

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 SIX MONTH PERIOD ENDED JUNE 30, 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 Six Month Period Ended June 30, 2008

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

1. The Company and Its Business Environment

a. Company's Areas of Activity

The Company's activities, independently and through subsidiaries, including Industrial Buildings Corp. Ltd. ("Industrial Buildings"), which as at the date of this report is held at a rate of 69.3%, and Mirland Corporation, which as at the date of this report is held by the Company, directly and indirectly, at a rate of 47.4%, focus on the real estate sector, including the acquisition and development of land and the lease, acquisition and sale of income-producing commercial, industrial, residential and office real estate properties.

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.

b. Highlights in the Reported Period

1. Profitability

Income from income-producing properties totaled in the reported period NIS 707 million, an increase of 12.4% 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 NIS 506 million compared to NIS 416 million in the same period last year, an increase of 21.6%.

Gross profit in the reported period totaled NIS 516 million compared to NIS 527 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 NIS 512 million compared to NIS 419 million in the same period last year. An increase of NIS 94 million, primarily due to increase in gross income from rental properties.

Operating income during the reported period totaled NIS 414 million compared to operating income of NIS 780 million in the same period last year.

The Company's pre-tax loss in the reported period totaled NIS 84 million compared to income of NIS 509 million in the same period last year.

The Company recorded a loss of NIS 155 million compared to a net profit of NIS 428 million in the same period last year. The decrease is primarily due to a non-recurring provision for taxes amounting to NIS 24 million due to cancellation of the France-Luxembourg Tax Treaty; to a decrease in fair value of rental properties amounting to NIS 10 million (see further details in section 1d2a below) compared to a NIS 396 million increase last year; to a decrease in gain from sale of apartments and commercial space amounting to NIS 104 million compared to the same period last year; and to increase in financing expenses, primarily due to the rise in CPI and exchange rate differentials amounting to NIS

188 million over the same period last year. The same period last year's profit included earnings of 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.

The loss attributable to the Company's shareholders amounted in the reported period to NIS 144 million compared to a profit of NIS 227 million in the same period last year.

2. **Equity**

The Company's equity decreased in the reported period by NIS 663 million to NIS 4,131 million. The decrease is attributable mainly to the Company's losses, to a reduction in the capital reserve in respect of foreign currency translation adjustments of foreign operations and to a decrease in the capital reserve in respect of available-for-sale financial assets and to buy-back of Company shares.

The Company's equity attributable to its shareholders amounted as of the date of the report to NIS 2,543 million.

3. **Cash flow**

Net cash used for **operating activities** in the reported period totaled NIS 55 million compared to net cash of NIS 296 million provided by operating activities in the same period last year.

Net cash used in current operations in the reported period, net of changes in asset and liability items primarily due to temporary differences, amounts to NIS 158 million, compared to NIS 107 million in the same period last year.

The Company's investments in real estate in the reported period totaled NIS 1,045 million, of which:

In rental property and land designated for construction of rental property: NIS 465 million

Investment in assets under development: NIS 125 million

Inventory of buildings, apartments for sale and land for residential construction: NIS 207 million

Increase in down payments on account of investment: NIS 248 million

4. **Condensed data for the period (NIS in thousands)**

	Jan.-June 2008	Jan.-June 2007
Revenues from income-producing properties	707	627
Gross profit (NOI) from income-producing properties	506	414
Gross profit from sales of apartments and commercial space	4	108
Other gross profit	5	5
Gross profit	<u>516</u>	<u>527</u>
Increase (decrease) in fair value of real estate	(10)	396
General, administrative and selling expenses	<u>92</u>	<u>143</u>
Operating income	414	780
Other income	8	78
Financing expenses (revenues), net	<u>508</u>	<u>349</u>
Pre-tax income (loss)	(84)	509
Tax	72	81
Gain from affiliates	<u>2</u>	<u>-</u>
Netincome (loss)	<u>(155)</u>	<u>428</u>
Income (loss) attributable to the shareholders	(144)	227
Income attributable to minority	<u>(11)</u>	<u>201</u>
Net income (loss) for the period	<u>(155)</u>	<u>428</u>

5. **Selected data of the Company's balance sheet (NIS in millions)**

	June30, 2008	December 31, 2007
Total balance sheet	<u>23,143</u>	<u>22,984</u>
Equity including minority interest	4,131	4,794
Equity attributable to the shareholders	2,543	2,899
Investment property	16,438	16,863
Investment property under development	640	599
Inventories of buildings and apartments for sale	527	510
Inventories of land for residential construction	342	227
Current assets	2,379	3,212
Current liabilities	2,845	3,087
Long-term liabilities	16,166	15,102
Non-recourse loans	5,337	3,948
Deferred tax liability	1,614	1,611

c. **Major subsidiaries**

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 1,961,000 sq., at a 90.5% 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 sq. (Industrial Buildings holds 50% of rights); 871 apartments and private houses near Tzur Natan (Industrial Buildings holds 90% of rights); 1,400 residential units in private houses and in low-rise construction in Skopje, the capital of Macedonia (Industrial Buildings holds 95% 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 rate in Industrial Buildings as of the date of the report – 68.39%.

	<i>NIS in million</i>
Market value of the investment as of June 30, 2008	1,853
Market value immediately before the publication date of the report	1,530
Investment account on the Company's books as of June 30, 2008	1,848

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 69.3% of Industrial Buildings.

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 rate in Mirland as of the date of the report:

The Company directly – 27.52%, Industrial Buildings – 27.88% (Industrial Buildings is held at a rate of 68.39%).

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 June 30, 2008 at 46.6%.

