</u>
	<u>21,571,854</u>	<u>16,792,106</u>	<u>19,376,144</u>

(*) Re-classified.

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

August 29, 2007.

Date of approval of financial statements	Eliezer Fishman	Oded Shamir	Ohad Shapira
	Chairman of the Board of Directors	CEO	CFO

Consolidated statements of operations

	For the 6 months ended June 30		For the 3 months ended June 30		For the Year Ended December 31
	2007	2006	2007	2006	2006
	Un-audited				Audited
	NIS in thousands (except for per share data)				
Revenues					
Rental income	534,751	444,860	271,321	239,809	967,171 *)
Revenues from sale of apartments and commercial space	391,410	10,161	186,253	5,808	205,085
Revenues from management fees and building maintenance	94,116	91,552	35,608	44,485	193,155 *)
Revenues from management fees and infrastructure development	3,747	2,217	1,837	1,231	6,449
Revenues from fuel sales	1,154	-	1,154	-	-
Total revenues	1,025,178	548,790	496,173	291,333	1,371,860
Building management and maintenance costs	212,526	176,435	101,927	91,423	378,049
Cost of apartments and commercial space sold	283,193	14,084	139,741	6,734	152,798
Cost of management and infrastructure development	1,870	1,763	995	1,091	4,405
Cost of fuel sales	963	-	963	-	-
Total cost of sales and services	498,552	192,282	243,626	99,248	535,252
Gross profit	526,626	356,508	252,547	192,085	836,608
Increase in fair value of investment property	395,812	192,444	398,409	192,233	819,756
Selling, general and administrative expenses	142,794	53,641	92,916	28,320	169,911
Operating income	779,644	495,311	558,040	355,998	1,486,453
Financial expenses	368,734	367,125	194,514	216,052	592,967
Revaluation of liability component of conversion option of convertible debentures of the Company and subsidiary and revaluation of liability component of convertible option (series 6)	119,350	54,122	1,438	(7,619)	301,264
Financial income	139,894	63,367	76,822	35,191	113,636
Other income, Net	77,690	12,082	2,785	10,391	491,750
Income before taxes on income	509,144	149,513	441,695	193,147	1,197,608
Taxes on income	81,399	56,701	37,105	36,212	262,660
Income after taxes on income	427,745	92,812	404,590	156,935	934,948
Equity in earnings of investees, net	244	5,209	732	1,655	3,986
Net income	427,989	98,021	405,322	158,590	938,934
Attributable to:					
Company shareholders	227,100	84,134	220,493	151,779	751,345
Minority interests	200,889	13,887	184,829	6,811	187,589
	427,989	98,021	405,322	158,590	938,934
Net earnings per share (in NIS)					
Basic net earnings	8.47	2.32	7.96	3.7	21.16
Diluted net earnings	8.32	2.32	7.96	3.7	21.16

(*) Re-classified.

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders						Other capital reserves	Total	Minority interests	Total equity
	Share Capital	Share Premium	Treasury Shares	Retained Earnings	Capital reserve in respect of available-for-sale financial assets					
	NIS in thousands									
<u>Balance As of January 1, 2007 (audited)</u>	354,194	260,697	(49,616)	1,897,369	10,729		(21,634)	2,451,739	1,603,232	4,054,971
Loss in respect of available-for-sale financial assets, net	-	-	-	-	1,747		-	1,747	957	2,704
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-		77,309	77,309	33,814	111,123
Total net income recognized directly in equity	-	-	-	-	1,747		77,309	79,056	34,771	113,827
Net income	-	-	-	227,100	-		-	227,100	200,889	427,989
Total net income	-	-	-	227,100	1,747		77,309	306,156	235,660	541,816
Exercise of stock options into shares	3,610	320,896	-	-	-		-	324,506	-	324,506
Conversion of debentures into shares	1,719	81,237	-	-	-		-	82,956	-	82,956
Acquisition of consolidated company shares by minority	-	-	-	-	-		-	-	275,728	275,728
Dividend declared and paid to minority	-	-	-	-	-		-	-	(16,672)	(16,672)
Acquisition of minority rights	-	-	-	-	-		-	-	(88,439)	(88,439)
Declared dividend	-	-	-	(250,000)	-		-	(250,000)	-	(250,000)
<u>Balance As of June 30, 2007 (un-audited)</u>	359,523	662,830	(49,616)	1,874,469	12,476		55,675	2,915,357	2,009,509	4,924,866

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Share Capital	Share Premium	Treasury Shares	Retained Earnings	Capital reserve in respect of available-for-sale financial assets	Other capital reserves	Total	Minority interests	Total equity
	NIS in thousands								
<u>Balance As of January 1, 2006 (audited)</u>	350,299	93,651	(49,616)	1,146,024	1,270	3,537	1,545,165	785,091	2,330,256
Loss in respect of available-for-sale financial assets, net	-	-	-	-	(1,853)	-	(1,853)	(828)	(2,681)
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	6,963	6,963	1,514	8,477
Total net income recognized directly in equity	-	-	-	-	(1,853)	6,963	5,110	686	5,796
Net income	-	-	-	84,134	-	-	84,134	13,887	98,021
Total net income (loss)	-	-	-	84,134	(1,853)	6,963	89,244	14,573	103,817
Exercise of stock options into shares	254	10,033	-	-	-	-	10,287	-	10,287
Conversion of debentures into shares	1,207	43,469	-	-	-	-	44,676	-	44,676
Withdrawal of loans by minority	-	-	-	-	-	-	-	(193)	(193)
Dividend declared and paid to minority	-	-	-	-	-	-	-	(8,792)	(8,792)
Acquisition of shares from minority	-	-	-	-	-	-	-	(9,682)	(9,682)
Acquisition of shares by minority	-	-	-	-	-	-	-	648	648
<u>Balance As of June 30, 2006 (un-audited)</u>	351,760	147,153	(49,616)	1,230,158	(583)	10,500	1,689,372	781,645	2,471,017

