

JERUSALEM ECONOMY LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

Board Members

Eliezer Fishman – Chairman

Ronit Even

Ran Oren

Yechiel Zisskind

Gabby Trabelssi – External Director

Meir Yaacobson – External Director

Anat Menipaz

Eyal Fishman

Hillel Peled

Company Management

Oded Shamir – President & CEO

Ohad Shapira – Vice President & CFO

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 2008 (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.

Management Discussion and Analysis for the Nine Month Period Ended September 30, 2008

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

1. The Company and Its Business Environment

1.1 Company's Areas of Activity

The Company operates, either by itself or via subsidiaries, including Industrial Buildings Ltd. (hereinafter: "Industrial Buildings"), which is approx. 71.23% owned by the Company as of the publication date of these statements, and Mirland, which is 52.12% owned by the Company, directly and indirectly, as of the publication date of these statements, in different areas of real estate, including land acquisition and development, leasing, acquisition and sale of rental real estate for commercial, industrial, residential and office use.

The Company operates directly and indirectly in the above areas in numerous countries, including Israel, the U.S., Canada, Germany, France, Holland, Poland, Switzerland, Portugal, Ukraine, Russia, Belarus, Lithuania, Latvia, Moldova, Serbia, India, Thailand and Macedonia.

1.2 Highlights in the Reported Period

1.2.1 Profitability

Income from income-producing properties totaled in the reported period approx. NIS 1,088 million, an increase of 11% compared to the same period last year.

Gross profit from income-producing properties (NOI), including rental income and management and maintenance income, net of property management and maintenance costs, totaled approx. NIS 764 million compared to approx. NIS 660 million in the same period last year, an increase of 15%.

Gross profit in the reported period totaled approx. NIS 776 million compared to approx. NIS 813 million in the same period last year. Gross profit disregarding profit from sales of apartments and commercial space (mainly the Manhattan project) amounted in the reported period to approx. NIS 771 million compared to approx. NIS 667 million in the same period last year. An increase of approx. NIS 104 million, primarily due to increase in gross income from rental properties.

Operating income during the reported period totaled approx. NIS 539 million compared to operating income of approx. NIS 1,193 million in the same period last year.

The loss attributable to the Company's shareholders amounted in the reported period to approx. NIS 337 million compared to a profit of approx. NIS 303 million in the same period last year.

The Company recorded a loss of approx. NIS 442 million in the period, compared to a net profit of approx. NIS 526 million in the same period last year. The decrease in profit is primarily due to the following:

- a. Approx. NIS 91 million decrease in fair value of rental properties (for further details see section 1.4.2 below), compared to an approx. NIS 583 million increase last year.
- b. Decrease in gross profit from sale of residential units and commercial space, to approx. NIS 5 million in the period, compared to approx. NIS 146 million in the

corresponding period last year. Note that the inventory of residential units for sale in Israel and overseas at the start of the period was 17 units, of which 10 remain unsold as of the publication of these statements.

- c. Increase in financing expenses, net to approx. NIS 985 million, compared to approx. NIS 582 million last year – primarily due to a 5% rise in the CPI over the reported period, compared to a 2.52% increase in the corresponding period last year, increase in credit volume in debentures and loans from banking corporations in Israel and overseas, by a total of approx. NIS 1.3 billion, and impairment of investment in securities amounting to approx. NIS 115 million this year, compared to a approx. NIS 57 million gain last year.
- d. The same period last year's profit included earnings of approx. NIS 70 million due to a decrease in the holding rate in Mirland due to a public issuance and to a decrease in the holding rate in Industrial Buildings following the conversion of debentures of that company by the public.

1.2.2 Equity

Shareholders' equity in the Company, attributable to Company shareholders, amounts to approx. NIS 2,297 million as of the date of these statements, compared to approx. NIS 2,899 million as of December 31, 2007. Shareholders' equity per share attributable to shareholders (excluding shares bought back by the Company) amounts to approx. NIS 43.4 as of September 30, 2008, compared to approx. NIS 53.94 as of December 31, 2007. The decrease is primarily due to Company loss in the reported period, a decrease in capital reserve for adjustments due to translation of financial statements of overseas operations (devaluations of currencies vs. the approx. NIS as follows: USD by 11.05%, Euro - 11.65%, CAD - 15.8%, CHF - 8.01%), decrease in capital reserve in respect of financial assets held for sale and to buy-back of Company shares.

1.2.3 Cash flow

Total net cash in the reported period from current operations amounted to approx. NIS 25 million, compared to approx. NIS 413 million in the corresponding period last year.

Net cash from current operations in the reported period, in addition to changes in asset and liability items primarily due to temporary differences, primarily an increase in inventory of buildings for sale and land designated for construction net of advance payments from customers, amounts to approx. NIS 349 million, compared to approx. NIS 144 million in the same period last year.

The Company's investments in real estate in the reported period totaled approx. NIS 1,302 million, of which:

In rental property and land designated for construction of rental property: approx. NIS 536 million.

Properties under development: approx. NIS 215 million.

Inventory of buildings, apartments for sale and land for residential construction: approx. NIS 299 million.

Increase in down payments on account of investment: approx. NIS 252 million.

1.2.4 Condensed data for the period (NIS in millions)

	<u>Jan.-Sep. 2008</u>	<u>Jan.-Sep. 2007</u>
Revenues from income-producing properties	1,088	981
Gross profit (NOI) from income-producing properties	764	660
Gross profit from sales of apartments and commercial space	5	146
Other gross profit	7	7
Gross profit	<u>776</u>	<u>810</u>
Increase (decrease) in fair value of real estate	(91)	583
General, administrative and selling expenses	<u>146</u>	<u>203</u>
Operating income	539	1,193
Other income	18	78
Financing expenses, net	<u>(985)</u>	<u>(581)</u>
Pre-tax income (loss)	(428)	690
Tax	22	(164)
Gain from affiliates	8	-
Net income (loss)	<u>(442)</u>	<u>526</u>
Income attributable to minority	(105)	223
Income (loss) attributable to the shareholders	<u>(337)</u>	<u>303</u>

1.2.5 Selected data of the Company's balance sheet (NIS in millions)

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Total balance sheet	22,800	22,984
Equity including minority interest	3,687	4,794
Equity attributable to the shareholders	2,297	2,899
Investment property	15,765	16,863
Investment property under development	785	601
Inventories of buildings and apartments for sale	611	513
Inventories of land for residential construction	411	227
Current assets	2,240	3,215
Current liabilities	3,035	3,087
Long-term liabilities	16,077	15,102
Non-recourse loans	4,783	3,948
Deferred tax liability	1,545	1,611

1.3 Major subsidiaries

1.3.1 Industrial Buildings

Industrial Buildings' main area of activity is the promotion, construction and acquisition of buildings designated for lease and sale in the industrial, light industry, commercial, residential, high-tech and office sectors. Industrial Buildings owns buildings in Israel and other countries with a total area of 1,967,000 sqm., at a 91.4% average occupancy rate.

In addition, Industrial Buildings provides management and maintenance services for properties, both owned and not owned by it, used by tenants in the high-tech, office, commercial and residential sectors, through a subsidiary and through a third party.

Industrial Buildings also engages in the promotion, planning and construction of apartments for sale in Israel, the U.S. and Macedonia. As of the balance sheet date, Industrial Buildings had the following inventories of land for future construction: 240 apartments in the Tel Aviv Towers, 98 apartments in south Tel Aviv (Industrial Buildings holds 50% of rights); luxury and/or hotel residences in Florida with an area of 20,000 sqm. (Industrial Buildings holds 50% of rights); 871 apartments and private houses near Tzur Natan (Industrial Buildings holds 90% of rights); and 20 apartments in an upscale neighborhood in Berlin, Germany.

Apart from the above activity, Industrial Buildings provides planning, execution and supervision management services in projects involving development and infrastructure works for residential and industrial areas on behalf of the Israel Lands Administration, local authorities and other entities.

Holding stake in Industrial Buildings as of September 30, 2008 – 70.92%.

Market value of the investment as of September 30, 2008: approx. NIS 1,386 million.

Market value immediately before the publication date of these statements: * approx. NIS 902 million.

Investment carrying amount as of September 30, 2008: approx. NIS 1,815 million.

* Company management estimates that the net asset value of Industrial Buildings is significantly higher than its market value.

Following the acquisition of additional shares of Industrial Buildings subsequent to the date of the report as well as the re-acquisition of shares by Industrial Buildings, the Company holds on the publication date of the report 71.23% of Industrial Buildings.

1.3.2 Mirland Development Corporation PLC ("Mirland")

Mirland was incorporated in Cyprus on November 10, 2004 as a private company under the Cypriot law.

On December 18, 2006, trading in Mirland shares began on the AIM exchange in London. In December 2007 Mirland held an offering of marketable debentures on the Tel Aviv Stock Exchange.

Mirland engages, by itself and through subsidiaries (jointly – "the Group"), in the promotion and development of real estate projects in Russia in the commercial, office and logistics sectors as well as the residential sector, starting from the purchase of available land through to completion of the planning and approval processes, completion of construction of the projects and the sale or management and lease thereof.

In addition to the public's holdings, Mirland shares are held by the Company, Industrial Buildings and Darban Investments Ltd, all three public companies traded on the Tel Aviv Stock Exchange, under the ownership and control of Mr. Eliezer Fishman and members of his family.

Below is the Company's holding stake in Mirland as of the date of the report:

The Company directly: 28.3%, Industrial Buildings – 28.7% (Industrial Buildings is 70.92% owned as of the date of these statements).

The Company's total interest in Mirland, directly, plus its relative share in Industrial Buildings (hereinafter – the Company's interest directly and indirectly) stands as of September 30, 2008 at 48.7%.

Market value of the investment directly and indirectly as of September 30, 2008 (*)	approx. NIS 634 million
Market value of the investment directly and indirectly immediately before the approval date of the statements (*) (**)	approx. NIS 157 million
Investment carrying amount, directly and indirectly, as of September 30, 2008: (*)	approx. NIS 744 million

(*) Including the Company's relative share in Industrial Buildings as reflected in (a) above.

(**) Company management estimates that the net asset value of Mirland is significantly higher than its market value.

Following purchases of shares in Mirland and changes in the holding rate in Industrial Buildings, below is the holding rate in Mirland immediately prior to the publication of the financial statements:

The Company directly – 28.3%, Industrial Buildings – 33.4% (Industrial Buildings is 71.23% owned by the Company as of the publication date of these statements).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 52.1%.

1.3.3 Svitland Ltd. ("Svitland")

Svitland engages, by itself and through subsidiaries, in the promotion and development of real estate projects in the CIS republics, including Ukraine, Lithuania, Latvia, Moldova and Belarus, in the commercial, office and logistics sectors as well as the residential sector.

Svitland's shares are held by the Company, Industrial Buildings and Darban Investments Ltd., all three public companies traded on the Tel Aviv Stock Exchange, as well as by a private company controlled by Mr. Eliezer Fishman and his family.

Below is the Company's holding stake in Svitland as of the date of the report:

The Company directly: 32% .

Industrial Buildings – 32% (Industrial Buildings is 70.92% owned as of the date of these statements).

The Company's total interest in Svitland, directly, plus its relative share in Industrial Buildings (hereinafter – the Company's interest directly and indirectly) stands as of September 30, 2008 at 54.7%.

Following changes in the holding rate in Industrial Buildings, below is the holding rate in Svitland immediately prior to the publication of the financial statements:

The Company directly – 32%, Industrial Buildings – 32% (Industrial Buildings is 71.23% owned by the Company as of the publication date of these statements).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 54.8%.

1.3.4 Mondon Investments Ltd. ("Mondon")

Mondon engages, by itself and through subsidiaries, in the promotion and development of real estate projects in India, in the commercial, office and logistics sectors as well as the residential sector.

Mondon shares are owned by the Company, Industrial Buildings and Darban Investments Ltd. - as well as by Migdal Insurance Company Ltd., which owns 10% of Company shares.

Below is the holding stake in Mondon as of the date of the report:

The Company directly: 36% .

Industrial Buildings – 36% (Industrial Buildings is 70.92% owned as of the date of these statements).

The Company's total interest in Mondon directly, plus its relative share in Industrial Buildings (hereinafter – the Company's interest directly and indirectly) stands as of September 30, 2008 at 61.5%.

Following changes in the holding rate in Industrial Buildings, below is the holding rate in Mondon immediately prior to the publication of the financial statements:

The Company directly – 36%, Industrial Buildings – 36% (Industrial Buildings is 71.23% owned by the Company as of the publication date of these statements).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 61.64%.

1.4 **Rental properties – highlights**

As of September 30, 2008 the Company holds, jointly with others, 3.67 million sqm. of rental areas, of which 1.92 million sqm. overseas.

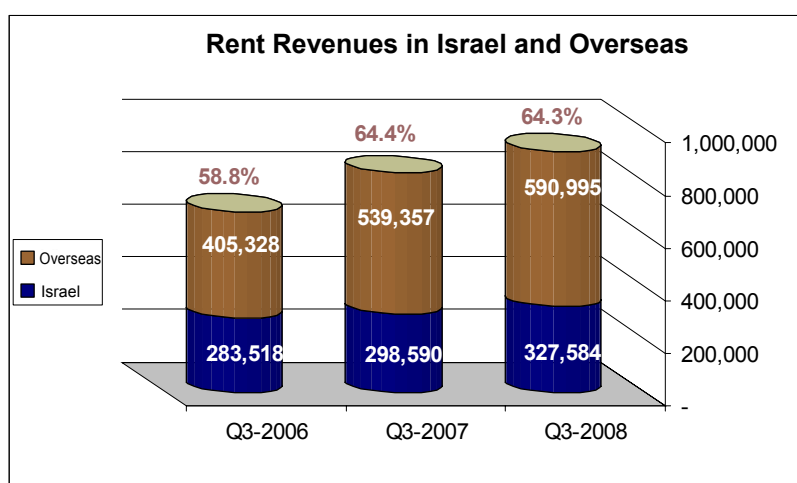
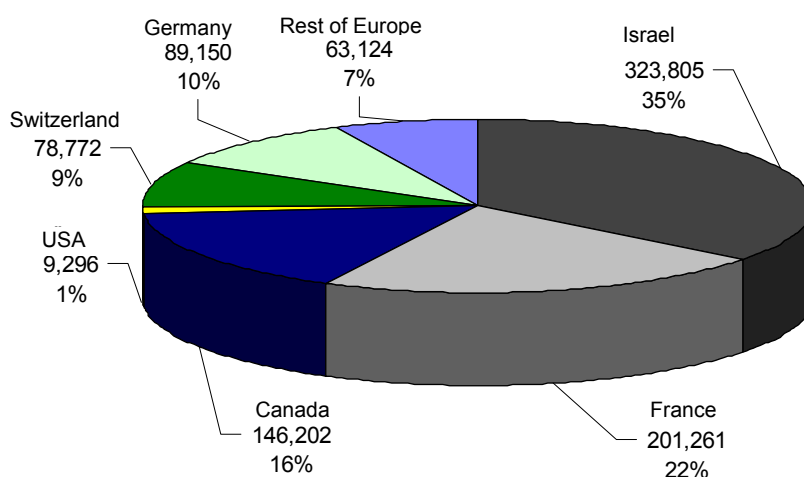
The Company's properties are leased to some 8,056 tenants. The average occupancy rate of the Company's properties as of the date of the report is 91.38%, compared to 89.65% in the same period last year.

1.4.1 **Highlights of rental space and revenues:**

	The Company consolidated with the addition of the Company's relative share in affiliates		
	Rate Occupancy	Area SQM.	Rental income In the reported period NIS in thousands (1)
	September 30, 2008	September 30, 2008	
<u>Israel</u>			
The Company in Israel	86.90%	311,864	61,054
Industrial Buildings	91.10%	1,399,000	256,529
JEC Construction & Supervision	92.85%	24,586	6,222
SIC – 50% (affiliate) (2)	76.53%	13,190	3,779
<u>Total Israel</u>	<u>90.27%</u>	<u>1,748,640</u>	<u>327,584</u>
<u>Overseas</u>			
Europe – Company excluding Industrial Buildings (3)	92.83%	1,187,176	337,176
Canada – Company excluding IBC	92.71%	167,972	73,764
Europe – through IBC	91.08%	322,021	95,131
Canada and the U.S. – through IBC	91.39%	246,073	84,924
<u>Total overseas</u>	<u>91.93%</u>	<u>1,923,242</u>	<u>590,995</u>
<u>Total</u>	<u>91.38%</u>	<u>3,671,882</u>	<u>918,579</u>
Adjustment to the financial statements:			
(1) Including rental income included in earnings of affiliates			<u>3,190</u>
(2) SIC – 50% included affiliate			<u>3,779</u>
Rental income in the statements of income			<u>911,610</u>

(3) Including area and revenue data for Mirland.

Nine-month rental income in Israel and overseas, 2006-2008 (NIS in thousands)



1.4.2 Investment property

a. In the reported period, expenses due to decrease in the fair value of investment property was recorded in the amount of approx. NIS 91 million gross.