	<i>NIS in million</i>
Market value of the investment directly and indirectly as of June 30, 2008 (*)	1,389
Market value of the investment directly and indirectly immediately before the approval date of the statements (*)	763
Investment account on the Company's books directly and indirectly as of June 30, 2008 (*)	762
Including the Company's relative share in Industrial Buildings as reflected in (a) above.	

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 – 27.98%, Industrial Buildings – 28.05% (Industrial Buildings is held by the Company at a rate of 69.3%).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 47.4%.

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. All four companies are controlled by Mr. Eliezer Fishman and members of his family.

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

The Company directly – 32%

Industrial Buildings – 32% (Industrial Buildings is held at a rate of 68.39%).

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 June 30, 2008 at 53.88%.

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 held by the Company at a rate of 69.3%).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 54.2%.

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's 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, as well as by Migdal Insurance Ltd. which holds 10% of the company's shares.

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

The Company directly – 36% .

Industrial Buildings – 36% (Industrial Buildings is held at a rate of 68.39%).

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 June 30, 2008 at 60.62%.

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 held by the Company at a rate of 69.3%).

The Company's total interest directly and indirectly immediately prior to the publication date of the report stands at 60.9%.

d. Rental properties – highlights

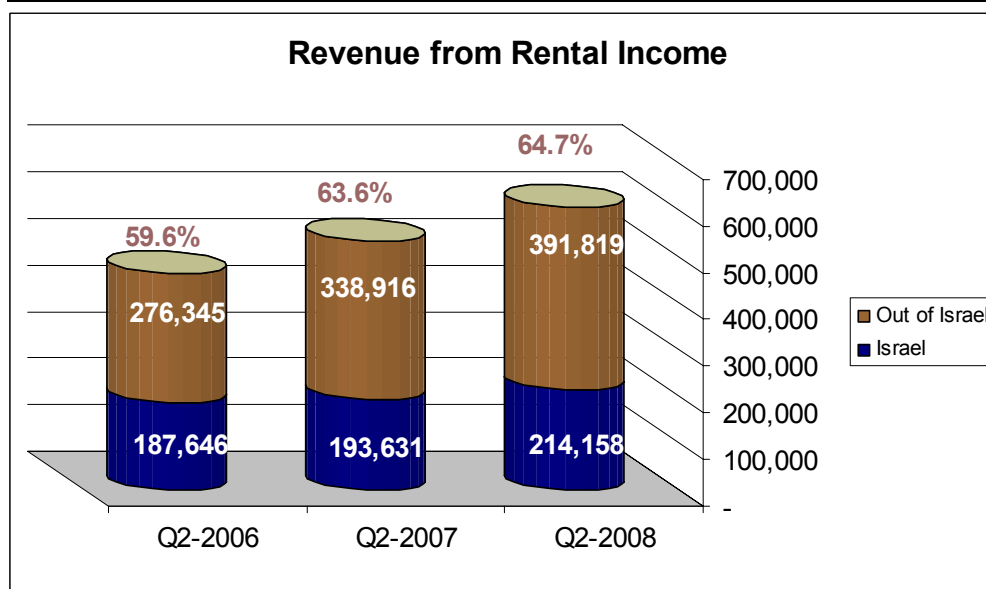
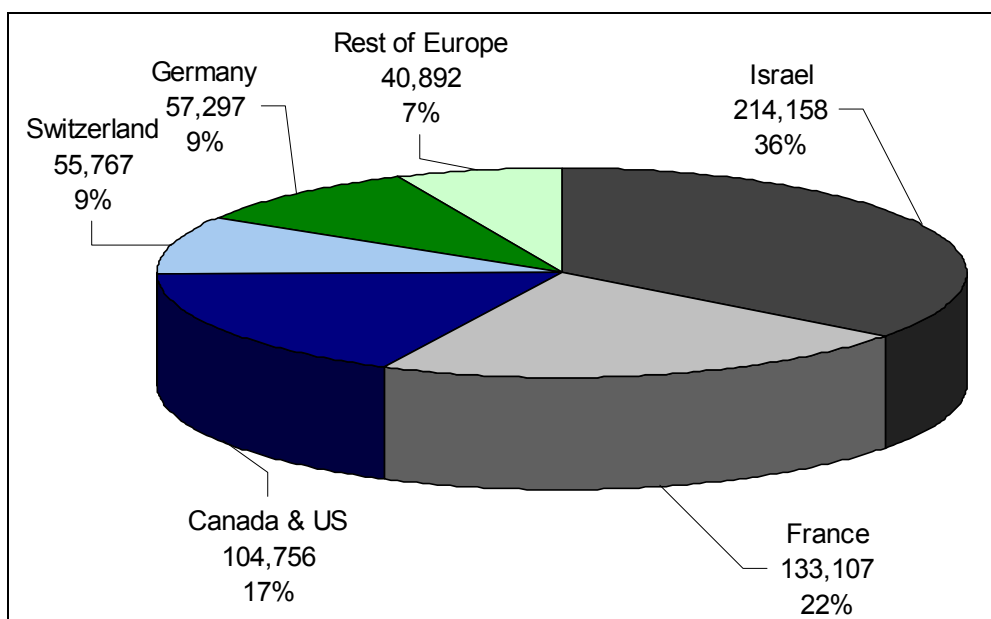
As of June 30, 2008 the Company holds, jointly with others, 3.6 million sq. of rental areas, of which 1.88 million sq. are outside Israel.

The Company's properties are leased to some 7,690 tenants. The average occupancy rate of the Company's properties as of the date of the report is 91%, compared to 89% in the same period last year.