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								Minority interests	Total equity
	Share Capital	Share Premium	Treasury Shares	Retained Earnings	Capital reserve in respect of available-for-sale financial assets	Other capital reserves	Total			
	NIS in thousands									
<u>Balance As of April 1, 2007</u> (un-audited)	355,801	354,290	(49,616)	1,903,976	5,910	(35,540)	2,534,821	1,777,119	4,311,940	
Loss in respect of available-for-sale financial assets, net	-	-	-	-	6,566	-	6,566	3,717	10,283	
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	91,215	91,215	34,203	125,418	
Total net income recognized directly in equity	-	-	-	-	6,566	91,215	97,781	37,920	135,701	
Net income	-	-	-	220,493	-	-	220,493	184,829	405,322	
Total net income	-	-	-	220,493	6,566	91,215	318,274	222,749	541,023	
Exercise of stock options into shares	2,780	263,293	-	-	-	-	266,073	-	266,073	
Conversion of debentures into shares	942	45,247	-	-	-	-	46,189	-	46,189	
Dividend declared and paid to minority	-	-	-	-	-	-	-	(16,672)	(16,672)	
Issuance of options to minority	-	-	-	-	-	-	-	(2,449)	(2,449)	
Acquisition of minority rights	-	-	-	-	-	-	-	28,762	28,762	
Declared dividend	-	-	-	(250,000)	-	-	(250,000)	-	(250,000)	
<u>Balance As of June 30, 2007</u> (un-audited)	359,523	662,830	(49,616)	1,874,469	12,476	55,675	2,915,357	2,009,509	4,924,866	

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								Minority interests	Total equity
	Share Capital	Share Premium	Treasury Shares	Retained Earnings	Capital reserve in respect of available-for-sale financial assets	Other capital reserves	Total			
	NIS in thousands									
<u>Balance As of April 1, 2006</u> (un-audited)	350,884	110,643	(49,616)	1,078,379	2,566	12,086	1,504,942	776,766	2,281,708	
Income in respect of available-for-sale financial assets, net	-	-	-	-	(3,149)	-	(3,149)	(1,598)	(4,747)	
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	(1,586)	(1,586)	339	(1,247)	
Total net income recognized directly in equity	-	-	-	-	(3,149)	(1,586)	(4,735)	(1,259)	(5,994)	
Net income	-	-	-	151,779	-	-	151,779	6,811	158,590	
Total net income (loss)	-	-	-	151,779	(3,149)	(1,586)	147,044	5,552	152,596	
Exercise of stock options into shares	254	10,033	-	-	-	-	10,287	-	10,287	
Conversion of debentures into shares	622	26,477	-	-	-	-	27,099	-	27,099	
Acquisition of shares from minority	-	-	-	-	-	-	-	1,026	1,026	
Acquisition of shares by minority	-	-	-	-	-	-	-	359	359	
<u>Balance As of June 30, 2006</u> (un-audited)	351,760	147,153	(49,616)	1,230,158	(583)	10,500	1,689,372	781,645	2,471,017	

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Issued share capital	Share Premium	Treasury Shares	Retained Earnings	Capital reserve in respect of available-	Capital reserves Others	Total	Minority interests	Total equity
					for-sale financial assets				
NIS in thousands									
Balance As of January 1, 2006 (audited)	350,299	93,651	(49,616)	1,146,024	1,270	3,537	1,545,165	785,091	2,330,256
Income in respect of available-for-sale financial assets, net	-	-	-	-	9,459	-	9,459	-	9,459
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	(25,171)	(25,171)	(235)	(25,406)
Total net income (loss) recognized directly in equity	-	-	-	-	9,459	(25,171)	(15,712)	(235)	(15,947)
Net income	-	-	-	751,345	-	-	751,345	187,589	938,934
Total net income (loss)	-	-	-	751,345	9,459	(25,171)	735,633	187,354	922,987
Exercise of stock options into shares	1,799	94,891	-	-	-	-	96,690	-	96,690
Conversion of debentures into shares	2,096	72,155	-	-	-	-	74,251	-	74,251
Withdrawal of loans by minority	-	-	-	-	-	-	-	(193)	(193)
Acquisition of minority rights	-	-	-	-	-	-	-	(12,217)	(12,217)
Dividend declared and paid to minority	-	-	-	-	-	-	-	(47,543)	(47,543)
Issuance of options to minority	-	-	-	-	-	-	-	9,845 *)	9,845 *)
Acquisition of shares by minority	-	-	-	-	-	-	-	680,895 *)	680,895 *)
Balance As of December 31, 2006 (audited)	354,194	260,697	(49,616)	1,897,369	10,729	(21,634)	2,451,739	1,603,232	4,054,971

(*) Re-classified.

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

Consolidated Cash flow Statements

	For the 6 months ended		For the 3 months		For the Year
	June 30		ended		Ended
	2007	2006	2007	2006	December 31
	Un-audited				Audited
	NIS in thousands				
<u>Cash flow from current operations</u>					
Net income	427,989	98,021	405,322	158,590	938,934
Adjustments to reconcile cash flows provided by operating activities (a)	(58,447)	(152,626)	(271,830)	(162,799)	(883,335)
Net cash provided by (used in) operating activities	369,542	(54,605)	133,492	(4,209)	55,599
<u>Cash flows from investment operations</u>					
Purchase of fixed assets	(8,138)	(613)	(4,227)	(328)	(5,557)
Purchase of investment property and investment property under development	(719,498)	(1,016,317)	(268,613)	(629,033)	(2,253,824)
Investment in land inventory	(73,511)	(227,247)	(72,556)	-	(163,995)
Repayment (grant) of loans to affiliates	(16,496)	(7,532)	(15,114)	(1,804)	13,867
Acquisition of newly consolidated subsidiaries (b)	(254,434)	(531,011)	(44,549)	(504,478)	(531,011)
Advance on account of investment	(7,055)	(11,835)	(6,001)	77,946	(3,238)
Long-term debt	(136,120)	(25,077)	(129,702)	(49)	(31,362) *
Long-term debt repayment	-	-	-	-	34,616 *
Proceeds from sale of fixed assets	-	-	-	-	10
Proceeds from sale of investment property	33,814	87,066	19,913	70,317	579,401
Acquisition of minority shares in subsidiary	(79,997)	(9,945)	(13,963)	(1,819)	(11,595)
Acquisition of minority in subsidiaries	-	(289)	-	-	(509)
Repayment and grant of loans to proportionately consolidated company	-	-	-	(100)	297
Sale (purchase) of short-term investments, net	257,962	(50,983)	363,724	21,606	(175,802)
Investment in long-term deposits	(127,631)	(125,000)	(102,351)	-	(265,461)
Investment in companies previously proportionately consolidated (c)	(23,788)	(917)	(23,788)	-	(869)
Investment in company proportionately consolidated for the first time (d)	-	(21,924)	-	(21,924)	(79,251)
Proceeds from sale of investment in previously proportionately consolidated company (e)	-	25,491	-	25,491	25,491
Repayment of short-term credit	-	-	-	111,000	-
Net cash used in investing activities	(1,154,892)	(1,916,133)	(297,227)	(853,175)	(2,868,792)

(*) Re-classified.