This amount includes depreciation expenses totaling approx. NIS 418 million – in France - approx. NIS 307 million; in Russia - approx. NIS 79 million; in Canada – approx. NIS 20 million; and in Switzerland - approx. NIS 12 million. These depreciations are primarily due to higher discount rates used in valuations, in view of the global credit crisis, and not as a result of decrease in cash flows generated by said properties.

On the other hand, fair value of investment property increased for some properties, as follows: approx. NIS 209 million for properties in Israel, of which approx. NIS 54 million due to adjustment of value of a property sold subsequent to the balance sheet date (see section 10a above), to improvement of construction rights, and the balance – due to increase in rent which is primarily linked to the CPI, partially offset by an increase in discount rates, a total of approx. NIS 85 million in Poland due to additional construction rights, a total of approx. NIS 33 million in Germany, primarily due to initial revaluation.

Expenses due to impairment of fair value of real estate, less a decrease in tax reserve amounting to approx. NIS 48 million, recorded in the reported period due to a decrease in the fair value of investment property, amounts to approx. NIS 43 million.

- b. In the reported period the value of investment property decreased from approx. NIS 16,863 million to approx. NIS 15,765 million. The major part of the change stems from a decrease in the fair value of the real estate, a decrease due to changes in the exchange rates of the main currencies used in the Company's overseas countries of operation against the approx. NIS plus investment in and acquisition of new properties.

1.4.3 Summary of real estate investments overseas

In the reported period, the Company through foreign subsidiaries completed 11 transactions for the acquisition of income-producing properties (directly or through the acquisition of companies holding income-producing properties) in France and Germany with a total area of 134,000 sqm., for a total consideration of approx. NIS 360 million.

Summary of overseas rental properties by country, as of September 30, 2008				
Country	Construction area (sqm.) (1) 100%	Number of tenants	Occupancy rate	Fair value NIS in thousands September 30, 2008
Canada	395,664	2,389	92.32%	1,840,103
USA	18,381	39	83.51%	86,558
France	801,798	132	93.20%	3,306,249
Germany	345,123	1,429	92.46%	1,402,896
Switzerland	222,271	697	95.21%	1,439,507
Poland	54,820	62	90.30%	250,121
Holland	13,000	1	100.00%	56,233
Russia	68,043	152	97.41%	724,797
Ukraine	4,142	49	64.27%	21,186
Total overseas	1,923,242	4,950	91.93%	9,127,650
(1) Includes 100% of subsidiaries in value and area. Excludes the Company's relative share in affiliates with an area of 25,487 square meters and a value of approx. NIS 149 million.				
Following are data regarding acquisition of overseas rental properties in 2008 – included in the above				
France	98,877	3	100%	213,791
Germany	35,594	241	87.24%	145,907
Total investments in 2008	134,471	244	96.62%	359,698

Details of overseas rental properties as of September 30, 2008 ⁽¹⁾

Note		Location	Property designation	Number of properties	Company holding stake in properties	Construction area of properties 100%	Number of tenants as of September 30, 2008	Occupancy rate as of September 30, 2008	Fair value	NOI for Jan.-Sep. 2008	
		Canada	Across Canada	Offices & commerce	5	100%	167,972	418	92.71%	1,020,909	49,794
2		Canada	Across Canada	Offices & commerce	3	100%	80,368	202	92.94%	459,805	25,312
2		Canada	Toronto	Residential	2	90%	147,324	1769	91.53%	359,388	9,221
2		USA	Atlanta	Offices	2	90%	18,381	39	83.51%	86,558	4,277
		France	Paris	Offices	1	100%	13,878	5	96.50%	419,772	20,383
		France	Lyon	Offices	1	100%	9,371	3	46.52%	70,207	1,196
		France	Across France	Offices & commerce	15	100%	78,793	21	76.60%	225,259	11,541
		France	Across France	Offices & commerce	7	100%	39,970	10	92.17%	95,981	5,827
		France	Across France	Offices & light industry	15	100%	270,566	79	93.47%	1,624,160	92,366
7		France	Across France	Offices	7	100%	235,441	7	100.00%	333,488	24,598
		France	Across France	Light industry	3	100%	121,582	4	98.85%	242,575	20,252
9		France	Across France	Light industry	1	100%	15,244	1	100.00%	96,846	2,644
2,6		France	Across France	Logistics center	3	95%	16,953	2	50.54%	197,961	11,242
		Germany	Berlin	Commerce & residential	3	95%	14,565	172	85.11%	106,791	5,091
		Germany	Across Germany	Commerce	5	100%	22,312	11	89.78%	111,946	7,642
		Germany	Across Germany	Commerce	7	100%	8,094	19	99.00%	49,458	2,668
		Germany	Across Germany	Commerce	7	100%	9,703	27	94.15%	62,885	2,504
		Germany	Across Germany	Logistics	1	94%	13,247	10	90.27%	35,674	1,236
		Germany	Across Germany	Apartments, commerce and cinema	2	94%	14,623	34	90.72%	69,252	4,848
10		Germany	Stadtilm	Commerce	1	100%	2,097	4	92.37%	5,390	64
10		Germany	Braunschwig	Apartments & commerce	1	100%	4,960	60	100.00%	12,629	362
10		Germany	Duiburg, Dortmund, Herne	Commerce	3	100%	3,621	3	100.00%	21,339	486
10		Germany	Eisleben	Offices	1	100%	2,453	9	100.00%	10,760	170
10		Germany	Remschied	Industry	1	95%	6,668	4	94.50%	16,379	1,224
10		Germany	Ebeleben	Apartments & commerce	1	100%	6,375	102	97.00%	15,279	271
2		Germany	Across Germany	Commerce	9	95%	13,883	35	98.84%	88,071	5,988
2		Germany	Across Germany	Gas stations	9	100%	23,858	10	92.86%	69,662	4,011
2		Germany	Essen	Offices & commerce	1	95%	15,819	17	98.74%	62,597	3,436
2		Germany	Bautzen	Offices	1	95%	1,798	1	100.00%	21,449	1,553
2		Germany	Across Germany	Residential	6	95%	49,141	699	82.84%	107,066	7,015
2		Germany	Berlin	Residential	1	100%	5,076	52	76.07%	35,699	1,048
2		Germany	Across Germany	Offices	3	100%	12,022	21	87.68%	112,745	5,743
2		Germany	Across Germany	Commerce	5	95%-100%	28,431	51	95.43%	146,819	8,047
2		Germany	Across Germany	Commerce	2	100%	7,285	24	94.99%	24,019	1,399
2		Germany	Zeltz	Commerce	1	100%	11,756	2	100.00%	27,249	2,138
2		Germany	Zittau	Logistics center	1	100%	3,352	1	100.00%	11,375	872
2		Germany	Berlin	Commerce	1	100%	4,453	39	90.08%	34,964	1,521
2		Germany	Zwickau	Logistics center	1	100%	19,286	10	89.83%	20,439	1,617
2		Germany	Rosengarten	Logistics center	1	100%	4,692	3	89.34%	12,450	638
2,10		Germany	Murrhardt	Commerce	1	100%	2,588	6	100%	16,009	888
2		Germany	Across Germany	Industrial facility	2	100%	12,965	2	100.00%	24,804	1,308
2		Germany	Stuttgart	Commerce	1	94%	20,000	1	100.00%	69,697	4,669
		Switzerland	Across Switzer.	Commerce	25	100%	25,095	26	99.74%	216,835	7,465
		Switzerland	Across Switzer.	Apartments	14	90%	46,410	370	91.50%	311,199	8,961
		Switzerland	Across Switzer.	Offices & industry	2	100%	11,843	3	91.33%	43,418	1,594
		Switzerland	Across Switzer.	Commerce	18	100%	30,950	29	97.05%	189,115	6,794
		Switzerland	Across Switzer.	Apartments & commerce	5	90%	21,726	199	92.81%	102,443	3,331
		Switzerland	Across Switzer.	Offices & industry	5	100%	30,584	45	98.20%	205,110	7,927
2		Switzerland	Zurich	Offices	1	90%	12,522	13	100.00%	90,996	7,049
2		Switzerland	Enfelden	Commerce	1	100%	43,141	12	94.00%	280,391	14,410
		Poland	Warasw & Blonie	Offices, logistics & commerce	4	50%	54,820	62	90.30%	250,121	7,111
2		Holland	Nieuwegin	Logistics center	1	100%	13,000	1	100.00%	56,233	4,198
3		Russia	Yeroslavel	Offices+ commerce (mall)	1	49%	32,250	99	95.30%	137,986	10,110
		Russia	MAG+Hidro	Offices	2	100%	35,793	53	99.32%	586,811	23,097
4		Ukraine	Lugansk	Commercial	2	88%	4,142	49	64.27%	21,186	249
		Total			225		1,923,242	4,950	91.93%	9,127,650	459,406

Notes:

- 1) Includes 100% of subsidiaries in value and area .Excludes the Company's relative share in affiliates with an area of 25,487 sqm. and a value of approx. NIS 149 million.
- 2) Through Industrial Buildings.
- 3) Through Mirland.
- 4) Through Svitland.
- 5) NOI – rental and management income less operating expenses of the asset. The NOI of properties purchased during the reported period is included from the date of their purchase by the Company only and does not represent the gross profit of a complete period.
- 6) During March 2008 the lease of one of the tenants who leased an area of 8,400 square meters ended, and the NOI deriving from this tenant's rent stood at approx. NIS 2.4 million.
- 7) NOI – two out of the seven properties were purchased during the period. In respect of these two properties the NOI of 7 months only was included in the period.
- 8) Yaroslaval – The data refer to 50% only, according to Mirland's share of the ownership.
- 9) The property was acquired in late 2008.
- 10) The property was acquired in the 3rd quarter of 2008, hence the NOI is not representative of gross profit for an entire period.

1.5 Projects under construction and development overseas – for investment and for sale

a. Russia

Mirland is involved in projects in various stages of development and construction across Russia, with a total area of 1,448,000 sqm. for office, commercial and residential use.

Through the date of these statements, Mirland has invested in rental properties under development a total of approx. NIS 401 million, and in inventory of buildings and residential units for sale – a total of approx. NIS 494 million.

b. India

Festival City – agreement to acquire 50% of rights to an Indian company constructing a mall at Ludiana, India.

On August 28, 2008, Mondon entered into a binding agreement with a group of Indian developers ("the Indian partner") as set forth below ("the agreement").

In conjunction with this agreement, Mondon would acquire 50% of capital rights and 49% of voting rights in an Indian company which owns a mall under construction in the city of Ludhiana ("the joint venture" and "the mall" or "the project", respectively) for total consideration payable by Mondon amounting to INR 2,522 million (approx. NIS 204 million), of which INR 662 million (approx. NIS 53 million) to the Indian partner in return for transfer of their shares in the joint venture, which comprise 49% of shares of the joint venture, to Mondon ("the sold shares") and the balance – as investment in the company. This price reflects a total valuation of the joint venture of INR 7,560 million (approx. NIS 610 million), with Mondon's investment being based on 30% of the mall space having been sold to 3rd parties (compared to 25% at the date of the MOU), and based on balances of bank loans to the joint venture amounting to INR 608 million (approx. NIS 49 million) ("the bank loan"). The mall would include 156,000 sqm. of construction space over 6 floors, on land with an area of 46,000 sqm. Of the aforementioned proceeds, Mondon has paid, through the agreement signing date, INR 1,756 million (approx. NIS 142 million), which includes the full consideration paid to the Indian partner for the sold shares, and the remaining INR 1,094 million (approx. NIS 89 million) was invested in the joint venture, in return for which the joint venture issues convertible debentures to Mondon. Immediately after signing the agreement, the Indian partner transferred to Mondon 86% of the sold shares, with the remaining shares deposited with a trustee. The balance of investment in the joint venture, amounting to INR 766 million (approx. NIS 62 million) is payable by Mondon in 3 un-equal installments between the agreement signing date and January 2, 2009 - in return for which the joint venture will issue to Mondon convertible debentures. The remaining sold shares would be transferred from the trustee to Mondon upon payment of the balance of the investment.

According to the agreement, upon obtaining required regulatory approval and no later than December 31, 2009, Mondon would receive without further consideration additional voting shares entitling it to 1% of voting rights in the joint venture.

Furthermore, one of the members of the Indian partner has granted a power of attorney to Mondon to vote on their behalf shares comprising 1% of the issued share capital of the joint venture.

In conjunction with this agreement, the Indian partner has committed to obtain all required approvals and to complete construction of the mall and to start commercial operation there of no later than the end of the 2nd quarter of 2009. The land on which

the mall is being constructed is pledged to commercial banks in India, which have provided total credit amounting to INR 608 million (approx. NIS 49 million) for construction of the mall. The Indian partner has committed to exclusively bear interest payments for these loans through October 2008.

Pursuant to the agreement, Mondon would be eligible to receive 50% of profits of the joint venture; however, the joint venture and the Indian partner have committed that in respect of the three years from start of operation of the mall, Mondon would receive revenues from the joint venture which represent an annualized return of 20% on Mondon's investment in the joint venture, before any distribution is made to the Indian partner ("the guaranteed return"). Should profits of the joint venture in the aforementioned years be insufficient for profit distribution at the guaranteed return rate, Mondon would be eligible to receive the guaranteed return for these years in full, plus annual interest at 20% starting from the end of the 3-year period, out of profits of subsequent years – prior to any distribution being made to the Indian partner. Note that should Mondon's share of the joint venture profits in each of the first three years exceed the guaranteed return amount, Mondon would not be eligible to receive any payment in excess of the guaranteed return amount.

The Indian partner has committed to obtain financing required for completion of the project over and above Mondon's investment in the joint venture. The partner further committed to complete transfer of project land, free of any 3rd party rights, except for a lien pledged to banks which have provided the company with financing for the project, to ownership of the joint venture for no additional consideration. The Indian partner has committed to indemnify Mondon for any breach or representations made by the former in the agreement, for any claim against Mondon related to project construction or to deeds or omissions dating from before the agreement signing.

Subsequent to the date of these statements, Mondon has appointed 3 Board members to the joint venture, or half the number of Board members there of. Resolutions by the joint venture's Board of Directors and General Meeting shall be passed by a straight majority, except for resolutions concerning material issues set forth in the agreement and relating, inter alia, to operations of the joint venture, its liabilities, capital structure and articles of incorporation, as well as transactions with related parties – which would require consent of the majority of Board members appointed by each party, in case of a Board resolution, or consent of all shareholders holding 26% or more of the company's capital, in case of a resolution by the General Meeting.

Pursuant to the agreement, should any further investment not part of the current plans for the mall, require additional financing for the joint venture, Mondon and the Indian partner shall provide the additional financing required in equal parts. Should any part fail to provide his share of said additional financing, its holding stake in the joint venture shall be diluted. Dilution of holdings in the joint venture by a rate set forth in the agreement shall result in removal from office of Board members appointed by the diluted party (in line with the dilution rate).

The agreement stipulates that parties may not transfer their shares of the joint venture for a 3-year period ("the blocking period"). At the end of the blocking period, transfer of shares by any shareholder shall be subject to right of first offer and to tag-along rights of the other shareholders. Share allotment in the joint venture shall be subject to pre-emptive rights of existing shareholders.

Acquisition of rights in the joint venture is currently financed by means of financing provided to Mondon by its shareholders, including the Company.

The foregoing information with regard to completion of the mall and its commercial operation is forward-looking information based on information provided to Mondon by the Indian partner, as well as on Mondon's estimates of the time required to complete the mall, obtain all required approvals on time etc. Mondon's estimate of the

mall completion date, as set forth above, may vary with construction progress, date of obtaining approvals required for completion of construction and operation of the mall, as well as in view of real estate market conditions in India. Should any changes occur in this regard, Mondon's estimate may not materialize.

Furthermore, Mondon entered into agreements and is conducting negotiations for the acquisition of various tracts of land across India. Subject to acquisition of land, Mondon intends to have the land re-zoned for construction of combined residential and commercial projects.

Up to the date of the report the subsidiary Mondon invested in projects under construction and development in India, including advances on account of investments, a total of approx. NIS 276 million.

c. Germany

In January 2008 a foreign subsidiary wholly owned by Industrial Buildings signed an agreement for the acquisition of the shares of a company registered in Germany, owning land of 8,000 square meters which is located in an upscale residential neighborhood of Berlin and contains a building with a built area of 2,500 square meters. The acquisition price is €7.1 million. The Company plans to convert the existing building together with two additional buildings that will be erected by it into a luxury residential complex with a built area of 4,400 square meters.

In January 2008 Industrial Buildings started construction of a commercial center in Germany with an area of 2,200 square meters. Construction is expected to be completed in the 4th quarter of this year. A lease agreement has been signed for a period of 12 years. The net operating income (NOI) stands at €270,000, reflecting a yield of 9.6% on the purchase price.

Up to the date of the report the subsidiary invested in the project in Germany a total of approx. NIS 12 million.

d. Manhattan

Residential and commercial project in Manhattan: As of the date of signing these financial statements, sale contracts have been signed for 187 residential units out of 191 units (97%) in a luxury apartment project in Manhattan by a foreign company, 50% owned by Industrial Buildings, and 180 units have been delivered in exchange for US\$31 million (Industrial Buildings' share – \$158 million). During the reported period, 5 apartments were handed over in consideration for US\$8.3 million (Industrial Buildings' share – \$4.2 million).