1. Highlights of rental space and revenues:

	The Company consolidated with the addition of the Company's relative share in affiliates		
	Occupancy Rate	Area SQ.	Rental revenues in reported period
	June 30, 2008	June 30, 2008	NIS in thousands (1)
<u>Israel</u>			
The Company in Israel	86.66%	312,466	40,423
Industrial Buildings	91.10%	1,398,000	169,525
JEC Construction & Supervision	92.18%	24,586	4,211
SIC – 50% (affiliate) (2)	76.60%	13,190	2,445
<u>Total Israel</u>	<u>90.21%</u>	<u>1,748,242</u>	<u>216,604</u>
<u>Overseas</u>			
Europe – Company excluding IBC	92.59%	1,167,670	223,350
Canada – Company excluding IBC	92.58%	167,972	50,871
Europe – through IBC	90.14%	317,321	63,716
Canada and the U.S. – through IBC	86.94%	246,073	57,121
<u>Total overseas</u>	<u>91.78%</u>	<u>1,899,036</u>	<u>395,058</u>
<u>Total</u>	<u>90.86%</u>	<u>3,647,278</u>	<u>611,662</u>
Adjustment to the financial statements:			
(1) Including rental income included in earnings of affiliates			<u>3,236</u>
(2) SIC – 50% included affiliate			<u>2,449</u>
Rental income in the statements of income			<u>605,977</u>

Half year rental income in Israel and overseas, 2006-2008 (NIS in thousands)



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 NIS 11 million gross. This amount includes depreciation expenses totaling NIS 223 million – in France - NIS 167 million; in Russia - NIS 27 million; in Canada – NIS 20 million; and in Switzerland - NIS 9 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.

These expenses were offset by revaluation of some properties as follows: NIS 94 million in respect of 2 properties in Israel due to additional and improved construction rights; NIS 85 million in Poland due to additional construction rights; NIS 33 million in Germany, primarily due to initial revaluation.

Net income, less a decrease in tax reserve amounting to NIS 17 million, recorded in the reported period due to an increase in the fair value of investment property, amounts to NIS 6 million.

- b. In the reported period the value of investment property decreased from NIS 16,863 million to NIS 16,438 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 investing in the Company's overseas properties against the NIS plus investment in and acquisition of new properties.

3. **Summary of real estate investments overseas**

In the reported period, the Company through foreign subsidiaries completed two 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 112,000 sq., for a total consideration of NIS 290 million.

Summary of overseas rental properties by country, as of June 30, 2008				
Country	Construction area (sq.) (1) 100%	Number of tenants	Occupancy rate	Fair value NIS in thousands As of June 30, 2008
Canada	395,664	2,253	89.45%	1,845,903
USA	18,381	41	84.51%	84,812
France	801,798	139	93.26%	3,641,025
Germany	320,917	1,257	89.13%	1,400,927
Switzerland	222,271	696	95.42%	1,507,975
Poland	54,820	42	82.38%	262,367
Holland	13,000	1	100.00%	59,361
Russia	68,043	147	88.94%	803,779
Ukraine	4,142	49	64.27%	20,759
Total overseas	1,889,036	4,625	91.78%	9,626,908
(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 NIS 159 million.				
Following are data regarding acquisition of overseas rental properties in 2008 – included in the above				
France	98,877	3	100%	255,981
Germany	13,500	60	86.93%	64,500
Total investments in 2008	112,377	63	98.43%	290,482