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

Consolidated Cash flow Statements

	For the 6 months ended June 30		For the 3 months ended June 30		For the Year Ended December 31
	2007	2006	2007	2006	2006
	Un-audited				Audited
	NIS in thousands				
<u>Cash flows from financing activity</u>					
Deposits from tenants, net	(8,441)	3,759	(9,158)	340	(2,088)
Change in accrued income	(1,360)	(1,360)	(680)	(680)	(2,719)
Capital issuance to minority in subsidiary	131,028	-	2,314	-	1,086,918
Exercise of stock options into shares	93,712	6,625	72,197	6,625	47,038
Dividend paid to minority in subsidiary	(16,672)	(8,792)	(16,672)	(8,792)	(47,543)
Issuance of debentures, net	481,698	609,735	-	87,009	901,230
Redemption of debentures in subsidiary	(116,660)	(136,967)	-	-	(235,385)
Redemption of debentures convertible into Company shares	-	(2,636)	-	(2,636)	(2,636)
Receipt of long-term loans and other liabilities	1,053,200	1,065,185	863,145	679,840	2,085,355
Repayment of long-term loans and other liabilities	(466,117)	(306,541)	(365,094)	(87,233)	(582,743)
Short-term credit from banks and others, net	(491,480)	949,008	(361,844)	451,030	1,118,227
Net cash provided by financing activities	658,908	2,178,016	184,208	1,125,503	4,365,654
Increase (decrease) in cash and cash equivalents	(126,442)	207,278	20,473	268,119	1,552,461
<u>Translation differences from cash balances of foreign operations</u>	38,466	(16,422)	48,334	(17,320)	25,887
<u>Cash and cash equivalents balance at start of period</u>	1,731,510	153,162	1,574,727	93,219	153,162
<u>Cash and cash equivalents balance at end of period</u>	1,643,534	344,018	1,643,534	348,018	1,731,510

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

Consolidated Cash flow Statements

	For the 6 months		For the 3 months		For the Year
	ended		ended		Ended
	June 30		June 30		December
	2007	2006	2007	2006	2006
	Un-audited				Audited
	NIS in thousands				
a. <u>Adjustments to reconcile cash flows provided by operating activities</u>					
Income and expenses not involving cash flows:					
Gain from sale of investment in partially consolidated company	-	(2,915)	-	(2,915)	(2,915)
Amortization of negative goodwill	-	(530)	-	-	(623)
Depreciation and amortization	1,287	6,139	819	2,441	11,870
Loss (gain) from short-term investments	(31,545)	2,884	(33,781)	4,577	120
Increase in fair value of investment property	(395,812)	(192,444)	(398,409)	(192,233)	(819,756)
Revaluation of liability component of conversion option of convertible debentures of the Company and subsidiary and revaluation of liability component of convertible option (series 6)	119,350	54,122	1,438	(7,619)	301,264
Revaluation of long-term loans and debentures	34,595	87,877	65,670	30,831	(35,474)
Revaluation (erosion) of long-term receivables and bank deposits	(3,830)	(13,660)	(6,751)	(10,037)	4,913
Equity in losses (earnings) of affiliates, net of dividend received	(244)	(5,209)	(732)	(1,655)	(3,986)
Deferred taxes, net	27,088	20,790	29,133	10,439	120,775
Change in liabilities in respect of employee benefits, net	53	(1,378)	10	(1,397)	(70)
Expenses relating to issuance of stock options to employees in subsidiary	5,926	-	3,477	-	9,392 *)
Gain (loss) from decrease in holding rate in subsidiary	(71,875)	-	918	-	(492,136)
Gain from purchase	(6,176)	-	(6,176)	-	-
	<u>(321,183)</u>	<u>(44,324)</u>	<u>(344,384)</u>	<u>(159,949)</u>	<u>(906,626)</u>
Changes in asset and liability items:					
Decrease (increase) in trade receivables	8,958	(12,924)	(12,541)	(7,554)	(66,748)
Decrease (increase) in other accounts receivable and long-term receivables	3,893	(25,865)	(73,224)	(20,322)	(21,316)
Decrease (increase) in inventories of buildings and apartments for sale less customer advances	226,284	(71,141)	98,783	(41,728)	(21,530)
Increase (decrease) in trade payables	10,173	(9,823)	44,081	2,333	23,982
Increase in other accounts payable	13,428	11,451	15,455	64,421	108,903
	<u>262,736</u>	<u>(108,302)</u>	<u>72,554</u>	<u>(2,850)</u>	<u>23,291</u>
	<u>(58,447)</u>	<u>(152,626)</u>	<u>(271,830)</u>	<u>(162,799)</u>	<u>(883,335)</u>

(*) Re-classified.

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

Consolidated Cash flow Statements

For the 6 months ended June 30		For the 3 months ended June 30		For the Year Ended December 31
2007	2006	2007	2006	2006
Un-audited				Audited
NIS in thousands				

b. Acquisition of newly consolidated subsidiaries

Assets and liabilities of the subsidiaries at date of acquisition:

Working capital (excluding cash and cash equivalents)	53,238	(45,974)	49,863	(45,279)	(45,974)
Investment property	(694,809)	(1,908,488)	(341,611)	(1,882,650)	(1,908,488)
Long-term liabilities	430,315	1,423,451	232,734	1,423,451	1,423,451
Excess of cost created upon acquisition	(43,178)	-	14,465	-	-
	<u>(254,434)</u>	<u>(531,011)</u>	<u>(44,549)</u>	<u>(504,478)</u>	<u>(531,011)</u>

c. Investment in companies previously proportionately consolidated

Assets and liabilities of the subsidiaries at date of acquisition:

Working capital (excluding cash and cash equivalents)	17,865	(1,359)	17,865	-	(1,311)
Excess of cost created upon acquisition	(6,342)	-	(6,342)	-	-
Fixed assets, net	(841)	(235)	(841)	-	(235)
Investment property	(77,780)	-	(77,780)	-	-
Non-current liabilities	24,987	677	24,987	-	677
Minority interests	18,323	-	18,323	-	-
	<u>(23,788)</u>	<u>(917)</u>	<u>(23,788)</u>	<u>-</u>	<u>(869)</u>

d. Investment in company proportionately consolidated for the first time

Assets and liabilities of partially consolidated subsidiaries:

Working capital (excluding cash and cash equivalents)	-	(14,982)	-	(14,982)	(14,982)
Investment property	-	(22,241)	-	(22,241)	(79,568)
Non-current liabilities	-	15,299	-	15,299	15,299
	<u>-</u>	<u>(21,924)</u>	<u>-</u>	<u>(21,924)</u>	<u>(79,251)</u>