Note that the inventory of residential units for sale in Israel and overseas at the start of the period was 17 units, of which 10 remain unsold as of the publication of these statements.

e. Ukraine

Up to the date of the report the subsidiary Svitland invested in projects under construction and development in Ukraine, including advances on account of investments, a total of approx. NIS 216 million.

During the first half of 2008 the Company through a subsidiary operating in Kiev invested approx. NIS 80 million for the construction of office and residential space.

On February 7, 2008 Svitland entered into an agreement for the purchase of 50% of the issued capital of a company incorporated in Ukraine (hereinafter – the project company), which holds, through a wholly owned company, rights in land with an area of 110,000 square meters in a central city in the eastern Ukraine. The remaining 50% of the project company's shares are held by a local partner unrelated to the company or its controlling shareholder. The project company plans to construct on the land a commercial shopping center with a built area of 100,000 square meters (gross) and office space with a built area of 53,000 square meters (gross).

In consideration for the purchase of 50% of the project company's shares Svitland paid US\$ 8 million, and an additional US\$2 million will be paid following the receipt of building permits for the project.

Svitland committed to finance 55% of the amount of the investment in the project, estimated at US\$170 million (100%), through the provision of interest-bearing shareholders' loans to the project company. The balance of the loans will be provided by the company's partner in the project company. The shareholders' loans will be repaid prior to the distribution of any profits from the project.

Residential and commercial project at Harkov (Pesky) – On February 19, 2008 Svitland entered into an agreement for the purchase of 50% of the issued capital of a company incorporated in Ukraine (hereinafter – the project company), which holds, through a wholly owned company, rights in land with an area of 35,774 square meters in a central city in the eastern Ukraine. The remaining 50% of the project company's shares are held by a local partner unrelated to the company or its controlling shareholder. The project company plans to construct on the land residential space with a built area of 35,000 square meters (gross) as well as office and commercial space with a built area of 5,000 square meters (gross).

In return for acquisition of 50% of shares of the project company, Svitland paid USD 1.25 million.

Svitland has committed to finance, by means of interest-bearing owner's loans provided to the project company, the initial US\$12 million required for financing of the project – estimated at US\$40 million (100%). The balance of the loans will be financed by Svitland and its partner in the project company - in equal parts - by means of interest-bearing owner's loans. The shareholders' loans will be repaid prior to the distribution of any profits from the project.

Residential and commercial project at Harkov (Pavlovka) – On May 26, 2008 Svitland entered into an agreement for the purchase of 50% of the issued capital of a company incorporated in Ukraine (hereinafter – the project company), which owns rights to develop an office project on land with an area of 80,000 sqm. in a major city in the eastern Ukraine. The rights to develop this project are to be the subject of an investment agreement with a local company yet to be signed, which has another investment agreement with another local company which owns leasing rights to the land. 50% of shares of the project company are owned by a local partner, who owns the local company, who is not related to the Company nor to its controlling

shareholder. The project company intends to construct office and commercial space totaling 14,000 sqm. (gross) on this land.

In return for acquisition of 50% of shares of the project company, Svitland paid USD 176,500.

Svitland committed to finance 55% of the amount of the investment in the project, estimated at US\$20 million (100%), through the provision of interest-bearing shareholders' loans to the project company. The balance of the loans will be provided by the company's partner in the project company. The shareholders' loans will be repaid prior to the distribution of any profits from the project.

In view of the current uncertainty in financial markets, Svitland has decided at this stage to complete the design phases through obtaining permits for the aforementioned projects in Ukraine, and upon completion of these phases it shall review, for each project, the start of project construction in line with its forecast and financing available for project construction.

In addition to the aforementioned transactions, Svitland has entered into other transactions in the Ukraine which are not material for the Company.

f. Lithuania

A foreign company 50% owned by Svitland purchased land with an area of 34,500 sqm. in consideration for US\$9 million, designated for the construction of residential and commercial buildings with a gross area of 48,000 sqm. Up to the date of the report the subsidiary invested in land for residential construction and projects under construction and development in Lithuania a total of approx. NIS 21 million.

In view of current uncertainty in financial markets, Svitland has decided at this point not to start project construction. Svitland would continue to review the project's feasibility and financing options for its construction, and accordingly would make decisions in the future about commencing project construction.

g. Belarus

On May 14, 2008 Svitland entered into a joint venture agreement with a foreign company registered in Belarus (hereinafter – the partner), pursuant to which a joint company of Svitland and the partner (hereinafter – the project company) will act to put up a combined project of commercial and office space as well as parking and other service areas with an overall built area of 100,000 square meters in Minsk, the capital of Belarus ("the project"). Under the joint venture agreement, the shares of the project company will be held by Svitland and the partner in equal parts. On November 15, 2008, Svitland entered into an agreement with the partner, whereby the aforementioned agreement would be cancelled, and in return for transfer of the company's rights in the venture to the partner, Svitland would receive \$1.8 million.

On April 29, 2008 Svitland purchased the entire share capital (100%) of a foreign company (hereinafter – the foreign company) which, together with another foreign partner (the project manager, as hereinafter defined), is the owner of the rights by virtue of an investment agreement with the Republic of Belarus for the construction of a high-tech park in the Belarus city of Minsk (hereinafter – "the investment agreement" and "the project", respectively). In consideration for the shares of the foreign company and for the partner's rights, Svitland is to pay a sum of €2,4 million, out of which €1 million were paid at the time of the acquisition and the balance is to be paid according to milestones that were set by the parties.

The project comprises a high-tech park that is slated to be built on land with an area of 350,000 square meters in Minsk, the capital of Belarus. The project is planned to include buildings designated mainly for offices, research, high-tech, a hotel, dwelling as well as sports and entertainment facilities, including engineering and transportation infrastructure, with an overall built area of 540,000 square meters. The division of the built area according to the different designations will be determined based on the detailed plans of the project and on actual demand.

The foreign company committed to carry out through the managing company the planning of the project and its construction in three phases during a period of six and a half years, and to bear the full investment required for putting up the project, which is estimated in the investment agreement at €550 million.

The foreign company committed to transfer 14% of the area of the buildings that will be constructed in the project (hereinafter – the transferred areas) to the ownership of the Republic of Belarus, free of consideration. The composition of the transferred areas will be determined in an agreement between the parties.

h. Serbia

A foreign company held 50% by the Company and 50% by Industrial Buildings, entered into an agreement for the acquisition of Serbian companies holding land zoned for commerce with an area of 80,000 square meters in the city of Belgrade, for a consideration of €10 million. The Company estimates that it will be possible to build on the land a commercial center with an area of 45,000 square meters. Up to the date of the report the subsidiary invested in projects under construction and development in Serbia a total of approx. NIS 50 million.

i. Thailand

In August 2008, Industrial Buildings has entered into multiple agreements with companies incorporated in Thailand ("the venture companies"), which own rights to land located in Bangkok, Thailand – whereby Industrial Buildings would invest THB 1,000 million (approx. NIS 100 million) in return for allotment of 50% of voting rights and rights to profits of the venture companies, as well as by way of providing owner's loans in line with needs of the companies. The planned project consists of two buildings, one of which is a 70 storey high-rise building, primarily composed of high-end apartments, a hotel and commercial space with proportions of 55%, 20% and 25%, respectively. The venture companies are acting to increase construction rights on this land by a further 20%.

The aforementioned investment will be made by Industrial Buildings in several installments, the first of which – THB 667 million (approx. NIS 71 million) – was paid upon signing the agreement, and the balance is payable in several un-equal installments through April 2009.

For details of the Company's participation in this project, see section 7b below.

Up to the date of the report the subsidiary invested in the project in Thailand a total of approx. NIS 92.3 million.

1.6 Miscellaneous

- a. S&P Maalot announced in March 2008 a final Stable A+ rating for debentures issued in March 2008 in the amount of approx. NIS 312 million. The rating also applies to outstanding debenture series ranked by S&P.
In May 2008 Midroog Ltd. announced an initial (A1) rating with a stable outlook for raising debt of up to approx. NIS 500 million through shekel or index-linked debentures with an average duration of 4-6 years. The rating also applies to outstanding debentures series ranked by Midroog.
On May 26, 2008, Maalot announced that the Company and Industrial Buildings, along with many real estate companies, were placed on the watch list.

- b. During April 2008 Midroog Ltd. set an initial rating of (Aa3) for debentures which are to be issued by Industrial Buildings on a scope of approx. NIS 400 million. The debentures will be payable at an average duration of up to five years. One half of the proceeds from the debentures will be used by Industrial Buildings for making new investments, and the balance will be earmarked for the novation of an existing debt. The rating is valid for all debenture series in circulation.
In June 2008, Industrial Buildings published a shelf offering report based on a shelf prospectus, as set forth above, whereby Industrial Buildings issued approx. NIS 234 million par value debentures (Series L) in return for their par value. The debentures are linked to the Consumer Price Index, bear interest at 3.8% and mature in 3 equal installments in each of the years 2010-2012. Interest is payable on December 10 of each of the years 2008-2012.

- c. On March 30, 2008 the Company's board of directors resolved to approve a facility for re-acquisition of up to approx. NIS 70 million in Company shares. On June 28, 2008 the Company's board of directors resolved to increase the buy-back facility up to approx. NIS 90 million of Company shares. Through September 30, 2008, the Company has acquired approx. NIS 2,044 thousand par value shares in exchange for approx. NIS 70,991 thousand. Subsequent to the balance sheet date, the Company acquired approx. NIS 237 thousand par value shares in exchange for approx. NIS 4 thousand.

- d. Subsequent to the balance sheet date, the Company re-purchased approx. NIS 15 million par value negotiable debentures (Series F) of the Company for total consideration of approx. NIS 5 million.

- e. In April 2008, the Board of Directors of Industrial Buildings approved buy-back of Industrial Buildings shares amounting up to approx. NIS 150 million. In May-September 2008, Industrial Buildings purchased approx. NIS 13.2 million par value shares in exchange for approx. NIS 90.8 million. Subsequent to the balance sheet date, Industrial Buildings purchased approx. NIS 1.7 million par value shares in exchange for approx. NIS 8.9 million.

- f. In September 2008, the Board of Directors of Industrial Buildings approved a buy-back plan of Industrial Buildings debentures by a wholly-owned subsidiary of Industrial Buildings, of all debenture series of Industrial Buildings except for debentures (Series D) up to a total of approx. NIS 100 million ("buy-back"). During the reported period, Industrial Buildings acquired debentured for a total of approx. NIS 21.9 million as follows:
- Debentures (Series E) - approx. NIS 0.3 million
 - Debentures (Series F) - approx. NIS 0.6 million
 - Debentures (Series G) - approx. NIS 0.4 million
 - Debentures (Series H) - approx. NIS 15.2 million
 - Debentures (Series K) - approx. NIS 5.3 million
 - Debentures (Series L) - approx. NIS 0.1 million
- Subsequent to the balance sheet date, Industrial Buildings purchased debentures for a total of approx. NIS 10.3 million.
- g. During January 2008, long-term bank financing of €20 million was received in respect of an additional part of Industrial Buildings' investments in properties in Germany. The loans received are for a period of five years and bear fixed interest at a rate of 5.57% per annum. These are non-recourse loans whose repayment is secured by means of the properties pledged to the bank.
- h. Total Company investments in overseas projects under construction and development via subsidiaries, in cooperation with Darban Investments and/or Industrial Buildings: US\$126 million.
- Mirland: US\$62 million (equity - \$24 million, debentures - \$10 million, guarantees - \$28 million), excluding amounts set forth in section 8b below.
 - Mondon: US\$30 million.
 - Svitland: US\$26 million.
 - Serbia: US\$8 million.
- Similar amounts have been invested by Industrial Buildings, so the total for the Company and for Industrial Buildings amounts to US\$252 million.

2. Financial Position

2.1 Current assets and liabilities

On September 30, 2008 current assets in the balance sheet totaled approx. NIS 2,240 million versus current liabilities of approx. NIS 3,035 million, reflecting a current ratio of 74%.

On December 31, 2007 current assets in the balance sheet totaled approx. NIS 3,215 million versus current liabilities of approx. NIS 3,087 million, reflecting a current ratio of 104%.

The change in the current ratio is primarily due to a decrease in cash and cash equivalents, and in short-term investments, partially offset by an increase in inventory of land for residential construction and a decrease in short-term credit.

The Company is acting to obtain long-term non-recourse foreign bank credit for financing its European investments, which, if and as far as obtained, will serve, among other things, to repay short-term loans in Israel and improve the current ratio.

2.2 Working capital shortfall

As of September 30, 2008, this amounted to approx. NIS 796 million, compared to a surplus of approx. NIS 128 million as of December 31, 2007. The working capital shortfall is due to the fact that the Company finances some of its long-term investments (real estate in Israel and overseas and investments in investees) by means of short-term credit. The credit facilities with certain banks in Israel enable an improvement of the current ratio through the conversion of short-term loans into long-term loans. The Company considers conversion of short-term credit into long-term credit from time to time, in line with capital market conditions. Furthermore, the Company is acting to obtain long-term non-recourse foreign bank credit for financing its investments in Germany and France, which, if and as far as obtained, will serve, among other things, to repay short-term loans in Israel and reduce the working capital shortfall. The Company, excluding its subsidiaries, had unutilized credit facilities amounting to approx. NIS 370 million as of the balance sheet date, with no material change by soon prior to the date of these statements (for details of Company liquidity, see also section 3.2 below).

2.3 Cash

On June 30, 2008 the Company had cash for a total of approx. NIS 405 million compared to approx. NIS 1,542 million as of December 31, 2007. The decrease in cash is mainly attributable to the Company's investing activities involving the purchase of investment property and investment in income—producing properties under development, acquisition of minority interest shares in subsidiaries and to an increase in long-term deposits and advances on account of investments.

2.4 Inventory of land for residential construction

On September 30, 2008, inventory of land for residential construction totaled approx. NIS 411 million compared to approx. NIS 227 million as of December 31, 2007. The change is due to the Company's investments in residential construction projects of Industrial Buildings and Mirland.

2.5 Investment property

Investment property as of September 30, 2008 totaled approx. NIS 15,765 million compared to approx. NIS 16,863 million as of December 31, 2007.

The change is mainly due to acquisition of and investment in investment property for a total of approx. NIS 536 million and to a decrease of approx. NIS 91 million in the fair value, less a decrease of approx. NIS 1,543 million in the value of overseas real estate

stemming from changes in approx. NIS exchange rates vs. major currencies in which the Company's overseas properties are held. For further details, see section 1.4.2 above.

2.6 Investment property under development

Investment property under development as of September 30, 2008 totaled approx. NIS 785 million compared to approx. NIS 601 million as of December 31, 2007.

2.7 Non-current assets

This item amounted on the balance sheet date to approx. NIS 20,205 million compared to approx. NIS 19,768 million on December 31, 2007.

The increase stems mainly from an increase in investments in long-term deposits, the payment of advances on account of investments and the changes detailed above in respect of the investment property item.

2.8 Credit, loans and debentures net of cash and deposits

On September 30, 2008 loans and debentures net of cash and deposits totaled approx. NIS 13,491 million compared to approx. NIS 12,062 million on December 31, 2007.

The increase is mainly a result of loans from Israeli and foreign banks and the raising of debentures from the public for financing overseas investments in real estate.

Non-recourse foreign loans to the Company, on a consolidated basis, amount to approx. NIS 4,783 million.

On September 30, 2008 loans and debentures of the Company net of cash and deposits, excluding subsidiaries, Industrial Buildings, Mirland, Mondon and Svitland totaled approx. NIS 7,181 million (excluding guarantees to Mirland as set forth in section 9c below) compared to approx. NIS 7,182 million on December 31, 2007.

The increase is primarily due to the decline in exchange rate of various currencies vs. the approx. NIS, partially offset by net loans received from banks in Israel and overseas, and from net public issuance of debentures.

Non-recourse foreign loans to the Company, excluding Industrial Buildings, Mirland, Mondon and Svitland, amount to approx. NIS 3,439 million.

2.9 Equity

As of September 30, 2008 equity stood at approx. NIS 3.7 billion compared to approx. NIS 4.8 billion as of December 31, 2007.

As of September 30, 2008 equity attributable to Company shareholders stood at approx. NIS 2.3 billion compared to approx. NIS 2.9 billion as of December 31, 2007.

The change in equity attributable to Company shareholders in the period stems mainly from the conversion of stock options into shares for a total of approx. NIS 59 million, the conversion of debentures into shares for a total of approx. NIS 5 million, a loss of approx. NIS 337 million for the period, a decrease in capital reserve in respect of available-for-sale financial assets in the amount of approx. NIS 11 million, a decrease of approx. NIS 252 million in the capital reserve in respect of foreign currency translation adjustments of foreign operations, an increase of approx. NIS 4 million in the capital reserve from hedging transactions and buy-back of Company shares amounting to approx. NIS 71 million.

The capital reserve in respect of financial assets held for sale, as of the date of these statements, amounts to approx. NIS 4.4 million. The balance is due to securities the impairment of which is lower than 18% and is not of a permanent nature. The Company may classify in the future the entire aforementioned impairment as financing expenses in the income statement, should the Company estimate that this impairment is of a permanent nature.