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

Note	Country	Location	Property designation	Number of properties	Company holding stake in properties	Construction area of properties 100%	Number of tenants as of June 30, 2008	Occupancy rate as of June 30, 2008	Fair value	NOI ⁽⁵⁾ for the period Jan.-June 2008
2	Canada	Across Canada	Offices & commerce	5	100%	167,972	427	92.58%	1,023,734	33,730
2	Canada	Across Canada	Offices & commerce	3	100%	80,368	205	93.32%	461,476	16,203
2	Canada	Toronto	Residential	2	90%	147,324	1621	83.76%	360,694	6,227
2	USA	Atlanta	Offices	2	90%	18,381	41	84.51%	84,812	3,346
	France	Paris	Offices	1	100%	13,878	5	95.97%	465,018	13,661
	France	Lyon	Offices	1	100%	9,371	3	46.52%	75,046	900
	France	Across France	Offices & commerce	15	100%	78,793	21	76.60%	256,307	7,040
	France	Across France	Offices & commerce	7	100%	39,970	10	92.17%	106,765	2,688
	France	Across France	Offices & light industry	15	100%	270,566	86	93.68%	1,782,956	62,799
7	France	Across France	Offices	7	100%	235,441	7	100.00%	363,733	16,241
	France	Across France	Light industry	3	100%	121,582	4	98.85%	264,493	11,689
9	France	Across France		1	100%	15,244	1	100.00%	102,369	5
2,6	France	Across France	Logistics center	3	95%	16,953	2	50.54%	224,338	8,825
	Germany	Berlin	Commerce & residential	3	95%	14,565	167	83.21%	112,880	3,941
	Germany	Across Germany	Commerce	5	100%	22,312	11	88.74%	118,329	4,985
	Germany	Across Germany	Commerce	7	100%	8,094	19	100.00%	52,278	1,801
	Germany	Across Germany	Commerce	7	100%	9,703	32	95.54%	64,951	1,476
	Germany	Across Germany	Logistics	1	94%	13,247	10	87.70%	37,708	831
	Germany	Across Germany	Apartments, commerce and cinema	2	94%	14,623	42	93.93%	73,201	3,252
	Germany	Remschied	Industry	1	95%	6,668	4	94.50%	17,313	821
2	Germany	Across Germany	Commerce	9	95%	14,768	34	92.92%	93,094	3,585
2	Germany	Across Germany	Gas stations	9	100%	23,858	10	92.86%	73,635	2,606
2	Germany	Essen	Offices & commerce	1	95%	15,819	17	98.74%	66,167	2,207
2	Germany	Bautzen	Offices	1	95%	1,798	1	100.00%	22,672	1,056
2	Germany	Across Germany	Residential	6	95%	49,141	696	82.38%	113,171	4,356
2	Germany	Berlin	Residential	1	100%	5,091	54	73.00%	37,591	198
2	Germany	Across Germany	Offices	3	100%	12,022	21	87.12%	119,174	3,518
2	Germany	Across Germany	Commerce	5	95%-100%	28,431	55	99.00%	155,191	5,101
2	Germany	Across Germany	Commerce	2	100%	7,650	24	90.44%	25,389	857
2	Germany	Zeltz	Commerce	1	100%	11,756	2	100.00%	28,803	1,340
2	Germany	Zittau	Logistics center	1	100%	3,352	1	100.00%	12,023	552
2	Germany	Berlin	Commerce	1	100%	4,453	36	79.73%	36,957	997
2	Germany	Zwickau	Logistics center	1	100%	19,286	9	82.69%	21,605	830
2	Germany	Rosengarten	Logistics center	1	100%	4,692	4	89.00%	13,133	552
2	Germany	Across Germany	Commerce	2	100%	9,588	7	100.00%	31,989	1,189
2	Germany	Stuttgart	Commerce	1	94%	20,000	1	100.00%	73,672	2,984
	Switzerland	Across Switzer.	Commerce	25	100%	25,095	26	95.00%	228,496	5,229
	Switzerland	Across Switzer.	Apartments	14	90%	46,410	370	93.94%	322,687	6,988
	Switzerland	Across Switzer.	Offices & industry	2	100%	11,843	3	91.43%	46,259	864
	Switzerland	Across Switzer.	Commerce	18	100%	30,950	29	97.00%	199,414	5,309
	Switzerland	Across Switzer.	Apartments & commerce	5	90%	21,726	199	94.11%	106,672	1,948
	Switzerland	Across Switzer.	Offices & industry	5	100%	30,584	45	99.00%	216,429	5,553
2	Switzerland	Zurich	Offices	1	90%	12,522	13	100.00%	94,813	4,676
2	Switzerland	Enfelden	Commerce	1	100%	43,141	11	94.00%	293,205	9,607
	Poland	Warsaw & Blonie	Offices, logistics & commerce	4	50%	54,820	42	82.38%	262,367	4,702
2	Holland	Nieuwegin	Logistics center	1	100%	13,000	1	100.00%	59,361	2,818
3,8	Russia	Yeroslavl	Offices+ commerce (mall)	1	100%	32,250	95	95.00%	160,970	6,452
3	Russia	MAG+Hidro	Offices	2	100%	35,793	52	83.48%	642,813	15,384
4	Ukraine	Lugansk	Commercial	2	88%	4,142	49	64.27%	20,759	130
				217		1,899,036	4,625	91.78%	9,626,908	302,049

Notes:

- 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 NIS 150 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 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 4 months only was included in the period.
- 8) Yaroslavl – The data refer to 50% only, according to Mirland's share of the ownership.
- 9) The property was acquired in late 2008.

e. **Projects under construction and development - overseas**

(A) Russia

Mirland is involved in projects in various stages of development and construction across Russia, with a total area of 1,266,000 sq. for office, commercial and residential use.

(B) India

Mondon entered into agreements and is conducting negotiations for the acquisition of various tracts of land and a commercial center across India. Mondon plans to promote real estate projects on an extensive scale. 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 NIS 219 million.

Festival City

On January 3, 2008 Mondon entered in to a binding memorandum of understanding (MOU) with a group of Indian entrepreneurs, for the purchase of 50% of the capital and 40% of the voting rights in a company holding a shopping mall under construction in the vicinity of the city of Ludhlana (hereinafter – the joint venture and the shopping mall, respectively), based on a price reflecting the total value of the joint venture (upon completion of the construction of the shopping mall, and less the value of areas amounting to 25% of the area of the shopping mall that were sold to a third party prior to the signature of the MOU) amounting to US\$ 150 million.

Currently, Mondon is in advanced negotiations leading to signing of a binding agreement.

Other projects – Mondon has various projects in the land acquisition phase around India. Subject to acquisition of land, Mondon intends to have the land re-zoned for construction of combined residential and commercial projects.

(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. The construction period is estimated at eight months, and the anticipated cost of construction, including the land component, is estimated at €2.8 million. 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.

(D) Manhattan

Residential and commercial project in Manhattan: As of the signature date of the financial statements, sale contracts were signed in respect of 185 out of 191 apartments (97%) in a luxury apartment project in Manhattan, by a foreign company held at a rate of 50% by Industrial Buildings. During the reported period, 4 apartments were handed over in consideration for \$6.8 million (Industrial Buildings' share – \$3.4 million).

In October 2007, a wholly-owned foreign subsidiary of Industrial Buildings signed an agreement to acquire 50% of rights to a building in Manhattan, New York ("the building"). The remainder of rights were acquired by a third party not related to Industrial Buildings or to its controlling shareholders. Total acquisition cost of the building (100%) amounts to USD 23 million. The constructed area of the building totals 6,000 sq. Industrial Buildings intends to convert the building into a boutique hotel. The investment in conversion of the building (100%) is estimated at USD 25 million. The conversion is expected to take two years.

(E) Macedonia

A company held at a rate of 95% by Industrial Buildings acquired a plot of land with an area of 636,000 square meters, designated for the construction of 1,400 residential units with a built area of 200,000 square meters, in the vicinity of Skopje, the capital of Macedonia.