Consolidated Cash flow Statements

	For the 6 months ended June 30		For the 3 months ended June 30		For the Year Ended December 31
	2007	2006	2007	2006	2006
	Un-audited				Audited
	NIS in thousands				
e. <u>Realized investment in company previously proportionately consolidated</u>					
Assets and liabilities of the partially consolidated company at date of acquisition:					
Gain from realized investment	-	2,915	-	2,915	2,915
Working capital (excluding cash and cash equivalents)	-	(1,604)	-	(1,604)	(1,604)
Investment property	-	32,982	-	32,982	32,982
Non-current liabilities	-	(8,802)	-	(8,802)	(8,802)
	-	25,491	-	25,491	25,491
f. <u>Material non-cash operation</u>					
Sale of fixed assets on credit	9,012	277,597	9,012	277,592	8,239
Non-cash purchase of investment property	-	-	-	-	1,469
Conversion of debentures into shares	82,956	44,676	46,189	27,099	74,251
Exercise of stock options into shares	230,794	3,662	193,876	3,662	49,652
Purchase of land inventory for construction (see note 5b(2))	52,398	-	53,398	-	-
Declared dividend	250,000	-	250,000	-	-
g. <u>Additional cash flow information</u>					
Cash paid during the period for:					
Interest	261,055	184,875	107,725	54,526	490,798
Taxes on income	83,220	8,934	58,043	7,848	37,006
Cash received during the period for:					
Interest	41,130	27,934	19,227	10,805	57,448
Taxes on income	6,086	6,085	6,042	-	933

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

Note 1: - Overview

- a. The accompanying financial statements are compiled in a condensed format as of June 30, 2007 and for the six-month and three-month periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements as of December 31, 2006 and for the year then ended with their accompanying notes ("annual financial statements").
- b. As of June 30, 2007, the Company in the consolidated ("the Group") has a working capital deficit of approximately NIS 310 million. The Group's operating cash flows do not cover short-term credit from banks including current maturities of its long-term liabilities. The Group's management estimates that the credit facilities obtained from certain banks allow it to improve the current ratio through the conversion of short-term loans into long-term loans. The Group considers this type of conversion from time to time based on capital market conditions.
- c. The Company's consolidated financial statements as of June 30, 2007 have been approved for publication by decision of the Board of Directors dated August 29, 2007.

Note 2: - Significant accounting policies

a. Basis of presentation of interim financial statements

The interim financial statements have been compiled in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in accordance with IAS 34, "Interim Financial Reporting" and in accordance with disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements.

b. Initial application of new IFRS standards

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

The Company has adopted IFRIC 8 as of January 1, 2007. IFRIC 8 discusses share-based payment transactions where part or all of the goods or services are not specifically identifiable. These goods or services are measured upon the date of grant as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services.

The initial application of the standard did not have a material impact on the interim consolidated financial statements.

2. IFRIC 9 - Reassessment of Embedded Derivatives

The Company has adopted IFRIC 9 as of January 1, 2007. In accordance with IFRIC 9, the date for reassessing the existence of an embedded derivative is when the corporation first becomes a party to the engagement. The reassessment of an embedded derivative is performed only when there is a change in the engagement that materially affects the cash flows from the engagement.

The initial application of the standard did not have a material impact on the interim consolidated financial statements.

Note 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Initial application of new IFRS standards (Cont.)

3. IFRIC 10 - Interim Financial Reporting and Impairment

The Company has adopted IFRIC 10 as of January 1, 2007. IFRIC 10 prohibits the reversal of an impairment loss recognized in the past in the interim financial statements with respect to goodwill, investment in an equity instrument or financial asset presented at cost.

The initial application of the standard did not have a material impact on the interim consolidated financial statements.

c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption

IAS 23 (Revised) - Borrowing Costs

In accordance with IAS 23 (Revised), borrowing costs that relate directly to the acquisition and establishment or manufacture of a qualifying asset must be capitalized. A qualifying asset is an asset that requires a significant period of time for its preparation for its intended use or sale and includes fixed assets, investment property and inventories whose preparation for sale requires a lengthy period of time. The possibility of immediately carrying these costs as an expense has been cancelled.

The revised Standard will become effective for the financial statements for the year commencing on January 1, 2009. Early adoption is permissible.

The Company believes that the revised Standard is not expected to have a material impact on its financial condition, results of operations and cash flows since the Company's existing policy is to capitalize borrowing costs to the cost of qualifying assets.

d. Following are data regarding the exchange rates of the principal currencies and consumer price indices in countries in which the Group operates:

Rate of change during the period	Israeli Consumer Price Index *		USD	Euro	Can \$	CHF
	for	Known				
	%	%	%	%	%	%
For the 6-month period Ended June 30, 2007	0.97	0.27	0.6	2.7	10.4	(0.5)
For the 3-month period Ended June 30, 2007	0.72	0.53	2.3	3.2	11.6	1.2
For the 6-month period Ended June 30, 2006	1.57	1.24	(3.6)	3.6	0.9	2.9
For the 3-month period Ended June 30, 2006	0.09	0.54	(4.8)	(0.3)	(0.5)	0.4
For the year ended On December 31, 2006	(0.05)	(0.3)	(8.2)	2.2	(8.2)	(0.9)
As of	Index for the month (points)		Representative exchange rate (NIS)			
30.6.2007	186.7	185.4	4.249	5.7132	4.0195	3.4496
30.6.2006	187.9	187.7	4.44	5.6435	3.9998	3.6013
31.12.2006	184.9	184.9	4.225	5.5643	3.6408	3.4655
31.12.2005	185.0	185.4	4.603	5.4465	3.9642	3.4985

*) According to an average basis of 1993 = 100.