As of September 30, 2008 equity attributable to minority interest amounted to approx. NIS 1.4 billion compared to approx. NIS 1.9 billion as of December 31, 2007.

The change in equity attributable to minority interest is primarily due to a decrease in capital reserves amounting to approx. NIS 140 million, to share of the minority interest in loss amounting to approx. NIS 105 million, to acquisition of shares from minority interest amounting to approx. NIS 230 million and to dividend paid to minority interest amounting to approx. NIS 33 million.

3. Operating results

Operating profit in the reported period amounted to approx. NIS 539 million compared to an operating profit of approx. NIS 1,193 million in the same period last year.

Below is analysis of the operating results in the reported period:

3.1 Rental income

The Company's rental income in the period amounts to approx. NIS 912 million compared to approx. NIS 824 million in the same period last year.

Consolidated rental income outside Israel totaled approx. NIS 588 million compared to approx. NIS 539 million in the same period last year. The increase derives mainly from income from buildings during the reported period and from buildings purchased after September 30, 2007.

Consolidated rental income in Israel totaled approx. NIS 324 million compared to approx. NIS 285 million in the same period last year. The change derives mainly from a rise in occupancy rates, from the purchase in 2007 of a power center in Beerot Yitzhak and from the completion of construction of commercial centers in Beer Sheva, in Modi'in and in Rosh Ha'ayin (which did not yield earnings in the same period last year) and occupancy of another office building at Shaar HaNegev.

Furthermore, the increase in rental fees in Israel and overseas is due to the increase in CPI and to contract renewals including real increases and price increases stipulated by current agreements.

3.2 Gross profit from income-producing properties

The profit from this item, including rental income and management and maintenance income, less property management and maintenance costs, amounted to approx. NIS 764 million compared to approx. NIS 660 million in the same period last year.

3.3 Revenues from sales of apartments and commercial space

The profit from this item amounted to approx. NIS 5 million compared to approx. NIS 146 million in the same period last year. The decrease in this item is attributable mainly to the handing over of the majority of Manhattan project apartments to the buyers in 2006 and 2007. In the same period last year 146 apartments were handed over in this project compared to 5 apartments handed over in the reported period.

3.4 Gross profit

Gross profit in the reported period totaled approx. NIS 776 million compared to approx. NIS 813 million in the same period last year.

Gross profit disregarding profit from sales of apartments and commercial space (mainly the Manhattan project) amounted in the reported period to approx. NIS 771 million compared to approx. NIS 667 million in the same period last year. An increase of approx. NIS 104 million, primarily due to increase in gross income from rental properties.

3.5 Financing expenses

In the reported period, financing expenses less financing income totaled approx. NIS 985 million compared to approx. NIS 582 million in the same period last year.

Major financing expenses, net in the period were:

Net interest expenses: approx. NIS 562 million

Net expenses in respect of higher CPI: approx. NIS 209 million

Net expenses from exchange rate differentials in respect of currency balances: approx. NIS 99 million

Impairment loss from negotiable securities: approx. NIS 115 million.

The increase in financing expenses over the corresponding period last year is primarily due to the higher CPI in the reported period, by about 5%, compared to a 2.52% increase in the corresponding period last year, as well as to an increase in credit including debentures and loans from banking corporations in Israel and overseas by a total of approx. NIS 1.3 billion.

In the corresponding period last year, gain from negotiable securities amounted to approx. NIS 57 million.

Mondon, a subsidiary, granted loans to subsidiaries in India, denominated in INR, amounting to approx. NIS 320 million. Due to the weaker INR vs. the USD, expenses due to exchange rate differentials amounted to approx. NIS 60 million.

Mirland, a subsidiary, granted loans to subsidiaries in Russia, denominated in USD, amounting to approx. NIS 1.1 billion (US\$330 million). Due to the weaker RUB vs. the USD, financing expenses due to exchange rate differentials amounted to approx. NIS 40 million.

3.6 Other revenues

This item amounted in the period to approx. NIS 18 million compared to approx. NIS 78 million in the same period last year. In the reported period, revenues amounting to approx. NIS 21 million were recorded, primarily due to acquisition of minority interest in Canadian subsidiaries and an increase in holding stake in investees amounting to approx. NIS 12 million, offset by impairment of inventory of land for construction amounting to approx. NIS 18 million in respect of land in Florida (50%) owned by the Company. The same period last year's profit primarily included gain from the Mirland offering and from a decrease in the holding rate in Industrial Buildings following the conversion of debentures.

3.7 Taxes on revenue

In the reported period tax expenses amounted to approx. NIS 22 million compared to tax expenses of approx. NIS 164 million in the same period last year.

In the reported period, a provision amounting to approx. NIS 23 million was recorded due to retroactive rescinding of the tax treaty between France and Luxemburg.

In the reported period, tax revenues amounting to approx. NIS 116 million were not recorded due to: Losses from securities, current losses of the Company and of Mirland and Industrial Buildings.

4. Liquidity and financing sources

- a. Total net cash in the reported period from current operations amounted to approx. NIS 25 million, compared to approx. NIS 413 million in the corresponding period last year.

Net cash from current operations in the reported period, net of changes in asset and liability items primarily due to an increase in inventory of buildings for sale and land designated for construction (primarily Russia, Ukraine and India) net of advance payments from customers, amounts to approx. NIS 349 million, compared to approx. NIS 144 million in the same period last year.

Net cash provided by **investing activities** in the reported period totaled approx. NIS 2,064 million compared to approx. NIS 1,422 million in the same period last year.

Investing activities in the reported period comprised mainly investments in real estate and down payments on account of investment in India, Ukraine, France, Russia, Germany and Israel and investments in long- and short-term deposits.

Net cash provided by **financing activities** in the reported period totaled approx. NIS 951 million compared to net cash of approx. NIS 822 million provided by financing activities in the same period last year.

Major financing operations in the reported period were: Obtaining a long-term loan, primarily from foreign banks (Germany, France and Switzerland) amounting to approx. NIS 1,476 million; debenture issuance amounting to approx. NIS 539 million, offset by net repayment of short-term credit amounting to approx. NIS 42 million; redemption of debentures and repayment of long-term credit amounting to approx. NIS 733 million; Company share buy-back amounting to approx. NIS 71 million; acquisition of minority interest shares in a subsidiary amounting to approx. NIS 217 million; dividend paid to minority interest amounting to approx. NIS 33 million.

- b. The Company has a working capital shortfall (as set forth in section 2 above); the Company Board of Directors considers that this does not indicate a liquidity issue, considering the Company's forecast liabilities as of the date of these statements and based on assumptions and estimates as follows:

Company's cash balance as of the date of these statements and positive cash flow from its rental real estate operations. As of the date of signing these financial statements, the Company, excluding its subsidiaries, has unutilized credit facilities amounting to approx. NIS 400 million. The credit facilities with certain banks in Israel enable an improvement of the current ratio through the conversion of short-term loans into long-term loans. The Company considers conversion of short-term credit into long-term credit from time to time, in line with capital market conditions. The Company may act to increase liquidity as needed by the following means: Pledging of un-pledged rental properties, primarily to foreign banks, in order to obtain non-recourse loans against properties acquired by the Company overseas without use of specific financing for such acquisitions, whose fair value as of September 30, 2008 amounted to approx. NIS 583 million, pledging real estate properties in Israel and pledging of un-pledged securities. Furthermore, the Company believes that it would be able to renew long-term loans obtained from foreign banks with regard to the unpaid principal balance outstanding upon expiration of the current loan period.

Nevertheless, due to the crisis there are challenges in obtaining financing from banking and non-banking entities, both in Israel and overseas, which to the best of the Company's knowledge are due to liquidity issues and capital adequacy requirements applicable to them; hence the Company believes, in reviewing its liquidity, that in the near term it would not be possible to raise debt in the capital market; continuation of the crisis may pose challenges to the Company in raising further credit and financing as set forth above.

Furthermore, the Company's credit facilities may decrease due to changes in currency exchange rates and impairment of collateral provided by the Company to banks.

The foregoing constitutes forward-looking information. The aforementioned assumptions and estimates by the Company are based on information currently available to the Company and assuming its continued operations in the normal course of business. There is no certainty that these assumptions and estimates would be realized, in whole or in part, since they depend on external macro-economic factors over which the Company has no or limited influence and in view of the considerable current uncertainty as to the duration and extent of the financial crisis and its impact on the Company and its business. Should Company assumptions not materialize, in whole or in part, the Company's liquidity may materially deteriorate.

5. Changes in share capital and convertible securities (nominal value)

	<u>Convertible debentures C *</u>	<u>Options 6</u>	<u>Issued capital</u>
Issued to external entities on December 31, 2007	2,969,357	852,086	** 53,747,194
<u>Changes in capital held by external entities in the reported period</u>			
Redemption	227,519	-	-
Conversion / exercise into shares	2,537,725	851,641	953,150
Expiration	-	445	-
Buy-back of Company shares	-	-	***1,806,412
Issued to external entities as of September 30, 2008	<u>204,113</u>	<u>-</u>	<u>52,893,932</u>
Conversion ratio	1:25	-	
Share capital, fully diluted	8,165	-	52,902,097
Share capital owned by a subsidiary ****			-
Share capital owned by the Company *****			<u>4,360,760</u>
Total share capital, fully diluted			<u><u>57,262,857</u></u>

* Convertible debentures (Series C) - Due to public holdings of debentures falling below approx. NIS 1.6 million, the Stock Exchange, according to maintenance regulations, announced the delisting of convertible debentures (Series C). The Company announced early redemption on August 31, 2008.

** Excluding holdings in the Company and in a subsidiary.

*** Excluding Company acquisition from a subsidiary of NIS 2,554,348 par value shares.

**** In the 3rd quarter of 2008, the Company acquired from a subsidiary all of its holdings of Company shares – NIS 2,554,348 par value in total.

***** Subsequent to the balance sheet date, the Company purchased 237,000 shares.

6. Exposure to Market Risks and Management Methods

The person in charge of managing market risks is Mr. Eliezer Fishman, the chairman of the board of directors.

During the reported period, the following changes occurred in exposure to market risk, beyond that reported in the Board of Director's 2007 Report, as follows:

- a. Exposure to CPI – As of the balance sheet date, the Company balance of CPI-linked credit (debentures, loans from banks and from institutions) amounted to approx. NIS 6,491 million (approx. NIS 6,316 million as of December 31, 2007), offset by long-term deposits with banks amounting to approx. NIS 2,804 million (approx. NIS 1,689 million as of December 31, 2007). Therefore, CPI exposure as of the date of these financial statements amounts to approx. NIS 3,687 million (approx. NIS 4,627 as of December 31, 2007). The aforementioned exposure is primarily used to finance rental properties in Israel with a total value of approx. NIS 5,937 million (approx. NIS 5,949 million as of December 31, 2007), the rent from which is linked to the CPI.

In view of the above, the Company has excess linked assets over linked liabilities.

As of the certification date of these financial statements, there was no material change in CPI exposure.

Foreign currency exposure – In general, the Company finances its investments in overseas rental properties made by subsidiaries using loans obtained from overseas banks in the same currency as the investment currency, as well as from its own sources in Israel – by raising credit in the investment currency. The disposable cash obtained from income-producing properties abroad is used to service the foreign currency credit in Israel. This policy effectively provides an economic hedge against currency exposure of the investment amount and in accounting terms, it reduces the impact on financing expenses or revenues in the income statement. The aforementioned Company policy with regard to foreign currency exposure does not hedge the retained earnings in foreign companies, hence the Company has accounting exposure reflected in the capital reserve from translation differences.

The Company has balances exposed to changes in currency exchange rates, reflected in financing expenses or revenues on the Company's income statements (a weaker NIS vs. any of the currency set forth under exposure vs. NIS below would generate financing revenues and vice versa. A weaker USD, vs. any of the currency set forth under exposure vs. USD, would generate higher financing revenues and vice versa).

Below are balances of foreign currency exposure as of September 30, 2008 whose impact will be reflected in financing expenses or revenues on the Company's income statement:

Currency	Exposure (NIS in thousands)	Change in exchange rate from the balance sheet date to soon prior to the publication date of this report	Impact on financing revenues (expenses) from the balance sheet date to soon prior to publication date of this report (NIS in thousands)
Foreign currency revaluation (devaluation) vs. NIS			
Euro	16,506	1.84%	304
US dollar	(14,542)	16.72%	(2,431)
Canadian dollar	(20,029)	(4.49%)	900
Swiss franc	1,615	4.78%	77
Foreign currency devaluation (revaluation) vs. USD			
Rupee	213,438	7.52%	(16,044)
Ruble	549,270	7.19%	(39,471)
Grivna	91,684	19.67%	(18,034)

The company, via Mirland, whose functional currency is the USD, transferred \$330 million to subsidiaries in Russia. Since the functional currency of the subsidiaries in Russia is the Ruble, exchange rate differentials upon translation of these loans into USD are recognized in the income statement.

The Company transferred to Mondon US\$70 million. Since the functional currency of Mondon is INR, exchange rate differentials upon translation of these loans into USD are recognized in the income statement.

Below is the portion of shareholders' equity in respect of foreign subsidiaries, by holding stake, which is impacted by exchange rate fluctuations and changes in which are reflected in the capital reserve from translation differences (a weaker NIS vs. any of the currency set forth under exposure vs. USD below would increase shareholders' equity and vice versa).

Exposure of Mirland equity to the RUB and of Mondon equity to the INR are not material:

Currency	Exposure (NIS in thousands)	Change in exchange rate from the balance sheet date to soon prior to the publication date of this report	Impact on capital reserve from translation differences from the balance sheet date to soon prior to publication date of this report (NIS in thousands)
Euro	617,774	1.84%	11,380
US dollar	788,834	16.72%	131,895
Canadian dol lar	260,559	4.49%	(11,706)
Swiss franc	27,914	4.78%	1,334

b. Linkage Basis report – September 2008

Active

	US dollar	Ruble	Swiss Franc	Euro	Canadian dollar	Baht	Rupee	NIS		Non-monetary	Total
								CPI	Non-linked		
Cash and cash equivalents	193,479	18,467	42,587	81,032	21,872	8,299	11,232	-	28,462	-	405,430
Short-term investments	6,318	-	4,038	17,480	32,452	-	-	-	117,680	156,691	334,659
Trade receivables	2,210	626	6,195	47,933	11,094	-	-	-	47,590	-	115,648
Other accounts receivable	16,761	39,796	5,035	25,712	13,518	80	1,127	9,547	62,229	-	173,805
Inventory of buildings for sale, net	-	-	-	-	-	-	-	-	-	610,526	610,526
Inventory of land for residential construction	-	-	-	-	-	-	-	-	-	411,135	411,135
Asset held for sale	-	-	-	-	-	-	-	-	-	355,800	355,800
Assets in respect of employee benefits	-	-	-	-	-	-	-	2,848,081	-	3,322	3,322
Long-term deposits and receivables	170,330	61,599	-	46,979	127,345	37,965	155,565	-	-	6,678	3,454,541
Investments in investees	-	-	-	-	-	-	-	-	-	-	121,943
Advances on account of investments	-	-	-	-	-	-	-	-	-	147,928	147,928
Investment property	-	-	-	-	-	-	-	-	-	15,765,062	15,765,062
Investment property under development	-	-	-	-	-	-	-	-	-	785,218	785,218
Fixed assets	-	-	-	-	-	-	-	-	-	30,425	30,425
Intangible assets	-	-	-	-	-	-	-	-	-	46,485	46,485
Deferred taxes	-	-	-	-	-	-	-	-	-	-	38,083
	389,098	120,488	57,855	219,135	206,281	46,344	167,924	2,857,628	255,961	18,319,270	22,800,011

Passive

	US dollar	Ruble	Swiss Franc	Euro	Canadian dollar	Baht	Rupee	NIS		Non-monetary	Total
								CPI	Non-linked		
Credit from banks and others	(442,150)	-	-	(350,991)	(217,729)	(40,320)	(0)	(210,000)	(429,510)	-	(1,690,700)
Trade payables	(31,627)	-	(2,194)	(31,669)	(17,936)	-	-	-	(40,735)	-	(124,162)
Other accounts payable	(36,040)	(17,043)	(26,187)	(159,829)	(15,343)	-	(152)	(2,734)	250,347	-	(502,207)
Liability in respect of asset held for sale	-	-	-	-	-	-	-	-	-	(11,399)	(11,399)
Long-term loans from banking corporations and others	(811,969)	(96,664)	(1,267,325)	(4,032,618)	(1,522,795)	(37,966)	(97,131)	(893,959)	(98,550)	(81,902)	(8,940,879)
Debentures	(149,758)	-	-	(46,941)	-	-	-	(5,751,880)	(373,327)	-	(6,218,269)
Deferred taxes	-	-	-	-	-	-	-	-	-	(1,545,360)	(1,545,360)
Unearned rent revenues	-	-	-	-	-	-	-	-	-	-	-
Benefits to employees	-	-	-	-	-	-	-	-	-	(6,844)	(6,844)
Deposits from tenants	(623)	-	-	(39,968)	(5,292)	-	-	(26,977)	-	-	(72,860)
Others – long term	-	-	-	-	-	-	-	-	-	-	-
	(1,472,168)	(113,707)	(1,295,706)	(4,662,016)	(1,779,096)	(78,286)	(97,283)	(6,885,551)	(691,776)	(1,645,505)	(19,112,680)

c. Impact of the financial crisis

A financial crisis is currently impacting global markets, and has led to the collapse of significant entities in the global credit market. Consequently, credit which banks may grant has declined significantly, as did prices of securities on many stock exchanges around the world; other significant signs of economic slow-down are visible in many countries, including countries in which the Company operates.