(F) 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 NIS 251 million.

During the first half of 2008 the Company through a subsidiary operating in Kiev invested 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 \$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 committed to finance, by means of an interest-bearing owner's loan to be provided to the project company the initial \$12 million required for financing this project, estimated at \$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 sq. 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 sq. (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 \$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 addition to the aforementioned transactions, Svitland has entered into other transactions in the Ukraine which are not material for the Company.

(G) Lithuania

A foreign company held 50% by Svitland and 50% by an unrelated third party, purchased land with an area of 34,500 square meters in consideration for \$9 million, designated for the construction of residential and commercial buildings with a gross area of 48,000 square meters. 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 NIS 21.5 million.

(H) 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 (hereinafter – 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 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.

(I) 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 NIS 53 million.

(J) Thailand – See section 8b and 8c below.

f. Financing from Foreign Financing Institutions

- a. 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.
- b. During the reported period the Company completed the purchase of seven properties in the north of France at a total cost of €72.8 million. The Company financed the cost of the purchase from its own resources. The Company is in negotiations for the receipt of financing for 75% of the cost of the purchase.

g. Miscellaneous

- a. S&P Maalot announced in March 2008 a final Stable A+ rating for debentures issued in March 2008 in the amount of 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 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.

- b. On March 30, 2008 the Company's board of directors resolved to approve a facility for re-acquisition of up to NIS 70 million in Company shares. As of the publication date of the report the Company acquired 883,000 par value shares in consideration for NIS 41,259,000. Subsequent to the balance sheet date, the Company acquired 605,000 par value shares in return for NIS 20,843,000. On June 28, 2008, the Company Board of Directors resolved to increase the framework for Company share buy-back up to NIS 90 million.

2. Financial Position

Current assets and liabilities

On June 30, 2008 current assets in the balance sheet totaled NIS 2,379 million versus current liabilities of NIS 2,845 million, reflecting a current ratio of 84%.

On December 31, 2007 current assets in the balance sheet totaled NIS 3,212 million versus current liabilities of NIS 3,087 million, reflecting a current ratio of 104%.

The change in the ratio is mainly a result of a decrease in cash and cash equivalents, which was offset in part by an increase in inventories of land for residential construction and by increase in long-term deposits and accounts receivable.

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.

The credit facilities with certain banks in Israel enable an improvement of the current ratio through the conversion of current loans into long-term loans. The Company reconsiders this conversion from time to time, in accordance with capital market conditions.

Cash

On June 30, 2008 the Company had cash for a total of NIS 418 million compared to 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, and to an increase in long-term deposits and advances on account of investments.

Inventories of land for residential construction

On June 30, 2008, inventories of land for residential construction totaled NIS 342 million compared to 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.

Investment property

Investment property as of June 30, 2008 totaled NIS 16,438 million compared to 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 NIS 465 million and to a decrease of NIS 10 million in the fair value, less a decrease of NIS 879 million in the value of overseas real estate stemming from changes in NIS exchange rates vs. major currencies in which the Company's overseas properties are held.

Investment property under development

Investment property under development as of June 30, 2008 totaled NIS 640 million compared to 599 million as of December 31, 2007.

Non-current assets

This item amounted on the balance sheet date to NIS 20,763 million compared to NIS 19,772 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.

Credit, loans and debentures net of cash and deposits

On June 30, 2008 loans and debentures net of cash and deposits totaled NIS 12,916 million compared to 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 NIS 5,061 million.

On June 30, 2008 loans and debentures of the Company net of cash and deposits, excluding Industrial Buildings, Mirland, Mondon and Svitland totaled NIS 7,236 million compared to NIS 7,182 million on December 31, 2007.

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

Non-recourse foreign loans to the Company amount to NIS 3,711 million.

Equity

As of June 30, 2008 equity stood at NIS 4.1 billion compared to NIS 4.8 billion as of December 31, 2007.

As of June 30, 2008 equity attributable to Company shareholders stood at NIS 2.5 billion compared to 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 NIS 59 million, the conversion of debentures into shares for a total of NIS 5 million, a loss of NIS 144 million for the period, a decrease in capital reserve in respect of available-for-sale financial assets in the amount of NIS 28 million, a decrease of NIS 219 million in the capital reserve in respect of foreign currency translation adjustments of foreign operations, an increase of NIS 12 million in the capital reserve from hedging transactions and buy-back of Company shares amounting to NIS 41 million.

As of June 30, 2008 equity attributable to minority interest amounted to NIS 1.6 billion compared to 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 NIS 140 million, to acquisition of shares from minority interest amounting to NIS 117 million and to dividend paid to minority interest amounting to NIS 33 million.

3. Results of Operations

Operating profit in the reported period amounted to NIS 413 million compared to an operating profit of NIS 780 million in the same period last year.

The Company's pre-tax loss in the reported period totaled NIS 86 million compared to income of NIS 509 million in the same period last year.

The Company recorded a loss of NIS 155 million compared to a net profit of NIS 428 million in the same period last year. The decrease is primarily due to a non-recurring provision for taxes amounting to NIS 24 million due to cancellation of the France-Luxembourg Tax Treaty; to a decrease in fair value of rental properties amounting to NIS 10 million (see further details in section 2.1 below) compared to a NIS 396 million increase last year; to a decrease in gain from sale of apartments and commercial space amounting to NIS 104 million compared to the same period last year; and to increase in financing expenses, primarily due to the rise in CPI and exchange rate differentials amounting to NIS 188 million over the same period last year. The same period last year's profit included earnings of 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.

Below is an analysis of the results of operations for the reported period:

Rental income

The Company's rental income in the period amounts to NIS 606 million compared to NIS 533 million in the same period last year.