Note 3: - GEOGRAPHICAL SEGMENTS

	Israel	Canada	USA	Europe				Total
				France	Switzerland	Russia	Other	
	Un-audited							
NIS in thousands								
For the six-month period ended June 30, 2007								
Segment revenues	220,424	138,166	392,637	155,218	41,103	17,923	59,707	1,025,178
Segment results	177,185	66,908	91,566	134,008	25,200	251,405	49,776	796,048
Unallocated expenses								16,404
Operating income								779,644

	Israel	Canada	USA	Europe				Total
				France	Switzerland	Russia	Other	
	Un-audited							
NIS in thousands								
For the six-month period ended June 30, 2006								
Segment revenues	223,991	187,652	7,954	71,650	11,650	9,496	36,397	548,790
Segment results	169,100	120,890	4,506	182,435	9,250	1,345	33,255	520,783
Unallocated expenses								25,472
Operating income								495,311

	Israel	Canada	USA	Europe				Total
				France	Switzerland	Russia	Other	
	Un-audited							
NIS in thousands								
For the three-month period ended June 30, 2007								
Segment revenues	112,398	67,419	186,326	73,069	18,621	11,427	26,913	496,173
Segment results	88,226	46,125	34,584	90,072	11,860	263,845	25,684	560,396
Unallocated expenses								2,356
Operating income								558,040

	Israel	Canada	USA	Europe				Total
				France	Switzerland	Russia	Other	
	Un-audited							
NIS in thousands								
For the three-month period ended June 30, 2006								
Segment revenues	128,949	72,569	4,064	52,736	7,608	2,580	22,827	291,333
Segment results	86,076	83,340	2,307	165,499	5,840	(532)	29,723	372,253
Unallocated expenses								16,255
Operating income								355,998

Note 3: - GEOGRAPHICAL SEGMENTS (cont.)

	Israel	Canada	USA	Europe				Total	
					France	Switzerland	Russia		Other
	Audited								
NIS in thousands									
For the year ended December 31, 2006									
Segment revenues	500,793	344,024	206,171	214,958	52,651	18,924	34,339	1,371,860	
Segment results	427,213	242,542	60,626	466,990	58,138	174,787	116,51	1,546,815	
Unallocated expenses								60,362	
Operating income								1,486,453	

Note 4: - BUSINESS COMBINATIONS

a. The acquisition of Kalkalit Selath Holding TH ("Selath")

On February 28, 2007, the Company acquired 100% of the shares of Selath, a private French company holding income producing real estate.

The transaction was treated under the acquisition method, in accordance with IFRS 3.

The fair value of the identified assets and liabilities of Selath and their carrying amount as of the date of acquisition are as follows:

	Fair Value	Carrying Amount
	Un-audited	
	NIS in Thousands, Reported	
Trade receivables	714	714
Other accounts receivable	7,020	7,020
Land	289,359	101,447
	297,093	109,181
Trade payables	9,838	9,838
Other accounts payable	24,774	24,774
Credit from banking corporations	85,351	85,351
Deferred Taxes	52,910	-
	172,873	119,963
Net assets	124,220	(10,782)
Goodwill created upon acquisition	35,145	
Total cost of acquisition	159,365	

If the business combination had been carried out in the beginning of the period, the consolidated net income would have amounted to NIS 430,475 thousand and the revenue turnover would have amounted to NIS 540,412 thousand.

Note 4: - BUSINESS COMBINATIONS (Cont.)

b. The acquisition of Balthazar

On June 21, 2007 the Company acquired 100% of shares of Balthazar, a private German company which owns a logistics center.

The transaction was treated under the acquisition method, in accordance with IFRS 3.

The fair value of the identified assets and liabilities of Balthazar and their carrying amount as of the date of acquisition are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>
	<u>Un-audited</u>	
	<u>NIS in thousands</u>	
Other accounts receivable	40	40
Investment property	<u>28,807</u>	<u>20,788</u>
	<u>28,847</u>	<u>20,828</u>
Other accounts payable	868	868
Deferred Taxes	<u>1,171</u>	<u>-</u>
	<u>2,039</u>	<u>868</u>
Net assets	<u>26,808</u>	<u>19,960</u>
Excess of cost created upon acquisition	<u>1,171</u>	
Total cost of acquisition	<u><u>27,979</u></u>	

The total cost of said business combinations amounted to NIS 28 million, including cash payment of NIS 20.5 million. The remaining proceeds for said business combinations is payable over the next year. Excess cost created upon acquisition was recognized as goodwill.

Note 4: - BUSINESS COMBINATIONS (Cont.)

c. The acquisition of Oniv Holdings Ltd.

On February 28, 2007, Industrial Buildings Corporation Ltd. ("Industrial Buildings") acquired 100% of the shares of Oniv Holdings Ltd. ("Oniv"), a private Israeli company, which holds 50% of the Power Center in Be'erot Yitzhak. The transaction was treated under the acquisition method, in accordance with IFRS 3.

The interim consolidated financial statements do not include the results of Oniv's operations, which are immaterial.

The fair value of the identified assets and liabilities of Oniv Holdings Ltd. and their carrying amount as of the date of acquisition are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>
	<u>Un-audited</u>	
	<u>NIS in thousands</u>	
Cash and cash equivalent	15	15
Trade receivables	498	498
Other accounts receivable	2,932	2,932
Fixed assets, net	844	844
Land	<u>77,770</u>	<u>77,770</u>
	<u>82,059</u>	<u>82,059</u>
Trade payables	83	83
Other accounts payable	3,555	3,555
Credit from banking corporations	40,810	40,810
Deferred Taxes	<u>9,644</u>	<u>9,644</u>
	<u>54,092</u>	<u>54,092</u>
Net assets	27,967	<u>27,967</u>
Excess of cost created upon acquisition	<u>13,038</u>	
Total cost of acquisition	<u><u>41,005</u></u>	

The total cost of said business combinations amounted to NIS 41,005 million, including cash payment of NIS 40.9 million. The excess cost created upon acquisition was recognized as fuel operations in the amount of NIS 3,108 thousand, as management operations in the amount of NIS 2,039 thousand and as goodwill in the amount of NIS 7,891 thousand.

If the business combination had been carried out in the beginning of the year, the consolidated net income would have amounted to NIS 1,032 thousand and the revenue turnover would have increased by NIS 2,933 thousand.

Note 4: - BUSINESS COMBINATIONS (Cont.)

c. The acquisition of Oniv Holdings Ltd. (Cont.)

2. Furthermore, on June 29, 2007 Oniv entered into an agreement to acquire a further 24% of the Be'erot Yitzhak Land Development Corporation Ltd. ("Be'erot Yitzhak") in exchange for NIS 23,256 thousand. In addition, Oniv paid NIS 1,564 thousand in exchange for an equal share of the owner's loan granted by the seller to Be'erot Yitzhak in conjunction with repayment of the receivable loan granted by Be'erot Yitzhak in the amount of NIS 860 thousand.

Following said acquisition, Oniv's holding share of Be'erot Yitzhak rose from 50% to 74% and Oniv has started fully consolidating Be'erot Yitzhak's financial results starting on said date, instead of proportionately consolidating them.

The goodwill created upon the acquisition is attributed to the projected benefits arising from the synergy of the combined activities of the acquired company and the Company.

d. Acquisition of FREY GROUP AG

On April 24, 2007, Industrial Buildings Corporation Ltd. ("Industrial Buildings") acquired 100% of shares of FREY GROUP AG ("FREY"), a private Swiss company which owns an office building as well as commercial, logistics and parking space.