Below are the major impact points of the financial crisis, as of September 30, 2008 and as of the date of signing these financial statements, on the Company, its business standing and operating results, its financial standing, liquidity and financial robustness.

- a. As of the date of these statements and the signing there of, the Company sees no decline in occupancy rates at its properties, nor increase in arrears of rent payments nor decline in rent paid to the Company so as to materially impact its rent revenues. Should the global financial crisis continue, this may materially impact Company operations, its results and financial standing due to potential decline in the Company's rent revenues (both due to lower occupancy rates and to lower rent collected by the Company).
- b. During the reported period, the discount rates for the Company's investment properties in Canada, Switzerland, USA, Russia and France have increased. The same goes for some of the Company's investment properties in Israel. For details of changes to fair value of the Company's investment properties, see section 1.4.2 above. Continuation and expansion of the crisis may lead to a further increase in discount rates, which may materially impact valuation of Company properties and its income.
Industrial Buildings owns land in Ft. Lauderdale, Florida for which it recorded impairment of approx. NIS 18 million in the reported period.
- c. The Company's operating results are impacted by changes in exchange rates of currencies in its countries of operations, as set forth in section 1.4.3. The impact of the financial crisis on the economies of these countries, and therefore on exchange rates, is significant – hence continuation and extension of the crisis may have a material impact on the Company.

Mirland operates in the Russian real estate market since 2004. This market is exposed to risk associated with the political and economical structure, as well as to risk resulting from potential change in demand for real estate in general, and in areas in which Mirland operates in particular. In recent months, the economic environment in Russia has become volatile and unstable due, inter alia, to external factors such as the credit crisis affecting the world, as well as to internal factors, such as geo-political tension in the Caucasus and a sharp decline in prices of oil and natural gas. The inability to raise financing has led many companies to stop real estate projects in various phases of planning and construction. During this time, investment activity has dropped and due to the instability, returns on rental properties have risen.

Due to the increased risk factors for Russia, two international rating agencies, Standard & Poor's and Fitch, have lowered Russia's credit rating from BBB+/Stable to Negative. The Russian RTS stock index, denominated in USD, dropped by over 50% in the past three months, with the index of real estate stocks traded in Russia declining by 80% in the same period. Furthermore, foreign investors have withdrawn over US\$50 billion – contributing to the continued decline in the stock market.

It is common wisdom that the crisis would result in a slow-down of the rapid growth enjoyed by the Russian market over recent years. Inflation continues to run high, expected to exceed 14% in 2008, and the Russian currency was devalued by over 10% in the past two months. The Russian government has decided to take a series of steps in order to stabilize the economy: Interest rates have been raised several times over the past months, currently standing at 12% – aimed at reducing inflation; the government has decided to

use the budget surplus and large foreign currency balances to assist in stabilization of the banking system and to assist companies facing hard times; assistance to the real estate sector in general, and to the residential construction segment in particular.

The real estate sector, in which Mirland operates in Russia, was also impacted by the crisis. Many companies have announced discontinuation of projects under construction and freezing of new project acquisition; it is nearly impossible to obtain external financing for assets, whether rental properties or under development; decline in rent and increase in vacancy rates – especially in the class A office segment; decrease in number of new property rental contracts; decrease in number of residential units sold and in unit prices; and decline in residential housing starts. On the other hand, there are positive indications, including continued increase in real per capita income; stability in rent and vacancy rates in the commercial sector; declaration by the Russian government of its support for the real estate market in Russia; and decrease in construction raw material prices.

Mirland estimates that continuation of the negative trend in Russia's macro-economic data in general, and in the real estate sector in particular, or its reversal, would depend on the duration and intensity of the crisis and on the Russian government's resolution in utilizing all of the means and resources available to it in order to stabilize the economy.

- d. The Company has made investments in developing economies – Russia, India and former Soviet states. The impact of the financial crisis on the economies of these countries is significant – hence continuation and extension of the crisis may have a material impact on the Company.
- e. The Company is preparing to confront the aforementioned impacts, and in view of current uncertainty due to the global credit crisis, the Company has adopted a policy whereby at this stage it would not commit to invest in new development projects of any significant size. Furthermore, the Company intends to review its investment in each of the projects in planning and construction phases, which the Company has made no commitment to complete.
- f. The Company has a portfolio of negotiable securities valued, as of the date of these statements, at approx. NIS 383 million, after its value was reduced in the reported period by approx. NIS 127 million, and soon prior to the signing date thereof was valued at approx. NIS 224 million (including approx. NIS 13 million sold subsequent to the balance sheet date). Should the financial crisis continue, this may materially impact the value of the Company's negotiable securities portfolio.
- g. The Company's assessments with regard to impact of the financial crisis on its operations, revenues, profits and financial standing constitute forward-looking information. These assessments are based on information currently available to the Company with regard to its operations and on forecasts regarding the impact of the crisis on Company operations.
- h. The Company has a working capital shortfall (as set forth in section 4.2 above); the Company Board of Directors considers that this does not indicate a liquidity issue, considering the Company's forecast liabilities as of the date of these statements and based on assumptions set forth in said section.
- i. Currently there is considerable uncertainty as to the potential duration and intensity of the financial crisis in global markets – and therefore uncertainty with regard to potential impact thereof on the Company and its operations. Should the financial crisis continue for a prolonged period, at the current level of intensity or higher – this may have material negative impact on the Company, its operations, revenues, profits, financial standing and liquidity.

7. Other Events

- a. During July 2008, a wholly-owned foreign subsidiary of Industrial Buildings signed an agreement to acquire a commercial center ("the property") in western Germany, with total rental space of 15,000 sqm. in exchange for €11.6 million (excluding transaction cost).
The expected net operating income (NOI) from the property amounts to €1.2 million, reflecting a yield of 10.4% on the purchase price. The property is fully leased to a single tenant, with the balance of the lease term being 8 years.
Closure of the transaction is contingent on the registering ownership, lifting charges and a right of refusal of the local authority to purchase the asset.
- b. On August 28, 2008, the Company Board of Directors resolved to cooperate in investing in a real estate project in Bangkok, Thailand via a jointly controlled company ("the Thailand project"). The joint venture would invest in the project via a company established by Industrial buildings for this purpose ("the joint venture") whose shares would be owned by the parties (directly or indirectly) as follows: Darban - 20%, Industrial Buildings - 40%, the Company - 40%. In view of the Company's current policy, as set forth in section 6c(e), on November 27, 2008 the Company Board of Directors resolved to rescind its aforementioned resolution, and not to contract with Darban and Industrial Buildings an agreement regarding cooperation on the Thailand project, and to rescind related resolutions regarding participation of the joint venture in travel expenses of the Chairman of the Board and regarding payment of a bonus to the Chairman of the Board out of the Company's share of profits of the joint venture.
- c. Pursuant to the Company Board of Directors' decision of August 28, 2008, the Company signed a letter of guarantee to a bank, limited to US\$28.15 million plus linkage differentials and interest at the highest rate applicable to charges of the borrower, which applies or which would apply to loans and liabilities of Mirland towards the bank.
Guarantees similar to Mirland's undertaking to banks were provided by Industrial Buildings (US\$28.15 million in total) and Darban (US\$13.65 million in total) according to the parties' holding stakes of Mirland shares at that time.
- d. During May 2008, subsidiaries in Canada repaid the owner's loans they had received from the Company, replacing them with direct loans from a bank in Israel. The Company guarantees repayment of these loans. The guarantee amount as of the balance sheet date is approx. NIS 352 million.
- e. On June 30, 2008, the Company signed, together with Industrial Buildings and Darban Investments Ltd. ("the Group"), a settlement agreement with regard to a claim filed by the Sheinbach family and companies under its control (hereinafter jointly: "the plaintiff") against the Group with regard to the Group's properties in Canada. The settlement agreement was approved by the Company's Audit Committee and Board of Directors. Pursuant to the agreement, the plaintiff transferred rights owned by it to Industrial Buildings (10% of rights to 3 commercial centers and 2 rental residential projects around Canada). The plaintiff also ceased to manage Group properties and resigned all its positions in companies related to management of Group business, and has submitted all information and documents held by it and by other service providers to Group companies. In return for the foregoing, Group companies have paid the plaintiff a total of CAD 10 million (approx. NIS 33 million), of which the Company, excluding Industrial Buildings, paid CAD 815 thousand (approx. NIS 2.7 million).
The Company's share, including that of Industrial Buildings, amounts to \$8 million, based on the value of each property net of the outstanding balance of external loans and the outstanding balance of owner's loans for the same property.

Due to the aforementioned acquisition of minority interest, the Company recorded a consolidated net profit of approx. NIS 21 million under Other Revenues.

- f. On March 18, 2008 the board of directors of Industrial Buildings reviewed the dividend distribution policy as adjusted to the IFRS standards, according to which it will distribute at least 40% of the net profit, disregarding changes in the fair value of investment property and deferred taxes thereon, subject to the provisions of the law and the cash needs of Industrial Buildings. This policy will apply up to and including 2009. Accordingly, Industrial Buildings distributed on April 16, 2008 to its shareholders a dividend out of its profits according to the financial statements as of December 31, 2007, amounting to NIS 102,765,000.
- g. During the first quarter of 2008, the Company expanded debenture series G and H to raise NIS 102,543,000 and NIS 209,330,000, respectively.
- h. Investments and dispositions in Israel - The Company and Industrial Buildings are in the process of developing four different projects, in Herzliya, Beer Sheva, Katzrin and Atarot.
- i. On February 7, 2007, a subsidiary of the Company (70% owned by the Company) entered into an agreement with Park Life Sciences Ltd. ("the partner") with regard to an area of 32,000 sqm. owned by the park company. Pursuant to the agreement, 50% of rights to the aforementioned land were sold to the partner in return for approx. NIS 22.3 million, in order to jointly construct on the land an industrial park for companies in the field of life sciences. The cost of construction of this project, as well as its profit or loss, would be equally divided between the park company and the partner. The subsidiary committed to handle assistance in planning and execution of the project, while the partner undertook to manage the project. Project construction and its management would be achieved by a project administration consisting of equal representation of the park company and the partner, with major decisions requiring mutual consent. The joint project would consist of rental property with an area of 60,000 sqm. Phase I would include construction of buildings with total area of 20,000 sqm. The budget for phase I is estimated at NIS 100 million. In July 2008, the Company received approx. NIS 23.3 million (including interest and linkage differentials) in return for delivery of possession.

8. Subsequent Events

a. On October 6, 2008, Industrial Buildings entered into an agreement ("the sale agreement") to sell its rights in a building leased by Industrial Buildings to Cellcom Properties (2001) Ltd. ("Cellcom Properties") in the Birkat Hanun industrial zone, Netanya ("the property") to a financial entity unrelated to Industrial Buildings or to its controlling shareholders ("the buyer").

1. The property consists of 4 office floors with total net area of 32,000 sqm. and two parking floors with total area of 26,000 sqm. as well as all systems and fixtures in the property which do not belong to Cellcom Properties. In addition to sale of rights in the property, Industrial Buildings also sells to the buyer all rights and obligations pursuant to the lease agreement between Industrial Buildings and Cellcom Properties ("the lease agreement"). Pursuant to the sale agreement, the property sold to the buyer excludes the additional construction rights in the property for construction of a 5th floor with an area of 4,700 sqm. ("the additional construction rights").
2. Proceeds for the aforementioned property would amount to approx. NIS 356 million plus VAT ("the proceeds"). The proceeds, excluding an amount of approx. NIS 7 million, is payable to Industrial Buildings as follows: (1) approx. NIS 292 million (net of deposits from Cellcom Properties in respect of the leased property amounting to approx. NIS 11 million, kept by Industrial Buildings) was transferred to Industrial Buildings subsequent to the balance sheet date; (2) approx. NIS 46 million would be paid to Industrial Buildings upon provision of proof of payment of all taxes payable by Industrial Buildings in respect of the property or the transaction, which Industrial Buildings has committed to provide to the buyer within 1 year from signing the sale agreement. The balance of the proceeds, between approx. NIS 7 and 8 million, plus interest and linkage differentials, shall be paid subject to meeting certain conditions set forth in the agreement.
3. Pursuant to the lease agreement, Cellcom Properties may demand that Industrial Buildings construct a 5th floor on the property, in whole or in part, in conjunction with the additional construction rights, and to lease the constructed space to Cellcom Properties.

Should Cellcom exercise the option to have the 5th floor constructed, in whole or in part, ("the additional sale property"), Industrial Buildings and the buyer shall sign an additional agreement, attached to the sale agreement as an appendix, whereby upon conclusion of construction and delivery of possession of the additional sale property to the buyer, Industrial Buildings would sell the additional sale property to the buyer. Proceeds for the additional sale property shall be calculated based on the constructed area, finish level of the additional sale property and its delivery date; should the 5th floor be constructed in full, the proceeds for the additional sale property shall range from approx. NIS 23 to 44 million.

Should the additional sale property constitute only part of the 5th floor, the proceeds would be determined pro-rata to the ratio of the area of the additional sale property and the area of the entire 5th floor.

All expenses for construction of the 5th floor, or part thereof, including any associated fees and taxes, shall be borne by Industrial Buildings.

As of the signing date of these financial statements, Industrial Buildings is in negotiations with Cellcom Properties with regard to construction of the additional floor or part thereof.

4. Should Cellcom not exercise the option to construct the 5th floor, in whole or in part, Industrial Buildings may transfer the unutilized additional construction rights, and sell them to a 3rd party – subject to the buyer's right of first refusal. Should Industrial Buildings be unable to sell the unutilized additional construction rights within a time period set forth in the sale agreement, then Industrial Buildings shall have the right to require the buyer to buy, and the buyer shall have the right to require Industrial

Buildings to sell to the buyer the unutilized additional construction rights at a price to be determined by an assessor.

5. In the sale agreement, Industrial Buildings undertook to complete several actions subsequent to sale of the property, including to obtain a lease agreement, completion certificate and construction permit and to make repairs to the property, and to bear the payments associated there with, which Industrial Buildings believes are not material.

Due to execution of the sale agreement, Industrial Buildings recorded in its financial statements and increase in fair value of investment property amounting to approx. NIS 54 million. This gain excludes any gain or loss, if any, to be recorded by Industrial Buildings in the future from sale of the 5th floor and/or from sale of unutilized additional construction rights.

- b. On November 27, 2008, the Company Board of Directors resolved to provide a loan to Mirland amounting to \$31 million, of which \$10 million to be provided by the Company by the end of this year, and the remaining \$21 million to be provided in the 1st quarter of 2009. The loan is denominated in dollars and bears interest at 12%. The loan is repayable by Mirland in a single installment of principal and interest, in March 2010. Mirland was granted the right to repay the loan or any part thereof ahead of time. The aforementioned loan was granted in view of financing needs of Mirland for development of its properties, pursuant to a decision by the Company's General Meeting (on August 9, 2006) with regard to cooperation between the Company, Darban and Industrial Buildings with regard to real estate investments in Russia via Mirland, whereby financing for Mirland operations would be provided by the Company, Darban and Industrial Buildings ("the parties") in accordance with their holding stakes in the company. The total loan amount requested by Mirland of all the aforementioned parties (including the Company) amounts to \$31 million. As of the date of this decision, the holding stakes of Mirland shares are: Darban - 13.52%, Industrial Buildings - 33.39%, the Company - 28.33%. The exact loan amount to be provided by the Company would be determined based on the holding stakes of the aforementioned parties upon actual grant of the loan, provided it is not materially different than the aforementioned amount. In view of the above, the loan grant is contingent on the aforementioned loan also being granted by Industrial Buildings and by Darban pro-rata to their stake as set forth above.

9. Contribution to the Community

The Company is directly and indirectly involved in activities aimed at assisting the community, through in the fields of health and social welfare and through the provision of building space for hosting charitable and social welfare activities.

In the reported period the Company donated, by itself and through Industrial Buildings, approx. NIS 3,792 thousand, compared to approx. NIS 4,773 thousand, for health and social welfare activities.

In addition, the Company allocated, by itself and through Industrial Buildings, free of consideration, for charitable and social welfare causes, a total area of 21,000 square meters, equivalent to approx. NIS 3.8 million in annual rent.

10. Disclosure concerning the process of approval of the financial statements

The Company Board of Directors appointed a Balance Sheet Committee, whose members are: Mr. Gabby Trabelssi, CPA, Mr. Meir Yakobson (independent Board member), Ms. Anat Menipaz and Ms. Ronit Even, to act as the organ in charge of the Company's entity-level controls and to discuss, among other things, the Company's financial statements, including audit issues relating to entity-level controls, and advise the Board.