Consolidated rental income outside Israel totaled NIS 389 million compared to NIS 341 million in the same period last year. The increase derives mainly from income from buildings during the reported period and from buildings purchased after June 30, 2007.

Consolidated rental income in Israel totaled NIS 217 million compared to NIS 192 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.

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.

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 NIS 506 million compared to NIS 414 million in the same period last year.

Revenues from sales of apartments and commercial space

The profit from this item amounted to NIS 4 million compared to NIS 108 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 111 apartments were handed over in this project compared to 4 apartments handed over in the reported period.

Gross profit

Gross profit in the reported period totaled NIS 516 million compared to NIS 527 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 NIS 512 million compared to NIS 419 million in the same period last year. An increase of NIS 93 million, primarily due to increase in gross income from rental properties.

Financing

In the reported period financing expenses less financing income totaled NIS 512 million compared to NIS 229 million in the same period last year.

On June 30, 2008 loans and debentures less cash and deposits totaled NIS 12,916 million compared to NIS 12,062 million on December 31, 2007. The increased credit served mainly for real estate investments overseas. As a result, net financing expenses grew by NIS 283 million.

Changes in exchange rates – Net financing expenses grew by NIS 52 million compared to the same period last year, mainly due to the strengthening of the Israeli currency against foreign currencies at the following rates: US dollar – 12.8%, Canadian dollar – 15.5%, euro – 6.6%, Swiss franc – 3.8%.

Changes in index-linkage differences – Net financing expenses grew by NIS 136 million compared to the same period last year, due to an increase in the known index during the reported period by 2.85% compared to a 0.27% increase in the same period last year.

Gain from negotiable securities – In the reported period a loss of NIS 16 million was recorded in respect of the sale of negotiable securities compared to a NIS 61 million gain in the same period last year. A net decrease of NIS 77 million.

Other income

This item amounted in the period to NIS 8 million compared to NIS 78 million in the same period last year. In the reported period, revenues amounting to NIS 25.5 million were recorded, primarily due to acquisition of minority interest in Canadian subsidiaries, offset by impairment of inventory of land for construction amounting to NIS 17.5 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.

Taxes on income

In the reported period tax expenses were recorded in the amount of NIS 72 million compared to tax expenses of NIS 81 million in the same period last year.

Tax expenses in the reported period are primarily due to tax expense amounting to NIS 24 million due to a non-recurring provision for taxes resulting from cancellation of the France-Luxembourg Tax Treaty; to tax expenses in Canada resulting from acquisition of minority interest amounting to NIS 10 million; and to current operations of European subsidiaries, amounting to NIS 7.2 million, Mirland - NIS 7 million and Industrial Buildings - NIS 5 million.

4. Cash flow

Net cash used for **operating activities** in the reported period totaled NIS 55 million compared to net cash of NIS 296 million provided by operating activities in the same period last year.

Net cash used in current operations in the reported period, net of changes in asset and liability items primarily due to temporary differences, amounts to NIS 158 million, compared to NIS 107 million in the same period last year.

Net cash provided by **investing activities** in the reported period totaled NIS 2,171 million compared to NIS 1,001 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 NIS 1,090 million compared to net cash of NIS 579 million provided by financing activities in the same period last year.

Major transactions in the reported period include: Obtaining a long-term loan from foreign banks (Germany, France and Switzerland) amounting to NIS 1,087 million; debenture issuance amounting to NIS 539 million, offset by net repayment of short-term credit amounting to NIS 54 million; redemption of debentures and repayment of long-term credit

amounting to NIS 339 million; Company share buy-back amounting to NIS 41 million; acquisition of minority interest in subsidiaries amounting to NIS 62 million; and acquisition of minority interest shares in a subsidiary amounting to NIS 44 million.

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	149,730	-	-
Conversion / exercise into shares	2,397,175	851,641	947,528
Expiration	-	445	-
Buy-back of Company shares	-	-	(882,575)
Issued to external entities on June 30, 2008	422,452	-	53,812,147
Conversion ratio	1:25	-	-
Share capital, fully diluted	16,898	-	53,829,045
Share capital owned in a subsidiary ***			2,554,348
Share capital owned by the Company ****			882,575
Total share capital, fully diluted			<u>57,265,968</u>

* Convertible debentures C – During the period from the balance sheet date until the publication date of the report, the public converted an additional 130,000 nominal value of debentures into 5,000 shares.

Due to public holdings of debentures falling below NIS 1.6 million, the Stock Exchange, according to maintenance regulations, announced de-listing of Debentures (C) from trading. The Company announced early redemption on August 31, 2008.

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

*** Subsequent to the balance sheet date, the subsidiary sold its holding in Company shares.

**** Subsequent to the balance sheet date, the Company purchased 3,159,000 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 no material change occurred in the exposure to market risks as reported in the management discussion and analysis for 2007, except as stated below:

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 NIS 6,713 million (NIS 6,316 million as of December 31, 2007), offset by long-term deposits with banks amounting to NIS 2,953 million (NIS 1,689 million as of December 31, 2007). Therefore, CPI exposure as of the date of these financial statements amounts to NIS 3,760 million (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 NIS 6,503 million (NIS 6,011

million as of December 31, 2007), the rent from which is linked to the CPI. Linkage differentials in respect of the Company balance of CPI-linked credit are included under financing expenses; assessments of said properties are yet to be conducted. 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 June 30, 2008 whose impact is reflected in financing expenses or revenues on the Company's income statement:

	Revaluation of currency vs. NIS			Exposure balance NIS in thousands	Devaluation of currency vs. NIS		
	Gain from changes, NIS in thousands				Loss from changes, NIS in thousands		
Sensitive currency	5%	2.5%	Actual June 30 – August 29, 2008	As of the balance sheet date	Actual July 1 – August 29, 2008	-2.5%	-5%
Euro	550	275		11,000	-49	-275	-550
US dollar	1,800	900	2,298	36,000		-900	-1,800
Canadian dollar	-1,000	-500	1,102	-20,000		500	1,000

	Currency revaluation vs. USD			Exposure balance NIS in thousands	Currency devaluation vs. USD		
	Gain from changes, NIS in thousands				Loss from changes, NIS in thousands		
Sensitive currency	5%	2.5%	Actual June 30 – August 29, 2008	As of the balance sheet date	Actual July 1 – August 29, 2008	-2.5%	-5%
Rupee	11,753	5,877	4,776	235,068		-5,877	-11,753
Grivna	2,471	1,236	0	49,429		-1,236	-2,471

The company, via its subsidiary whose functional currency is the USD, transferred \$350 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.

Below is the portion of shareholders' equity in respect of foreign subsidiaries, 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. A weaker USD, vs. any of the currency set forth below under exposure vs. USD, would increase shareholders' equity and vice versa):

	Currency revaluation vs. NIS		Exposure balance	Currency devaluation vs. NIS	
	Increase in capital reserve from translation differences			Decrease in capital reserve from translation differences	
Equity in investees	5%	2.5%	NIS in thousands	-2.5%	-5%
			As of the balance sheet date		
Euro	30,561	15,280	611,215	-15,280	-30,561
US dollar	40,317	20,158	806,339	-20,158	-40,317
Canadian dollar	12,920	6,460	258,406	-6,460	-12,920
Swiss franc	1,396	698	27,914	-698	-1,396

	Currency revaluation vs. USD		Exposure balance	Currency devaluation vs. USD	
	Increase in capital reserve from translation differences			Decrease in capital reserve from translation differences	
Equity in investees	5%	2.5%	NIS in thousands	-2.5%	-5%
			As of the balance sheet date		
Belarus Ruble	169	84	3,378	-84	-169
Grivna	3,666	1,833	73,318	-1,833	-3,666

7. **Other Events**

- a. On September 4, 2007 Industrial Buildings filed a claim for 160 million Canadian dollars against the Sheinbach family and entities owned by it. On December 17, 2007 the Sheinbach family filed a claim against the Company, Industrial Buildings, Darban Investments Ltd. and Skalar Ltd. (hereinafter – the companies of the Group) for an aggregate sum of 220 million Canadian dollars. Group companies filed a counterclaim to this claim.

In May 2008 a settlement agreement was signed with the Sheinbach family for the settlement and liquidation of the mutual claims between the Sheinbach family and companies and trusts owned by it, and the companies of the Group.

According to the agreement, the Sheinbach family has transferred its full rights in assets of the Group's companies in Canada. In return, the Group's companies have paid the Sheinbach family a total of US\$ 10 million. The Company's share, including the share of Industrial Buildings, amounts to \$8 million, based on the value of each asset less the balance of the external loans and the balance of shareholders' loans in respect thereof.

- 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 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.
- c. During May 2008, a wholly-owned foreign subsidiary of the Company signed an agreement for the purchase of an industrial property in East Germany with an overall rental area of 6,000 square meters, for an overall price of €2.1 million. The net operating income (NOI) stands at €203,000, reflecting a yield of 9.5% on the purchase price. The transaction closed in July 2008.
- d. During April 2008, Industrial Buildings' Board of Directors approved a buy-back plan by the company amounting up to NIS 150 million. As of the date of this report, Industrial Buildings acquired 1,650,000 par value of shares in consideration for NIS 13,197,000. Subsequent to the balance sheet date, Industrial Buildings acquired 4,028,000 shares in exchange for NIS 29,570,000.

- e. 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.
- f. During the first quarter of 2008, NIS 1.3 million par value of debentures (Series D) were converted into 146,000 ordinary shares of Industrial Buildings.
- 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. 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 NIS 394 million.
- i. During January-February 2008, NIS 851,641 of options (Series 6) of the Company were converted into 851,641 shares of the Company. As a result, a cash amount of NIS 23 million accrued to the Company. On February 28, 2008, 445 options (Series 6) of the Company expired. As a result, a gain of NIS 15,000 accrued to the Company, which was charged to the financing item.
- j. 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.

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

- a. During July 2008, a wholly-owned foreign subsidiary of the Company signed an agreement to acquire a commercial center ("the property") in western Germany, with total rental space of 15,000 sq. 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 18, a company incorporated in Israel which is wholly-owned by Industrial Buildings ("the buyer") entered into multiple agreements ("the agreement"), whereby the buyer would acquire, directly and indirectly via foreign companies, 50% of capital and voting rights of 3 companies incorporated in Thailand ("the venture companies") which own rights to land located in Bangkok, Thailand as well as 50% of owner's loans and advances provided to the venture companies.

The project is planned for construction on land with an area of 12,300 sq. in accordance with the applicable zoning plan, consists of two buildings with total construction area of 123,000 sq. – one of which is a 70-storey high-rise building primarily consisting 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%.

Upon execution of the agreement, the buyer would pay current shareholders of the venture companies ("the partner") a total of THB 667.3 million (NIS 71.1 million) in return for transfer of 50% of capital- and voting rights in the venture companies (directly or indirectly), and against assignment to the buyer of 50% of owner's loans and advances provided by the partner to the venture companies. Furthermore, the Company committed to transfer to the venture companies (by way of owner's loan or by way of investment, as set forth in the agreement) a total of THB 334.5 million (NIS 35.06 million), of which THB 99 million (NIS 10.6 million) are payable upon execution of the agreement and the balance - in three unequal installments by April 30, 2009, against transfer of equal amounts by the partner.