The transaction was treated under the acquisition method, in accordance with IFRS 3.

The fair value of the identified assets and liabilities of FREY and their carrying amount as of the date of acquisition are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>
	<u>Un-audited</u>	
	<u>NIS in thousands</u>	
Cash and cash equivalent	101	101
Other accounts receivable	873	873
Investment property	<u>298,029</u>	<u>298,029</u>
	<u>299,003</u>	<u>299,003</u>
Trade payables	1,926	1,926
Other accounts payable	558	558
Long term loans from banking corporations	208,191	208,191
Deferred Taxes	<u>48,540</u>	<u>48,540</u>
	<u>259,215</u>	<u>259,215</u>
Net assets		<u>39,788</u>
Excess negative cost created upon acquisition	<u>(6,176)</u>	
Total cost of acquisition	<u>33,612</u>	

The total cost of said business combinations amounted to NIS 33.6 million, including cash payment of NIS 33.5 million. Excess cost created upon acquisition was recognized to the Statement of Operations and charged to other revenues, net.

Note 5: - Real Estate

a. The Company

1. In January 2007, Mirland completed the acquisition of 79% of the shares of a Cypriot company that owns land in Moscow, held for the construction of a skyscraper in consideration of approximately U.S. \$ 17.5 million (approximately NIS 70 million). Mirland intends to purchase the remaining 21% of the Cypriot company's shares.
2. On March 30, 2007, the Company's board of directors resolved to increase self financing for the acquisition of foreign properties up to a total of approximately U.S. \$ 500 million.
3. In May 2007, Mirland entered into an agreement with a foreign Russian company ("the Russian company") to establish a partnership for construction of two residential projects in Moscow ("the partnership"). Financing for the projects is to be provided by Mirland, subject to certain terms. In exchange for provision of financing, Mirland will be eligible for 51% of the partnership income. In order to start construction of the projects, Mirland has provided a loan amounting to \$14 million (NIS 59.5 million) to the Russian company. This amount is included under long-term deposits and receivables. The loan bears interest at 12% which is repayable upon conclusion of the project.

b) Industrial Buildings

1. During January through June 2007, Industrial Buildings completed the acquisition of several properties in Germany (commercial, office, residential). The cost of acquisition totaled approximately NIS 295 million.
2. On February 25, 2007, Industrial Buildings established a limited partnership ("the Partnership") in which about 90% of the rights are held by Industrial Buildings as a limited partner. The general partner in the Partnership is a company in which 90% of the shares are held by Industrial Buildings. On February 25, 2007, the Partnership entered into an agreement with Moshav Zur Natan ("the Moshav") whereby the Partnership will acquire from the Moshav its rights to a land west of the Moshav and north of Kochav Yair held for the construction of some 740 residential units as well as commercial space. Industrial Buildings has undertaken to commence construction within 18 months from closing.

In consideration for the acquisition of rights, the Partnership has undertaken to construct the project and pay the Moshav 7.5% of the proceeds from the sale of the apartments and/or the lease of commercial spaces pursuant to the dates and terms stipulated in the agreement signed between the parties.

3. On May 15, 2007, a foreign subsidiary of Industrial Buildings in which the latter has a 95% holding, was awarded a tender by the Government of Macedonia to acquire land in Macedonia (near Skopje) in exchange for €3.7 million.

Note 6: - DEBENTURES - THE COMPANY

- a. During January through June 2007, approximately NIS 43 million par value of Company debentures (series C) were converted into approximately NIS 1,718 thousand par value of Company shares.
- b. During January through June 2007, Company options (series 6) were converted into approximately NIS 3,610 thousand par value Company shares, yielding receipts of approximately NIS 93.7 million to the Company.
- c. In January 2007, the Company allocated debentures (series F) by private placements to institutional investors.

The debentures are linked to the CPI, bear annual interest of about 5.35% and are redeemable in 2015 through 2017.

The total par value issued amounted to approximately NIS 482 million in par value in consideration of approximately NIS 482.3 million.

The debentures were listed for trade on May 15, 2007.

- d. On May 15, 2007 the Company listed for trade by means of a shelf prospectus another series (expansion of debentures (Series F) and debentures (Series G-I) as follows:
 - (1) Up to NIS 518 million par value debentures (Series F).
 - (2) Up to 12 additional debenture series (Series G-I).

Each debenture series will be of par value NIS 600 million, with debenture terms to be set forth in shelf prospectus reports.

- e. As for conversions of debentures (series C) subsequent to balance sheet date, see Note 10a(1).
- f. As for conversions of options (series 6) into Company shares, see Note 10a(2).

Note 7: - DEBENTURES - INDUSTRIAL BUILDINGS

- a. During the first quarter of 2007, Industrial Buildings issued to institutional entities approximately NIS 142 million par value of non-convertible debentures (series I) and approximately NIS 20 million par value of non-convertible debentures (series J) in consideration of approximately NIS 165 million.
- b. On May 15, 2007, Industrial Buildings listed for trade, by means of a prospectus, the aforementioned debentures and other series pursuant to a shelf prospectus (expansion of debentures (Series I and J) and debentures (Series K-V) as follows:
 1. 512NIS million par value debentures (Series I) with principal and interest linked to the Consumer Price Index, redeemable in three equal installments in each year from 2015 through 2017, bearing interest at 5.05% p.a. payable annually on December 31 of each year 2007 through 2017.
 2. NIS 130 million par value debentures (Series J) redeemable in three equal installments in each year from 2011 through 2017, bearing interest at 6.5% p.a. payable annually on December 31 of each year 2007 through 2013.
 3. Shelf prospectus for:
 - a. Up to NIS 179 million par value debentures (Series I).
 - b. Up to NIS 179 million par value debentures (Series J).
 - c. Up to 12 additional debenture series (Series K-V).Each debenture series will be of par value NIS 600 million, with debenture terms to be set forth in shelf prospectus reports.

Note 7: - DEBENTURES - INDUSTRIAL BUILDINGS (Cont.)

- c. During the first half of 2007, approximately NIS 125 million par value of debentures (series D) of Industrial Buildings were converted into approximately NIS 14.3 million Ordinary shares of Industrial Buildings in exchange for NIS 164 million.