The balance sheet committee members convene in order to discuss the financial statements after having received a draft of the financial statements and a draft of the executive summary a few days earlier. In the meeting, the Company's CEO and CFO review the principal aspects of the financial statements and the material issues involving financial reporting, including the state of the Company's affairs, transactions and events other than in the ordinary course of business, the material evaluations and critical estimates applied in the preparation of the financial statements, the possible effect of significant risks and exposures on the financial statements, the accounting policies adopted, changes in the accounting policies and adoption of the proper disclosure principle in the financial statements and executive summary. In the discussion, the committee members raise questions and requests for clarifications of various issues in connection with the financial statements and receive answers from the Company's management and representative of the auditors. The committee then formulates its recommendations regarding the approval of the financial statements and forwards these recommendations to the board of directors.

The Balance Sheet Committee meeting was held on November 25, 2008 – attended by Messrs. Anat Manipaz, Ronit Even, Gabby Trabelsi and Meir Yakobson, joined by Company management and the independent CPA.

The draft of the financial statements and the draft of the executive summary are delivered to the board members several days prior to the board meeting scheduled for the approval of the financial statements. In the board meeting for the approval of the financial statements, the Company's CEO and CFO review the principal aspects of the financial statements and the material issues raised in the balance sheet committee meeting as above. The chairman of the balance sheet committee also presents before the Board the committee's recommendations regarding the financial statements. In the discussion, the Board members raise questions and requests for clarifications of various issues in connection with the financial statements and receive answers from the Company's management and representative of the auditors.

The board meeting to approve the financial statements was held on November 27, 2008 and attended by all Board members, as well as by a representative of the independent CPA.

Eliezer Fishman
Chairman of the Board

Oded Shamir
CEO

Date:
November 27, 2008

JERUSALEM ECONOMY LTD.
(Formerly: Jerusalem Economic Corporation Ltd.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2008

UNAUDITED

CONTENTS

	<u>Page</u>
Review of Unaudited Interim Consolidated Financial Statements	2
Consolidated Balance Sheets	3-4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Equity	6-10
Consolidated Statements of Cash Flows	11-15
Notes to Interim Consolidated Financial Statements	16-26

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 2008 (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.

To
The Board of Directors
Jerusalem Economy Ltd. (formerly: Jerusalem Economic Corporation Ltd.)

Dear Sirs,

Re: Review of Unaudited Interim Consolidated Financial Statements
For the nine month and three month periods ended September 30, 2008

At your request, we have reviewed the interim consolidated balance sheet of Jerusalem Economy Ltd. (formerly: Jerusalem Economic Corporation Ltd.) ("the Company") as of September 30, 2008, and the consolidated statements of income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the nine month and three month periods then ended. Our review was made in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. These procedures included, *inter alia*: reading the aforementioned financial statements, reading the minutes of shareholders' meetings and meetings of the board of directors and its committees, and holding clarifications with the persons in charge of financial and accounting matters.

We were furnished reports of other auditors who reviewed the interim financial statements of certain subsidiaries whose assets constitute 31% of total consolidated assets as of September 30, 2008, and whose revenues constitute 40% and 38% of total consolidated revenues for the nine month and three month periods then ended. We were also furnished reports of other auditors who reviewed the interim financial statements of certain affiliates, the investment in which, at equity, amounted to NIS 57,782 thousand as of September 30, 2008 and in which the Company's share of their earnings amounted to NIS 5,315 thousand and NIS 4,567 thousand for the 9-month and 3-month periods then ended, respectively.

As the review that was made is on a limited scale and does not constitute an audit in conformity with generally accepted auditing standards, we are not expressing an opinion on the interim consolidated financial statements.

In the performance of our review, including the perusal of other auditors' reports, as stated above, nothing came to our attention indicating a need for material changes in the aforementioned financial statements so that they can be considered interim consolidated financial statements prepared in conformity with International Accounting Standard 34 – "Financial Reporting for Interim Periods" and the disclosure requirements in accordance with the Securities (Periodical and Immediate Reports) Regulations 1970.

KOST FORER GABBAY
& KASIERER
CPAs

Tel Aviv
November 27, 2008

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Balance Sheets

	As of September 30		As of
	2008	2007	December 31
	Unaudited		Audited
NIS in Thousands			
<u>Current assets</u>			
Cash and cash equivalents	405,430	1,226,262	1,542,324
Short-term investments	383,069	(* 499,909)	(* 613,575)
Trade receivables	115,648	(* 192,664)	119,916
Other accounts receivable	313,862	(* 192,237)	(* 199,275)
Inventories of buildings and apartments for sale	610,526	(* 507,529)	(* 513,093)
Inventories of land for residential construction	411,135	(* 231,611)	(* 227,123)
	<u>2,239,670</u>	<u>2,850,212</u>	<u>3,215,306</u>
<u>Asset held for sale</u>	<u>355,800</u>	<u>-</u>	<u>-</u>
<u>Non-current assets</u>			
Long-term deposits	2,744,964	(* 1,404,860)	(* 1,629,974)
Long-term debit balances	521,111	(* 315,933)	(* 348,407)
Advances on account of investments	147,928	73,250	61,420
Investment property	15,765,062	16,480,558	16,863,350
Investment property under development	785,218	(* 427,194)	(* 600,986)
Fixed assets, net	30,425	28,278	30,722
Investments in investees	121,943	136,691	160,940
Assets in respect of employee benefits	3,322	3,216	(* 3,322)
Intangible assets, net	46,485	(* 78,146)	(* 43,323)
Deferred taxes	38,083	11,615	25,872
	<u>20,204,541</u>	<u>18,959,741</u>	<u>19,768,316</u>
	<u><u>22,800,011</u></u>	<u><u>21,809,953</u></u>	<u><u>22,983,622</u></u>

*) Reclassified

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Balance Sheets

	As of September 30		As of
	2008	2007	December 31
	Unaudited		Audited
NIS in Thousands			
<u>Current liabilities</u>			
Credit from banks and others	1,690,701	(* 1,345,274	(* 1,738,308
Current maturities of long-term liabilities	718,340	(* 821,167	763,293
Trade payables	124,162	(* 112,151	(* 137,813
Other accounts payable	502,207	(* 463,109	(* 447,646
	<u>3,035,410</u>	<u>2,741,701</u>	<u>3,087,060</u>
<u>Liability in respect of asset held for sale</u>	<u>11,399</u>	<u>-</u>	<u>-</u>
<u>Long-term liabilities</u>			
Loans from banks and others	8,417,136	(* 7,366,092	(* 7,796,527
Debentures	5,886,268	4,873,852	5,480,062
Debentures convertible into subsidiary shares	42,291	63,736	59,064
Debentures convertible into Company shares	2,474	2,653	2,121
Liability component in respect of options	921	61,564	15,062
Deferred taxes	1,545,360	1,602,260	1,610,998
Accrued rental income	13,268	13,927	15,472
Liabilities in respect of employee benefits, net	6,844	6,892	(* 6,849
Tenant deposits	61,461	(* 51,331	50,962
Other long-term liabilities	89,848	(* 116,583	(* 65,275
	<u>16,065,871</u>	<u>14,158,890</u>	<u>15,102,392</u>
<u>Equity attributable to equity holders of the parent</u>			
Issued capital	360,978	359,737	360,024
Share premium	762,515	678,178	698,907
Treasury shares	(120,607)	(49,616)	(49,616)
Retained earnings	1,577,525	1,962,293	1,914,478
Capital reserve in respect of available-for-sale financial assets	4,477	11,936	15,166
Capital reserve in respect of cash flow hedging transaction	4,225	-	-
Other capital reserves	(292,129)	(208)	(39,947)
Total equity attributable to equity holders of the parent	<u>2,296,984</u>	<u>2,962,320</u>	<u>2,899,012</u>
<u>Minority interest</u>	<u>1,390,347</u>	<u>1,947,042</u>	<u>1,895,158</u>
<u>Total equity</u>	<u>3,687,331</u>	<u>4,909,362</u>	<u>4,794,170</u>
	<u>22,800,011</u>	<u>21,809,953</u>	<u>22,983,622</u>

*) Reclassified

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

<u>Ohad Shapira</u>	<u>Oded Shamir</u>	<u>Eliezer Fishman</u>	<u>November 27, 2008</u>
CFO	CEO	Chairman of the Board	Date of approval of the financial statements

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Income

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in thousands (except for net earnings (loss) per share)				
Revenues					
Rental income	911,610	823,528	305,633	290,790	1,124,166
Revenues from sale of apartments	23,669	519,557	5,100	128,147	569,296
Revenues from maintenance and management fees	176,490	157,051	75,344	62,935	229,700
Revenues from management and development of infrastructures	6,418	5,964	2,575	2,217	7,802
Revenues from sale of fuels	80,263	69,874	27,987	25,925	96,329
Total revenues	1,198,450	1,575,974	416,639	510,014	2,027,293
Expenses					
Cost of building management and maintenance	324,365	320,806	123,733	108,280	461,356
Cost of apartments sold	18,337	373,076	4,113	89,883	407,205
Cost of management of buildings and development of infrastructure	3,262	2,837	1,759	967	3,895
Cost of sale of fuel	76,233	66,112	26,839	24,367	91,263
Total cost of sales and services	422,197	762,831	156,444	223,497	963,719
Gross profit	776,253	813,143	260,195	286,517	1,063,574
Increase (decrease) in value of investment property	(91,396)	582,542	(80,875)	186,730	612,485
Selling and marketing expenses	4,267	24,001	1,108	1,108	26,737
General and administrative expenses	141,870	178,524	53,261	58,623	263,033
Operating income	538,720	1,193,160	124,951	413,516	1,386,289
Financial expenses	(1,240,572)	(715,028)	(521,058)	(346,295)	(930,692)
Revaluation of liability component of options	4,922	(108,690)	(21)	10,660	(105,193)
Financial income	250,385	241,896	43,354	102,002	299,791
Other income, net	18,448	78,235	10,224	545	44,081
Group equity in earnings (losses) of affiliates, net	8,292	(* 106)	6,315	(* (138))	(* 599)
Income (loss) before taxes on income	(419,805)	689,679	(336,235)	180,290	694,875
Taxes on income (tax benefit)	22,008	163,644	(49,770)	82,245	204,668
Net income (loss)	(441,813)	526,035	(286,465)	98,045	490,207
Attributable to:					
Equity holders of the parent	(336,953)	303,448	(192,802)	76,347	255,633
Minority interest	(104,860)	222,587	(93,663)	21,698	234,574
	(441,813)	526,035	(286,465)	98,045	490,207
Net earnings (loss) per share attributable to company shareholders (in NIS)					
Basic net earnings (loss)	(8.18)	6.09	(5.36)	1.53	4.756
Diluted net earnings (loss)	(8.29)	5.66	(5.36)	0.96	4.381

*) Reclassified

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders									
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect	Capital reserve in respect	Other capital reserves	Total	Minority interest	Total equity
					of available-for-sale financial assets	of cash flow hedging transaction				
Unaudited										
NIS in Thousands										
Balance at January 1, 2008 (audited)	360,024	698,907	(49,616)	1,914,478	15,166	-	(39,947)	2,899,012	1,895,158	4,794,170
Loss in respect of available-for-sale financial assets, net	-	-	-	-	(7,895)	-	-	(7,895)	(2,417)	(10,312)
Transfer to income statement in respect of available-for-sale financial assets, net	-	-	-	-	(2,794)	-	-	(2,794)	-	(2,794)
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	-	(252,182)	(252,182)	(139,416)	(391,598)
Gain in respect of cash flow hedging transaction	-	-	-	-	-	4,225	-	4,225	-	4,225
Total net income (loss) recognized directly in equity	-	-	-	-	(10,689)	4,225	(252,182)	(258,646)	(141,833)	(400,479)
Net loss	-	-	-	(336,953)	-	-	-	(336,953)	(104,860)	(441,813)
Total revenues (expenses) recognized	-	-	-	(336,953)	(10,689)	4,225	(252,182)	(595,599)	(246,693)	(842,292)
Company shares purchased by the Company	-	-	(70,991)	-	-	-	-	(70,991)	-	(70,991)
Exercise of stock options into shares	852	58,457	-	-	-	-	-	59,309	-	59,309
Conversion of debentures into shares	102	5,151	-	-	-	-	-	5,253	-	5,253
Dividend paid to minority interest	-	-	-	-	-	-	-	-	(33,018)	(33,018)
Share-based payment	-	-	-	-	-	-	-	-	5,103	5,103
Purchase of minority shares	-	-	-	-	-	-	-	-	(230,203)	(230,203)
Balance as of September 30, 2008	<u>360,978</u>	<u>762,515</u>	<u>(120,607)</u>	<u>1,577,525</u>	<u>4,477</u>	<u>4,225</u>	<u>(292,129)</u>	<u>2,296,984</u>	<u>1,390,347</u>	<u>3,687,331</u>

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect of available-for-sale financial assets	Other capital reserves	Total	Minority interest	Total equity
					Unaudited				
	NIS in Thousands								
Balance as of January 1, 2007 (audited)	354,194	260,697	(49,616)	1,897,369	10,729	(21,634)	2,451,739	1,603,232	4,054,971
Gain in respect of available-for-sale financial assets, net	-	-	-	-	3,851	-	3,851	695	4,546
Transfer to income statement in respect of available-for-sale financial assets, net	-	-	-	-	(2,644)	-	(2,644)	-	(2,644)
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	21,426	21,426	17,793	39,219
Total revenues recognized directly in equity	-	-	-	-	1,207	21,426	22,633	18,488	41,121
Net income	-	-	-	303,448	-	-	303,448	222,587	526,035
Total recognized revenues	-	-	-	303,448	1,207	21,426	326,081	241,075	567,156
Exercise of stock options into shares	3,802	335,176	-	-	-	-	338,978	-	338,978
Conversion of debentures into shares	1,741	82,305	-	-	-	-	84,046	-	84,046
Acquisition of subsidiary shares by minority interest	-	-	-	-	-	-	-	248,040	248,040
Dividend paid	-	-	-	(238,524)	-	-	(238,524)	(16,673)	(255,197)
Acquisition of minority interest	-	-	-	-	-	-	-	(128,632)	(128,632)
Balance as of September 30, 2007	359,737	678,178	(49,616)	1,962,293	11,936	(208)	2,962,320	1,947,042	4,909,362

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the parent									
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect	Capital reserve in respect	Other capital reserves	Total	Minority interest	Total equity
					of available-for-sale financial assets	of cash flow hedging transaction				
Unaudited										
NIS in Thousands										
Balance as of July 1, 2008	360,972	762,226	(90,875)	1,770,327	(13,077)	11,933	(258,852)	2,542,654	1,588,715	4,131,369
Gain in respect of available-for-sale financial assets, net	-	-	-	-	12,733	-	-	12,733	5,990	18,723
Transfer to income statement in respect of available-for-sale financial assets, net	-	-	-	-	4,821	-	-	4,821	-	4,821
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	-	(33,277)	(33,277)	371	(32,906)
Capital reserve in respect of cash flow hedging transaction	-	-	-	-	-	(7,708)	-	(7,708)	-	(7,708)
Total net income (loss) recognized directly in equity	-	-	-	-	17,554	(7,708)	(33,277)	(23,431)	6,361	(17,070)
Net loss	-	-	-	(192,802)	-	-	-	(192,802)	(93,663)	(286,465)
Total revenues (expenses) recognized	-	-	-	(192,802)	17,554	(7,708)	(33,277)	(216,233)	(87,302)	(303,535)
Share purchase by the Company	-	-	(29,732)	-	-	-	-	(29,732)	-	(29,732)
Conversion of debentures into shares	6	289	-	-	-	-	-	295	-	295
Share-based payment	-	-	-	-	-	-	-	-	1,701	1,701
Purchase of minority shares	-	-	-	-	-	-	-	-	(112,767)	(112,767)
Balance as of September 30, 2008	360,978	762,515	(120,607)	1,577,525	4,477	4,225	(292,129)	2,296,984	1,390,347	3,687,331

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect of available- for-sale financial assets	Other capital reserves	Total	Minority interest	Total equity
					Unaudited				
NIS in Thousands									
Balance as of January 1, 2007 (un-audited)	359,523	662,830	(49,616)	1,885,946	12,476	55,675	2,926,834	2,009,509	4,936,343
Gain (loss) in respect of available-for-sale financial assets, net	-	-	-	-	58	-	58	(262)	(204)
Transfer to income statement in respect of available-for-sale financial assets, net	-	-	-	-	(598)	-	(598)	-	(598)
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	(55,883)	(55,883)	(16,021)	(71,904)
Total net income recognized directly in equity	-	-	-	-	(540)	(55,883)	(56,423)	(16,283)	(72,706)
Net income	-	-	-	76,347	-	-	76,347	21,698	98,045
Total revenues (expenses) recognized	-	-	-	76,347	(540)	(55,883)	19,924	5,415	25,339
Exercise of stock options into shares	192	14,280	-	-	-	-	14,472	-	14,472
Conversion of debentures into shares	22	1,068	-	-	-	-	1,090	-	1,090
Acquisition of subsidiary shares by minority interest	-	-	-	-	-	-	-	(27,689)	(27,689)
Acquisition of minority interest	-	-	-	-	-	-	-	(40,193)	(40,193)
Declared dividend	-	-	-	-	-	-	-	-	-
<u>Balance as of September 30, 2007</u>	<u>359,737</u>	<u>678,178</u>	<u>(49,616)</u>	<u>1,962,293</u>	<u>11,936</u>	<u>(208)</u>	<u>2,962,320</u>	<u>1,947,042</u>	<u>4,909,362</u>