Note 8: - Material events in the reported period

- a. In January 2007, the Mirland IPO underwriters exercised an option to purchase about 3.6 million shares of Mirland for the price determined at the IPO (£ 4.78 per share) in consideration of approximately £ 17.2 million (approximately NIS 130 million). As a result of the dilution, the Company's consolidated stake in Mirland is about 54.14% and the Company derived a gain from the decrease in its holdings in an amount of approximately NIS 42.4 million, which was included in the statement of operations under other income, net.
- b. In April 2007 Mondon Investments Ltd. ("Mondon"), in which the Company has a 36% share and the balance of its shares are held by Industrial Buildings (36%), Derben Investments Ltd. (18%) and a private company owned and controlled by Mr. Eliezer Fishman and his family members (10%) - filed a prospectus with the Israel Securities Authority based on Mondon's annual financial statements for the year ended December 31, 2006.

Pursuant to the draft prospectus, Mondon will issue debentures. However, terms of said issuance including its extent and timing have yet to be determined and there is no certainty that the aforementioned transaction would be concluded.

- c. On May 21, 2007, the Industrial Buildings Board of Directors approved an additional dividend for 2006 amounting to NIS 46,382 thousand, pursuant to the dividend distribution policy dated March 27, 2007. The dividend was paid in June 2007.
- d. On July 5, 2007, the Company received best judgment tax assessments for the 2003-2005 tax years. Pursuant to said tax assessments, the Company is required to offset business losses (including losses carried forward from previous years) amounting to NIS 157 million, such that most of the losses would be capitalized to Company assets, and is further required to pay tax in the amount of NIS 4 million.

The Company carried on its books a tax asset in the amount of NIS 39 million in conjunction with the business losses which the Company is required to offset pursuant to said tax assessments, and should the tax authorities prevail in their opinion the Company would be required to reduce said tax asset.

Subsequent to the balance sheet date, the Company has filed with the Tax Assessor its reservations with regard to said assessments. Company management and its professional consultants are of the opinion that the Company has strong arguments to support said reservations.

- e. On May 31, 2007, the Company Board of Directors decided to declare a dividend for 2006 amounting to NIS 250 million. The dividend was paid in July 2007.
- f. In January through June 2007 the Company acquired in total 7.2 million Industrial Buildings shares in exchange for NIS 77 million. As a result of this acquisition, an original difference of NIS 16.6 million was created which is attributable to goodwill.
- g. In January through June 2007, minority shareholders of Industrial Buildings have converted Industrial Buildings debentures (Series D) into shares. As a result of the decrease in its holding stake the Company realized a gain of NIS 27.8 million, included under other revenues, net.
- h. On July 29, 2007 the Company Board of Directors approved cancellation of the engagement with "Shemi Bar (J.A.) 1993 Ltd." via an agreement for provision of management services by Mr. Oded Shamir, and has approved the Company's engagement in an employment contract with Mr. Shamir as Company CEO, effective September 1, 2007. Mr. Shamir's gross monthly salary will amount to NIS 75,000, linked to the known CPI as of January 1, 2007.

Note 9: - RECONCILIATION OF ISRAELI GAAP TO IFRS

In furtherance to the matters discussed in Note 2a to the annual financial statements, these interim financial statements are the Company's first interim financial statements prepared in accordance with IFRS.

Prior to adopting IFRS, the Company prepared its financial statements in accordance with generally accepted accounting principles in Israel ("Israeli GAAP"). The Company's last interim financial statements prepared in accordance with Israeli GAAP were prepared as of September 30, 2006 and for the nine months then ended.

Accordingly, the Company provides disclosures of the following reconciliations between reporting according to Israeli GAAP and reporting according to IFRS as of June 30, 2006 and for the six months then ended.

a. Reconciliation to balance sheet

	June 30, 2006		
	Israeli GAAP	Impact of transition to IFRS	IFRS
	Un-audited		
	NIS in thousands		
<u>Current assets</u>			
Cash and cash equivalent	344,018	-	344,018
Investments in short-term available-for-sale financial assets	239,053	-	239,053
Trade receivables	203,659	(80,205)	123,454
Other accounts receivable	467,143	45,649	512,792
Inventory of buildings and apartments for sale, Net	521,889	27,787	549,676
	<u>1,775,762</u>	<u>(6,769)</u>	<u>1,768,993</u>
<u>Non-current assets</u>			
Long-term deposits and receivables	1,529,370	(44,580)	1,484,790
Assets in respect of employee benefits	-	3,942	3,942
Investments in held companies	54,343	96,118	150,461
Investment property and property under development	10,497,925	2,439,342	12,937,267
Inventory of land for residential construction	396,571	17,707	414,278
Fixed assets, net	8,545	508	9,053
Other assets	147,800	(147,060)	740
Deferred Taxes	-	4,196	4,196
Advance on account of investment	18,386	-	18,386
Minority debt	14,596	(14,596)	-
	<u>12,667,536</u>	<u>2,355,577</u>	<u>15,023,113</u>
	<u>14,443,298</u>	<u>2,348,808</u>	<u>16,792,106</u>

Note 9: - RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

a. Reconciliation to balance sheet (Cont.)

	June 30, 2006		
	Israeli GAAP	Impact of transition to IFRS	IFRS
	Un-audited		
NIS in thousands			
<u>Current liabilities</u>			
Credit from banks and others	2,804,254	(5,238)	2,799,016
Trade payables	105,183	(312)	104,871
Other accounts payable	354,023	93,046	447,069
	<u>3,263,460</u>	<u>87,496</u>	<u>3,350,956</u>
<u>Non-current liabilities</u>			
Loans from banks and others	5,708,299	28,029	5,736,328
Accrued rental income	27,075	(9,750)	17,325
Deferred Taxes	529,344	700,602	1,229,946
Liabilities in respect of employee benefits	1,883	4,247	6,130
Liability component in respect of conversion option of convertible debentures and liability component in respect of convertible option (series 6)	-	92,898	92,898
Debentures	3,575,689	(2,421)	3,573,268
Debentures convertible into subsidiary's shares	206,365	(4,706)	201,659
Debentures convertible into Company shares	66,455	(14,092)	52,363
Other long-term liabilities	47,401	12,815	60,216
	<u>10,162,511</u>	<u>807,622</u>	<u>10,970,133</u>
<u>Equity attributable to shareholders of the Company</u>			
Issued share capital	351,760	-	351,760
Share Premium	133,013	14,140	147,153
Treasury shares	(49,616)	-	(49,616)
Retained earnings	63,823	(53,323)	10,500
Capital reserve in respect of available-for-sale financial assets	-	(583)	(583)
Other capital reserves	25,234	1,204,924	1,230,158
Proceeds from issue of option warrants	12,180	(12,180)	-
	<u>536,394</u>	<u>1,152,978</u>	<u>1,689,372</u>
Minority interests	480,933	300,712	781,645
Total equity	<u>1,017,327</u>	<u>1,453,690</u>	<u>2,471,017</u>
	<u>14,443,298</u>	<u>2,348,808</u>	<u>16,792,106</u>