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

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders							Minority interest	Total equity
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect of available-for-sale financial assets	Other capital reserves	Total		
	Audited								
NIS in Thousands									
Balance as of January 1, 2007	354,194	260,697	(49,616)	1,897,369	10,729	(21,634)	2,451,739	1,603,232	4,054,971
Gain in respect of available-for-sale financial assets, net	-	-	-	-	6,422	-	6,422	943	7,365
Transfer to income statement in respect of available-for-sale financial assets, net	-	-	-	-	(1,985)	-	(1,985)	-	(1,985)
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	(18,313)	(18,313)	(1,223)	(19,536)
Total net income (loss) recognized directly in equity	-	-	-	-	4,437	(18,313)	(13,876)	(280)	(14,156)
Net income	-	-	-	255,633	-	-	255,633	234,574	490,207
Total revenues (expenses) recognized				255,633	4,437	(18,313)	241,757	234,294	476,051
Exercise of stock options into shares	4,050	353,938	-	-	-	-	357,988	-	357,988
Conversion of debentures into shares	1,780	84,272	-	-	-	-	86,052	-	86,052
Issuance of shares to minority	-	-	-	-	-	-	-	245,119	245,119
Dividend paid	-	-	-	(238,524)	-	-	(238,524)	(16,672)	(255,196)
Share-based payment	-	-	-	-	-	-	-	15,280	15,280
Initially consolidated companies	-	-	-	-	-	-	-	19,175	19,175
Acquisition of minority interest	-	-	-	-	-	-	-	(2,895)	(2,895)
Acquisition of shares from minority	-	-	-	-	-	-	-	(202,375)	(202,375)
Balance as of December 31, 2007	360,024	698,907	(49,616)	1,914,478	15,166	(39,947)	2,899,012	1,895,158	4,794,170

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Cash Flows

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
NIS in Thousands					
<u>Cash flows from operating activities</u>					
Net income (loss)	(441,813)	526,038	(286,465)	98,045	490,207
Adjustments to reconcile net income to net cash provided by operating activities (A)	<u>467,159</u>	<u>(* (113,255))</u>	<u>376,942</u>	<u>(* (53,444))</u>	<u>(* (201,789))</u>
Net cash provided by (used for) operating activities	<u>25,346</u>	<u>412,783</u>	<u>90,477</u>	<u>44,601</u>	<u>288,418</u>
<u>Cash flows from investing activities</u>					
Purchase of fixed assets	(7,764)	(21,186)	(5,550)	(13,048)	(18,081)
Investment in investment property	(535,648)	(71,366)	(70,747)	2,145	(1,191,978)
Investment in investment property under development	(215,318)	(1,094,917)	(89,931)	(375,419)	(509,580)
Repayment (grant) of loans to affiliates	28,342	1,578	-	18,074	(3,903)
Advances on account of investments	(251,624)	(65,190)	(3,351)	(58,135)	(52,225)
Long-term debts	(181,333)	(85,616)	(118,461)	(85,616)	(150,082)
Repayment of long-term debts	54,962	(67,220)	54,962	68,900	27,489
Proceeds from sale of investment property	64,267	44,482	38,884	10,668	58,006
Grant (repayment) of loans to proportionately consolidated subsidiary	-	-	-	-	(3,254)
Proceeds from the sale (purchase) of short-term investments, net	(213,163)	258,401	(21,991)	439	132,452
Investment in affiliate	-	-	-	-	(25,000)
Investment in long-term deposits	(1,120,000)	(110,160)	-	17,471	(357,402)
Acquisition of newly consolidated subsidiaries (B)	-	(261,861)	-	(7,427)	(261,861)
Investment in companies previously consolidated by the proportionate consolidation method (C)	-	(23,788)	-	-	(23,788)
Investment in company initially consolidated by the proportionate consolidation method (D)	(18,761)	-	(18,761)	-	-
Proceeds from redemption of restricted deposits	250,077	-	250,077	-	-
Deferred expenses	(1,278)	-	(1,278)	-	-
Repayment of long-term deposits	82,818	75,369	70,532	75,369	75,520
Proceeds from partial sale of investment in proportionately consolidated subsidiary	-	(401)	-	(401)	(401)
Net cash used in investing activities	<u>(2,064,423)</u>	<u>(1,421,875)</u>	<u>84,385</u>	<u>(346,980)</u>	<u>(2,304,088)</u>

*) Reclassified

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Cash Flows

	For the 9 months ended		For the 3 months ended		For the year
	September 30		September 30		ended
	2008	2007	2008	2007	December 31
	Unaudited				Audited
	NIS in Thousands				
<u>Cash flows from financing activities</u>					
Capital issuance to minority in subsidiary	-	134,151	-	3,123	140,658
Exercise of stock options into shares	22,825	98,889	-	5,177	105,335
Dividend paid to Company shareholders	-	(255,196)	-	(238,524)	(238,524)
Dividend paid to minority interest	(33,018)	-	-	-	(16,672)
Issuance of debentures, net	538,885	964,329	-	482,631	1,751,844
Redemption of debentures	(467,141)	(359,229)	(286,560)	(242,569)	(383,682)
Redemption of debentures convertible into Company shares	(161)	(4,975)	-	(4,975)	(1,565)
Receipt of long-term loans and other long-term liabilities	1,476,140	1,419,826	400,596	366,626	1,987,088
Repayment of long-term loans and other long-term liabilities	(265,553)	(570,506)	(107,726)	(104,389)	(797,653)
Short-term credit from banks and others, net	(41,869)	(479,740)	11,752	11,740	(177,630)
Deferred charges in respect of loans	(1,419)	(5,225)	(22)	(5,225)	(3,259)
Deposits from tenants, net	10,835	8,071	(4,194)	16,512	10,951
Purchase of Company shares	(70,991)	-	(29,732)	-	-
Acquisition of minority shares in subsidiary	(217,113)	(128,190)	(111,440)	(48,193)	(202,375)
Net cash provided by financing activities	<u>951,420</u>	<u>822,205</u>	<u>(127,326)</u>	<u>241,934</u>	<u>2,174,516</u>
<u>Translation differences from cash balances of foreign operations</u>	<u>49,237</u>	<u>(16,986)</u>	<u>(59,957)</u>	<u>(55,455)</u>	<u>(40,766)</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>(1,038,420)</u>	<u>(203,876)</u>	<u>(12,421)</u>	<u>(115,990)</u>	<u>118,080</u>
<u>Cash and cash equivalents at beginning of period</u>	<u>1,542,324</u>	<u>1,430,141</u>	<u>417,851</u>	<u>1,342,165</u>	<u>1,424,244</u>
<u>Cash and cash equivalents at end of period</u>	<u>405,430</u>	<u>1,226,265</u>	<u>405,430</u>	<u>1,226,265</u>	<u>1,542,324</u>

*) Reclassified

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Cash Flows

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in Thousands				
(A) <u>Adjustments to reconcile net income to net cash provided by operating activities</u>					
Income and expenses not involving cash flows:					
Gain from sale of investment in subsidiary	-	-	-	-	(554)
Excess negative cost created upon acquisition	-	(6,177)	-	-	16,186
Depreciation and amortization	20,810	2,719	849	1,426	(* 26,372)
Loss (gain) from short-term investments	128,873	(31,729)	102,916	(184)	(31,600)
Decrease (increase) in value of investment property	91,396	(582,542)	80,875	(* (186,730))	(612,485)
Revaluation (erosion) of liability component of debentures and option warrants	(4,921)	(* 102,443)	22	(10,660)	105,193
Revaluation (erosion) of financial derivative	(7,031)		(19,721)		(* 192)
Revaluation of long-term loans and debentures	592,204	134,592	390,623	(* 96,087)	(* 172,096)
Erosion (revaluation) of long-term receivables and bank deposits	(30,880)	(41,165)	(9,750)	(37,335)	(104,392)
Group equity in losses (earnings) of affiliates, net of dividend received, net	8,292	106	6,315	(138)	3,061
Deferred taxes, net	19,787	91,777	(46,690)	64,689	104,392
Change in liabilities in respect of employee benefits, net	(5)	188	-	135	39
Cost of share-based payment	5,106	9,987	1,701	4,061	15,820
Loss (gain) from change in holding stake in subsidiary	(11,534)	(68,186)	(7,575)	(* 7,750)	(68,656)
Gain from acquisition of minority interest in subsidiary	(21,155)	-	-	-	-
	<u>790,942</u>	<u>(381,813)</u>	<u>498,565</u>	<u>(* (60,627))</u>	<u>(400,708)</u>
Changes in assets and liability items					
Decrease (increase) in trade receivables	(12,871)	(74,079)	(6,616)	(83,037)	(20,933)
Decrease (increase) in other accounts receivable	(64,226)	(* 64,961)	(11,463)	(* 61,068)	55,384
Decrease (increase) in inventories of buildings and apartments for sale less customer advances and in inventories of land for construction	(299,135)	294,212	(92,180)	67,928	(* 196,827)
Increase (decrease) in trade payables	(6,090)	(12,442)	11,377	(22,615)	2,687
Increase (decrease) in other accounts payable	64,360	(1,952)	(6,043)	(15,380)	(35,046)
Change in accrued revenues	(5,821)	(* (2,145))	(16,698)	(* (785))	-
	<u>(323,783)</u>	<u>(* 268,555)</u>	<u>(121,623)</u>	<u>(* 7,179)</u>	<u>(* 198,919)</u>
	<u>467,159</u>	<u>(* (113,255))</u>	<u>376,942</u>	<u>(* (53,444))</u>	<u>(* (201,789))</u>

*) Reclassified

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Cash Flows

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in Thousands				
(B) <u>Acquisition of newly consolidated companies</u>					
Assets and liabilities of the subsidiaries at date of acquisition					
Working capital (excluding cash and cash equivalents)	-	53,238	-	-	53,238
Investment property	-	(702,236)	-	(7,427)	(702,236)
Long-term liabilities	-	430,315	-	-	430,315
Excess of cost created upon acquisition	-	(43,178)	-	-	(43,178)
	<u>-</u>	<u>(261,861)</u>	<u>-</u>	<u>(7,427)</u>	<u>(261,861)</u>
(C) <u>Investment in companies previously consolidated by the proportionate consolidation method</u>					
Assets and liabilities of proportionately consolidated subsidiary at date of acquisition					
Working capital (excluding cash and cash equivalents)	-	17,865	-	-	17,865
Excess of cost created upon acquisition	-	(6,342)	-	-	(6,342)
Fixed assets, net	-	(841)	-	-	(841)
Long-term liabilities	-	15,835	-	-	15,835
Investment property	-	(77,780)	-	-	(77,780)
Deferred taxes	-	9,152	-	-	9,152
Minority interest	-	18,323	-	-	18,323
	<u>-</u>	<u>(23,788)</u>	<u>-</u>	<u>-</u>	<u>(23,788)</u>
(D) <u>Investment in company initially consolidated by the proportionate consolidation method</u>					
Assets and liabilities of proportionately consolidated subsidiary:					
Working capital (excluding cash and cash equivalents)	60,678	-	60,678	-	-
Land inventory	(66,162)	-	(66,162)	-	-
Investment property	(45,750)	-	(45,750)	-	-
Long-term liabilities	32,473	-	32,473	-	-
	<u>(18,761)</u>	<u>-</u>	<u>(18,761)</u>	<u>-</u>	<u>-</u>

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

JERUSALEM ECONOMY LTD. (formerly: Jerusalem Economic Corporation Ltd.)

Consolidated Statements of Cash Flows

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in Thousands				
(E) Significant non-cash transactions					
Sale of fixed assets on credit	-	18,166	-	9,154	2,192
Purchase of investment property on credit	24,679	10,251	1,352	10,251	9,154
Conversion of convertible debentures into shares	2,723	232,651	154	19,561	86,052
(F) Additional cash flow information					
Cash paid during the period for:					
Interest	501,719	481,351	102,158	147,153	753,860
Taxes on income	42,598	95,119	25,749	14,575	104,026
Cash received during the period for:					
Interest	156,495	107,249	80,961	40,648	129,122
Taxes on income	4,303	8,082	3,854	1,114	20,329
Dividend received	7,892	24,925	388	716	24,925

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

Note 1:- General

- a. These financial statements are prepared in condensed form as of September 30, 2008 and for the nine- and three-month periods then ended ("the interim consolidated financial statements"). These statements should be read in conjunction with the Company's annual financial statements as of December 31, 2007 and for the year then ended and their accompanying notes ("the annual financial statements").
- b. As of September 30, 2008, the consolidated Company ("the Group") has a working capital shortfall of NIS 796 million. The Group's operating cash flow does not cover short-term credit from banks including current maturities of its long-term liabilities. Group management believes that the Company has the option, with some banks, to convert short-term loans into long-term loans, thereby improving the Company's current ratio. The Group considers such conversions from time to time based on capital market conditions.

As of September 30, 2008, the consolidated Company has a working capital shortfall of NIS 796 million, due to the fact that the Company finances some of its long-term investments (real estate in Israel and overseas and investments in investees) by means of short-term secured credit. The credit facilities with certain banks in Israel enable an improvement of the current ratio through the conversion of short-term loans into long-term loans. The Company considers conversion of short-term credit into long-term credit from time to time, in line with capital market conditions. Furthermore, the Company is acting to obtain long-term non-recourse foreign bank credit for financing its investments in Germany and France, which, if and as far as obtained, will serve, among other things, to repay short-term loans in Israel and reduce the working capital shortfall. As of the date of signing these financial statements, the Company, excluding its subsidiaries, has unutilized credit facilities amounting to NIS 400 million.

Note 2:- Significant Accounting Policies

a. Basis of reporting

The interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles used in the preparation of financial statements for interim periods, as prescribed in International Accounting Standard 34 – "Financial Reporting for Interim Periods", and in accordance with the disclosure requirements in Chapter D of the Securities (Periodical and Immediate Reports) Regulations 1970.

The accounting policies and the calculation methods applied in the interim consolidated financial statements are consistent with those applied in the annual financial statements, except as stated below.

Assets held for sale

A non-current asset, or group of assets, are classified as held for sale, when they would be settled primarily by means of a sale transaction, rather than by means of extended use. The above holds true when assets are available for immediate sale in their current condition, the Company is committed to the sale, a plan to locate a buyer is in place and the settlement is highly probable within one year from the date of classification. Such assets are not amortized, and are presented separately on the balance sheet in the initial classification period only, at their book value or their fair value net of selling costs, whichever is lower. Concurrently, the liabilities referring to these assets are similarly presented separately on the balance sheet.

Note 2:- Significant Accounting Policies (cont.)

Investment property presented at fair value and classified as an asset held for sale as per the above, continued to be presented using this method and to be separately presented on the balance sheet, under assets held for sale.

b. Disclosure with regard to IFRS standards prior to their implementation

1. IAS 28 (Revised) – Investments in Associates

Pursuant to the revision to IAS 28, a review of impairment of an investment in an associate would be made in reference to the entire investment. Accordingly, recognized loss from impairment of such investment shall not be specifically allocated to goodwill included in the investment, but would be attributable to the investment as a whole; hence the full impairment loss previously recognized may be reversed upon meeting the required criteria. This revision may be applied retroactively or by means of hence forward, starting with financial statements for periods starting on January 1, 2009. Early adoption is possible.

The Company believes that the revised standard is not expected to materially impact its financial standing, operating results and cash flows.

2. IAS 40 (Revised) – Investment Property

Pursuant to the revision to IAS 40, even investment property under construction or development for future use as investment property shall be treated as investment property, when the fair value method is applied and its value may be reliably measured. The standard shall be applied by means of hence forward starting with financial statements for periods starting on January 1, 2009. Early adoption is possible.

The Company is reviewing the impact of the revised standard on its financial statements, but at this stage is unable to estimate its impact.

3. IFRIC 15 – Agreements for Construction of Real Estate

IFRIC 15 ("the clarification") sets forth rules for distinction between agreements for construction of real estate within the scope of IAS 11 and such agreements which are within the scope of IAS 18. When an agreement is specifically made to construct an asset or group of assets, such that the buyer may specify and make changes to its specification, the agreement falls within the scope of IAS 11. Therefore, revenues would be recognized using the completion rate method. However, when the buyer is unable to intervene in determining the specification, or may only intervene to a limited extent, the agreement is for sale of real estate, and falls within the scope of IAS 18. The clarification applies to annual financial statements for periods starting on January 1, 2009 or later, and shall be applied retroactively. Early adoption is possible.

The Company believes that adoption of the new clarification is not expected to materially impact its financial standing, operating results and cash flows.

Note 2:- Significant Accounting Policies (cont.)

4. IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

IFRIC 16 ("the clarification") stipulates that it is not possible to hedge risk in respect of change to exchange rate in reference to the company's presentation currency, but only in reference to its functional currency. Furthermore, it is possible to hedge risk in respect of change to exchange rate in reference to the functional currency of each group subsidiary, even if such subsidiary is indirectly controlled by another group company. It is further stipulated that the hedging instrument may be held by any group company. The clarification applies to annual financial statements for periods starting on January 1, 2009 or later. Early adoption is possible.

The Company is reviewing the impact of the new clarification on its financial statements, but at this stage is unable to estimate its impact.

Note 2:- **Significant Accounting Policies** (cont.)

c. **Functional currency and presentation currency**

Transactions in foreign currency

1. Transactions in foreign currencies are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into NIS at the exchange rates prevailing at balance sheet date. Exchange rate differences are charged to the statement of income. Non-monetary assets and liabilities are translated into NIS using the exchange rate upon the transaction date. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into NIS using the exchange rate upon the date of determination of fair value.
2. Set out below is information relating to the exchange rates of the principal currencies in countries where the Group operates and the Israeli consumer price index:

Rate of change during the period	Israeli consumer price index *		US dollar	Euro	Canadian dollar	Swiss franc
	for	Known				
	%	%	%	%	%	%
For the 9-month period ended September 30, 2008	5	5	(11.05)	(11.65)	(15.8)	(8.01)
For the 3-month period ended September 30, 2008	2	2.1	2.06	(5.39)	(0.36)	(4.34)
For the 9-month period ended September 30, 2007	2.29	2.79	(5.01)	2.25	10.34	(1.06)
For the 3-month period ended September 30, 2007	1.30	2.52	(5.55)	(0.41)	(0.05)	(0.60)
For the year ended December 31, 2007	3.4	2.8	(9.0)	1.7	7.7	(1.3)
As of	CPI for month (in points)		Official exchange rate (in NIS)			
September 30, 2008	199.5	199.5	3.421	4.9998	3.3032	3.1460
September 30, 2007	189.1	190.0	4.013	5.6898	4.0174	3.4289
December 31, 2007	191.2	190.0	3.846	5.6592	3.9229	3.420

* CPI based on average 1993 basis = 100

Notes to the Interim Consolidated Financial Statements

Note 3:- Geographical Segments

	Canada	USA	Europe						Total	
			France	Switzerland	Russia	Germany	Poland	Other		
	Unaudited									
NIS in Thousands										
<u>For the nine-month period ended September 30, 2008</u>										
Segment revenues	<u>454,936</u>	<u>205,756</u>	<u>26,455</u>	<u>247,508</u>	<u>85,464</u>	<u>53,749</u>	<u>107,467</u>	<u>9,779</u>	<u>7,335</u>	<u>1,198,450</u>
Increase (decrease) in fair value of investment property	<u>206,630</u>	<u>(20,005)</u>	<u>-</u>	<u>(305,455)</u>	<u>(12,322)</u>	<u>(79,291)</u>	<u>39,770</u>	<u>84,594</u>	<u>(5,317)</u>	<u>(91,396)</u>
Segment results	<u>499,233</u>	<u>56,471</u>	<u>8,217</u>	<u>(107,356)</u>	<u>41,938</u>	<u>(87,586)</u>	<u>120,358</u>	<u>94,550</u>	<u>(44,883)</u>	<u>580,942</u>
Expenses not allocated to segments										<u>42,222</u>
Operating income										<u>538,720</u>

	Israel	Canada	USA	Europe						Total
				France	Switzerland	Russia	Germany	Poland	Other	
	Unaudited									
NIS in Thousands										
<u>For the nine-month period ended September 30, 2007</u>										
Segment revenues	<u>410,987</u>	<u>214,780</u>	<u>521,540</u>	<u>224,892</u>	<u>73,338</u>	<u>32,731</u>	<u>61,633</u>	<u>13,786</u>	<u>22,287</u>	<u>1,575,974</u>
Increase (decrease) in fair value of investment property	<u>152,962</u>	<u>27,097</u>	<u>-</u>	<u>(8,190)</u>	<u>-</u>	<u>280,631</u>	<u>58,124</u>	<u>44,651</u>	<u>27,267</u>	<u>582,542</u>
Segment results	<u>427,164</u>	<u>98,174</u>	<u>125,036</u>	<u>97,669</u>	<u>55,873</u>	<u>267,822</u>	<u>113,352</u>	<u>51,591</u>	<u>(14,005)</u>	<u>1,222,676</u>
Expenses not allocated to segments										<u>29,516</u>
Operating income										<u>1,193,160</u>

Notes to the Interim Consolidated Financial Statements

Note 3:- Geographical segments (continued)

	Israel	Canada	USA	Europe						Total
				France	Switzerland	Russia	Germany	Poland	Other	
Unaudited										
NIS in Thousands										
<u>For the three-month period ended September 30, 2008</u>										
Segment revenues	152,297	67,516	7,809	100,073	25,906	19,097	38,109	451	5,381	416,639
Increase (decrease) in fair value of investment property	112,211	-	-	(138,288)	(3,408)	(52,758)	-	-	1,368	(80,875)
Segment results	209,377	24,599	1,883	(59,049)	12,070	(58,415)	38,437	997	(31,275)	138,624
Expenses not allocated to segments										(13,673)
Operating income										124,951

	Israel	Canada	USA	Europe						Total
				France	Switzerland	Russia	Germany	Poland	Other	
Unaudited										
NIS in Thousands										
<u>For the three-month period ended September 30, 2007</u>										
Segment revenues	145,272	76,614	128,903	69,674	32,235	14,809	22,213	4,509	15,785	510,014
Increase (decrease) in fair value of investment property	151,142	722	-	(13,890)	-	(7,429)	-	44,651	11,534	186,730
Segment results	202,961	31,266	33,470	38,721	30,673	16,417	22,162	47,018	3,940	426,628
Expenses not allocated to segments										13,112
Operating income										413,516

	Israel	Canada	USA	Europe						Total
				France	Switzerland	Russia	Germany	Poland	Other	
Audited										
NIS in Thousands										
<u>For the year ended December 31, 2007</u>										
Segment revenues	551,531	297,167	570,517	301,201	121,622	51,034	109,848	18,462	5,911	2,027,293
Increase (decrease) in fair value of investment property	154,749	8,492	(2,658)	(26,573)	12,577	337,427	63,371	44,416	20,684	612,485
Segment results	518,394	97,307	138,746	144,995	79,378	230,059	129,106	54,213	33,611	1,425,809
Expenses not allocated to segments										39,520
Operating income										1,386,289

Note 4:- Significant Events during the Reported Period

- a. In January-September 2008, the Company invested, via its wholly-owned subsidiary operating in India, NIS 121 million for construction and development of a combined residential and commercial project. This amount is stated under advances on account of investments.
- b. During January-February 2008, NIS 851,641 of Company option warrants (Series F) were converted into 851,641 Company shares. The Company generated cash amounting to approx. NIS 23 million from this conversion. On February 28, 2008, 445 Company option warrants (Series F) expired. As a result, a gain of NIS 15,000 accrued to the Company, which was charged to the financing item.
- c. During January-September 2008, approx. NIS 2,538 thousand in Company debentures (Series C) were converted into approx. 102,000 Company shares.
- d. During January-September 2008, the Company converted approx. NIS 1.3 million par value debentures (Series D) of Industrial Buildings (IBC) into 146,000 ordinary shares of IBC.
- e. On March 18, 2008, the board of directors of IBC reviewed its dividend distribution policy and resolved to continue with a dividend policy whereby IBC will distribute at least 40% of its net income disregarding changes in the fair value of investment property and deferred taxes thereon. The policy will apply until 2009. Consequently, a dividend amounting to NIS 102,765,000 was declared for 2007 and paid in April 2008. Minority interest in the dividend declared amounted to approx. NIS 33,018 thousand.
- f. In April 2008 the board of directors of IBC approved a plan for re-acquisition of its shares for a sum of up to NIS 150 million. The acquisition is to be implemented starting from the reporting date and up to December 31, 2009, at times, at prices and in amounts to be determined at the discretion of Industrial Buildings' board of directors and management.
In May-September 2008, IBC acquired NIS 13.2 million par value shares of Industrial Buildings, for consideration of approx. NIS 90.8 million. Due to said acquisition, the Company's holding stake in IBC increased. The Company recognized revenues in respect of said increase under other revenues, net.
Subsequent to the balance sheet date, IBC acquired approx. NIS 1.3 million par value shares of Industrial Buildings, for consideration of approx. NIS 7 million.
- g. During January-September 2008, the Company acquired approx. NIS 38 million of IBC shares, and IBC bought back approx. NIS 13.2 million of its own shares in return for approx. NIS 90.8 million. Consequently, the Company's holding stake in IBC rose to approx. 70.92%. See Note 5c.
- h. On March 5, 2008, the Company raised through the extension of debentures (Series G and Series H) NIS 102,543,000 and NIS 209,330,000 respectively.

Note 4:- Significant Events during the Reported Period (cont.)

- i. During January-September 2008 the Company by itself and through IBC acquired shares of Mirland for an overall sum of approx. NIS 32 million. As a result of the acquisition, the Company's holding stake in Mirland increased to 28.34% directly and to 57.03% indirectly.
- j. On March 30, 2008 the Company Board of Directors resolved to approve buy-back of up to NIS 70 million par value Company ordinary shares by the Company from time to time, whether on or off the stock exchange. On June 28, 2008 the Company Board of Directors resolved to approve an increase of the buy-back limit up to NIS 90 million par value. During January-September 2008, the Company bought back its shares for total consideration of NIS 164 million. Of which, NIS 91 million were acquired from a subsidiary of the Company, hence the consolidated buy-back amounted to NIS 71 million. See also Note 5a.
- k. During January-September 2008, the Company charged a loss of approx. NIS 11 million to a net capital reserve in respect of financial assets held for sale – due to adjustment of the fair value of its investments. Company management believes that this decrease in the fair value of the investments does not constitute impairment of a permanent nature. The Company also recognized in its income statement a loss of approx. NIS 116 million due to change in fair value of financial assets held for sale, which Company management believes to constitute impairment of its investments. Soon prior to signing these financial statements, a further impairment amounting to approx. NIS 75 million has occurred in respect of financial assets held for sale.
- l. Through December 31, 2007, a tax treaty was in effect between Luxembourg and France, according to which earnings of Luxembourgian companies from real estate properties in France were not liable to tax. Following the cancellation of the treaty on January 1, 2008, the Company recognized consolidated tax expenses of approx. NIS 25 million, which were included under a reserve for deferred taxes in the first quarter of 2008.
- m. On June 5, 2008, IBC issued approx. NIS 236 million par value debentures (Series L), in return for approx. NIS 234 million. These debentures are linked to the Consumer Price Index and bear annual interest, also linked to the CPI, at 3.8%. These debentures are redeemable in 3 equal installments in each of the years 2010-2012. Interest is payable on December 10 of each of the years 2008-2012.

Note 4:- Significant Events during the Reported Period (cont.)

- n. On June 30, 2008, the Company together with IBC and Darban Investments Ltd. ("the Group") reached a settlement agreement regarding a lawsuit filed against the Group with regard to Group properties in Canada. The settlement agreement was approved by the Company's Audit Committee and Board of Directors. Pursuant to the agreement, the plaintiff transferred rights owned by it to the Group (10% of rights to 3 commercial centers and 2 rental residential projects around Canada). The plaintiff also ceased to manage Group properties and resigned all its positions in companies related to management of Group business, and has submitted all information and documents held by it and by other service providers to Group companies.
In return, Group companies paid the plaintiff a total of approx. CAD 10 million (approx. NIS 33.8 million).
Due to the aforementioned acquisition of minority interest, the Company recorded a consolidated gain of NIS 20.7 million, presented under Other Revenues, Net.
- o. In August 2008, IBC entered into multiple agreements with 3 companies incorporated in Thailand ("the venture companies"), which own rights to land located in Bangkok, Thailand, whereby IBC would invest upon execution of the agreement a total of approx. THB 1,000 million (approx. NIS 100 million) in exchange for allotment of 50% of voting rights and rights to income of the venture companies. The planned project consists of two buildings, one of which is a 70 storey high-rise building, primarily composed of high-end apartments, a hotel and commercial space with proportions of 55%, 20% and 25%, respectively. The venture companies are acting to increase construction rights on this land by a further 20%.
The aforementioned investment will be made by IBC in several installments, the first of which – THB 667 million (NIS 71 million) – was paid upon signing the agreement, and the balance is payable in several un-equal installments through April 2009.
- p. In July 2008, a wholly-owned foreign subsidiary of the Company entered into an agreement to acquire a commercial center in Western Germany, in return for approx. €11.6 million (excluding transaction cost). The property is fully leased to a single tenant, with the balance of the lease term being 8 years. Closure of the transaction is contingent on the registering ownership, lifting charges and a right of refusal of the local authority to purchase the asset.
- q. In July 2008, Mirland discontinued its participation in 2 projects in Moscow, since some of the suspensive conditions for Mirland's investment, as set forth in the agreement signed by Mirland and by a 3rd party ("the developer") were not met by the date to which the developer had committed.
Pursuant to provisions of this agreement, Mirland provided in 2007 a loan amounting to approx. \$14 million (approx. NIS 47 million) to the developer for the initial phases of these projects.
Due to failure to comply with conditions, the loan was repaid to Mirland along with interest and linkage differentials.

Note 4:- Significant Events during the Reported Period (cont.)

- r. Recently the real estate market in Russia has been unstable, due to the global credit crisis and the conflict between Russia and Georgia. Consequently, many companies have decided to shelve projects currently in the design phase. Activity in the real estate market has materially contracted, and at this stage it is not possible to forecast when activity and prices may recover.
Growth rates and yields depend on the duration of the credit crisis and on stabilization of the capital markets. At this stage there is no evidence of a decline in demand, but it is likely that business activity in all sectors of the economy is weaker due to the crisis. Therefore, the Company estimates that a growing distinction would emerge between yields on properties having different qualities of tenants, even within the same class. Buildings with stable tenants would become more attractive properties, hence the tenant profile would become a significant factor.
Having considered all of the abovementioned elements, Mirland management believes that for the Hydromash Service, Yaroslavl and MAG properties, the discount rate would increase by 1%, and has revalued these properties accordingly.
- s. In September 2008, Mirland received guarantees from its major shareholders (companies controlled by the Fishman Group) with regard to repayment of loans amounting to approx. \$70 million (approx. NIS 245 million), which were granted to Mirland by banking corporations. Consequently, the banks have removed restrictions imposed on deposits used to secure repayment of said loans by Mirland.
Due to the fact that, pursuant to agreements with the banks, the banks may demand repayment of the aforementioned loans at any time, said loans have been classified as short-term loans.
- t. In September 2008, the Board of Directors of IBC has approved a debenture buy-back program by a wholly-owned subsidiary of Industrial Buildings, up to approx. NIS 100 million in total. During the reported period, IBC acquired debentures amounting to approx. NIS 21.9 million.

Note 5:- Subsequent Events

- a. During October-November 2008, the Company bought back its own shares amounting to NIS 3,913 thousand in total.
- b. During October-November 2008, the Company by itself and through IBC acquired shares of the subsidiary Mirland for an overall sum of NIS 37 million. As a result of the acquisition, the Company's holding stake increased to 28.34% directly and to 61.73% indirectly.
- c. During October-November 2008, IBC bought back approx. NIS 1.7 million par value of its own shares, in return for approx. NIS 1.3 million.
- d. During October-November 2008, the Company bought back negotiable debentures (Series F) for total consideration of approx. NIS 5 million.

Note 5:- Subsequent Events (cont.)

- e. During October-November 2008, IBC bought back debentures for total consideration of approx. NIS 10.3 million.

- f. On October 6, 2008 IBC entered into an agreement to sell to a financial institution its rights to a building in Netanya, rented to Cellcom Properties (2001) Ltd. The building includes 4 office floors and a 2-floor parking area.
The buyer was also granted an option to rent a fifth floor, to be constructed as per the buyer's demand and subject to additional construction rights existing in this property.
Proceeds for the aforementioned property would amount to approx. NIS 356 million plus VAT. A total of approx. NIS 292 million (net of deposits in respect of leased property amounting to NIS 11 million kept by Industrial Buildings) was paid to IBC subsequent to the balance sheet date. NIS 46 million would be paid to IBC upon provision of confirmations to secure the buyer's rights, as well as confirmation of payment in full of taxes payable by IBC in respect of this transaction; the balance of NIS 7 million, plus interest and linkage differentials, would be paid subject to compliance with conditions set forth in the agreement, including approval by the Supervisor of Insurance and the Supervisor of Capital Market. Consequently to setting the book value of the property to the expected proceeds, IBC recorded revaluation revenues amounting to approx. NIS 54 million in the 3rd quarter of 2008.

- g. On November 27, 2008, the Company Board of Directors resolved to provide a loan to Mirland amounting to \$31 million, of which \$10 million to be provided by the Company by the end of this year, and the remaining \$21 million to be provided in the 1st quarter of 2009. The loan is denominated in dollars and bears interest at 12%. The loan is repayable by Mirland in a single installment of principal and interest, in March 2010.

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