Note 9: - RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

b) Reconciliation of profit or loss

	For the 6 months ended		
	June 30, 2006		
	Israeli GAAP	Impact of transition to IFRS	IFRS
	NIS in thousands		
<u>Revenues</u>			
Revenues from rent	449,627	(4,767)	444,860
Revenues from sale of apartments and commercial space	52,114	(41,953)	10,161
Revenues from management fees and building maintenance	90,625	927	91,552
Revenues from building management fees and infrastructure development	2,217	-	2,217
Total revenues	594,583	(45,793)	548,790
Building management and maintenance costs	177,596	(1,161)	176,435
Depreciation and amortization of real estate	107,071	(107,071)	-
Cost of apartments and commercial space sold	39,094	(25,010)	14,084
Cost of management and infrastructure development	1,763	-	1,763
Total cost of sales and services	325,524	(133,242)	192,282
Gross profit	269,059	87,449	356,508
Increase in fair value of investment property	-	192,444	192,444
Selling, general and administrative expenses	52,136	1,505	53,641
Operating income	216,923	278,388	495,311
Financing expenses, net	266,086	91,794	357,880
Other income, Net	116,465	(104,383)	12,082
Income (loss) before taxes on income	67,302	82,211	149,513
Taxes on income	14,096	42,605	56,701
Income (loss) after taxes on income	53,206	39,606	92,812
Equity in earnings of investees, net	729	4,480	5,209
Minority interest in losses (earnings) of subsidiaries, net	(28,506)	14,619	(13,887)
Net income	25,429	58,705	84,134

Note 9: - RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

b) Reconciliation of profit or loss (Cont.)

	For the 3 months ended		
	June 30, 2006		
	Israeli GAAP	Impact of transition to IFRS	IFRS
	NIS in thousands		
<u>Revenues</u>			
Rental income	243,205	(3,396)	239,809
Revenues from sale of apartments and commercial space	25,259	(19,451)	5,808
Revenues from management fees and building maintenance	43,558	927	44,485
Revenues from management fees and infrastructure development	1,231	-	1,231
Total revenues	313,253	(21,920)	291,333
Building management and maintenance costs	93,076	(1,653)	91,423
Depreciation and amortization of real estate	63,217	(63,217)	-
Cost of apartments and commercial space sold	18,392	(11,658)	6,734
Cost of management and infrastructure development	1,091	-	1,091
Total cost of sales and services	175,776	(76,528)	99,248
Gross profit	137,477	54,608	192,085
Increase in fair value of investment property	-	192,233	192,233
Selling, general and administrative expenses	27,651	669	28,320
Operating income	109,826	247,510	355,998
Financing expenses, net	163,999	9,243	173,242
Other income, Net	106,156	(95,765)	10,391
Income before taxes on income	51,983	141,164	193,147
Taxes on income	12,308	23,904	36,212
Profit after taxes on revenue	39,675	117,260	156,935
Equity in earnings of investees, net	1,236	419	1,655
Minority interest in losses (earnings) of subsidiaries, net	24,176	(17,365)	6,811
Net income	16,735	135,044	151,779

Note 9: - RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

c. Notes to the reconciliations to balance sheet as of June 30, 2006 and to profit or loss for the six-month and three-month periods ended June 30, 2006

1. Investment property

According to Israeli GAAP, there was no difference in the treatment of fixed assets and investment property. According to IAS 40, investment property that is held by the owner or by a lessee under finance lease in order to earn rentals or for capital appreciation of the real estate, or both, may be presented at fair value without systematic amortization.

Furthermore, an asset under operating lease may be presented as investment property only if it would have otherwise met the criterion of investment property and the Company has adopted the fair value model.

2. Employee benefits

According to Israeli GAAP, the provision for severance pay is calculated at the employees' latest salary assuming that all employees were terminated upon the balance sheet date. Pursuant to IAS 19, the provision for severance pay is calculated on an actuarial basis taking into account the employees' expected employment term, the time value, expected salary increases until retirement and possible retirement under terms not entitling severance pay.

Note 10: - Events after the balance sheet date

a. The Company

1. During July through August 2007, approximately NIS 347 thousand par value Company debentures (series C) were converted into approximately NIS 14 thousand par value Company shares.
2. During July through August 2007, approximately NIS 155 thousand par value Company debentures (series C) were converted into approximately NIS 155 thousand par value Company shares. As a result of the conversion, the Company derived receipts of approximately NIS 4 million.
3. During July through August 2007, the Company acquired in total 3,380 thousand Industrial Buildings shares, which increased the Company's holding stake in Industrial Buildings to 65.07%.
4. On July 4, 2007, Mondon signed a non-binding letter of intent indicating the foreign company's intent to acquire real estate in the city of Hyderabad, India with total area of 80 acres at a price per acre of US\$3.6 million (NIS 15.3 million), amounting in total to US\$287 million (NIS 1.2 billion).
5. On August 12, 2007 the Company General Meeting decided to change the rename the Company from "Jerusalem Economic Corporation" to "Jerusalem Economic" or to any other similar name, as approved by the Registrar of Companies and to amend the Company regulations accordingly.
6. During August 2007 the Company acquired in total 102 thousand Mirland shares, which increased the Company's holding stake, directly and indirectly, to 54.24% (directly - 27.2%).
7. On August 29, 2007 the Company Board of Directors approved the engagement with Mr. Oded Shamir, Compny CEO. Pursuant to this engagement, the Company would provide a limited guarantee amounting to NIS 3.5 million to benefit the Bank of Israel, to secure the loan obtained by a private company wholly owned by the Company CEO. The Company CEO has committed to offset any amount which the Company would have to pay under said guarantee against any amount payable to him by the Company, as well as to record a lien to benefit the Company for Company shares which he owns up to the amount of NIS 3.5 million.

Note 10: - EVENTS SUBSEQUENT TO BALANCE SHEET DATE (Cont.)

b) Industrial Buildings

1. Pursuant to Note 26f to Industrial Buildings financial statements as of December 31, 2006 with regard to issuance of income tax orders for the years 1999-2003, whereby Industrial Buildings is required to pay additional tax in the amount of NIS 50 million, Industrial Buildings has reached a compromise agreement with the Tax Assessor.

Under said compromise agreement, Industrial Buildings is not required to pay additional taxes in excess of those included in its financial statements.

2. During July 2007, NIS 6,847 par value debentures (Series D) were converted into 782 thousand Industrial Buildings ordinary shares.