In conjunction with the agreement, the buyer and the partner entered into a shareholder agreement, which regulates their relationship with regard to management and financing of the venture companies and the project, with the following major provisions: (1) The parties commit to provide financing required by the venture companies for project construction in equal parts among them, as well as optional dilution of any shareholder who would not provide his share of the required financing; (2) each party may appoint 3 out of the 6 Board members in each of the venture companies and in the holding company shared by the parties, which owns some shared of the venture companies ("the holding company"); (3) manner of decision making at General Meetings and on the Board of Directors of the venture companies and the holding company, as well as key issues which require consent of the buyer and the partner, or of their representatives on the Boards; (4) setup of a Buy-Me-Buy-You (BMBY) arrangement in case of deadlock on certain issues at the venture companies; (5) transfer of shares by any of the parties, except for transfers to related parties, are subject to right of first refusal and to tag-along right of the other party; (6) under certain conditions, a party wishing to sell their shares may force the other party to sell their shares as well (drag-along right), with one of the conditions for this referring to the rate of return reflected in the sale price over project revenues; (7) any party impacted by breach of this agreement by the party in breach may require the other party to sell it shares of the party in breach in the venture companies and in the holding company, at a discount from the market price, or may require the party in breach to acquire the stake of the impacted party at a price reflecting a premium over the market price. A party would be deemed to be in breach should it fail to transfer to the venture companies at least 85% of any future investment amount committed to in the agreement, or if it enters proceedings of dissolution, receivership or similar proceedings.

A service agreement was also signed, whereby the partner committed to provide various services to the venture companies, by a company under its control; these services include services related to planning management, licensing, construction of the project and supervision of professional consultants and project contractors, management of project budgets, marketing, sale and leasing of apartments and of commercial space in the project, and regular management of the venture companies.

The partner is subject to detailed reporting requirements with regard to his actions, project progress and budget management. In return, the partner is eligible for payment of a total of THB 290 million (NIS 30.09 million), of which THB 30 million (NIS 3.02 million) payable upon execution of the agreement, with the balance payable in monthly installments over the project construction period.

- c. On August 28, 2008, the Company's Audit Committee and Board of Directors decided to cooperate on the investment in Thailand via a joint company, whose shares would be owned by the parties as follows (directly or indirectly): The Company – 40%, Industrial Buildings - 40%, Darban – 20% ("the joint company"). As of the date of this report, Industrial Buildings owns 100% of the joint company's capital. The joint company would invest in the aforementioned project in Bangkok (section b.), and would make any future investments in Thailand, if any. The Company's Audit Committee and Board of Directors approved contribution by the joint company towards travel expenses by private jet of Mr. Eliezer Fishman, as well as payment of annual bonus and capital gains bonus to Mr. Fishman in return for his contribution to the joint company. A similar resolution was made by the Audit Committees of Industrial Buildings and of Darban Investments. The agreement would be submitted for approval to the Company's General Meeting.
- d. On August 28, 2008, the Company Board of Directors resolved to sign a letter of guarantee to a bank, limited to \$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.

Provision of this guarantee is contingent on provision of other guarantees by Industrial Buildings and Darban, based on their holding stakes in Mirland. As of the date of this resolution, the holding stake of each party in Mirland shares is: Company - 27.98%, Industrial Buildings - 28.50%, Darban - 13.52%.

A similar resolution was adopted by Industrial Buildings' Board of Directors.

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, NIS 4,189 million 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 20,500 square meters, equivalent to NIS 3.6 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 August 25, 2008 – attended by all Committee members.

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 meeting, 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 August 28, 2008 and attended by all Board members except for Ms. Ronit Even, as well as by a representative of the independent CPA.

Eliezer Fishman
Chairman of the Board

Oded Shamir
CEO

Date:
August 28, 2008

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 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	16-24

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTH AND THREE MONTH PERIODS ENDED JUNE 30, 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 six month and three month periods ended June 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 June 30, 2008, and the consolidated statements of income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six 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 27.3% of total consolidated assets as of June 30, 2008, and whose revenues constitute 41.1% and 41.9% of total consolidated revenues for the six 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 57,688 thousand as of June 30, 2008 and in which the Company's share of their earnings (losses) amounted to NIS 748 thousand and NIS (2,220) thousand for the 6-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.

Tel Aviv

August 28, 2008

KOST FORER GABBAY &
KASIERER
CPAs

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

Consolidated Balance Sheets

	As of June 30		As of
	2008	2007	December 31
	Unaudited	Unaudited	Audited
	NIS in Thousands		
<u>Current assets</u>			
Cash and cash equivalents	417,851	(* 1,336,268	1,542,324
Short-term investments	650,402	(* 542,431	(* 613,575
Trade receivables	112,568	(* 157,497	119,916
Other accounts receivable	330,274	(* 229,263	(* 199,275
Inventories of buildings and apartments for sale	526,503	584,978	509,702
Inventories of land for residential construction	341,741	(* 252,173	(* 227,123
	2,379,339	3,102,610	3,211,915
<u>Non-current assets</u>			
Long-term deposits and receivables	3,144,380	1,753,013	(* 1,978,381
Assets in respect of employee benefits	3,322	3,216	(* 3,322
Investments in investees	120,099	136,141	160,940
Advances on account of investments	292,013	7,223	61,420
Investment property	16,437,894	15,918,516	16,863,350
Investment property under development	639,760	543,092	598,816
Fixed assets, net	28,925	21,016	30,722
Intangible assets, net	68,663	75,343	48,884
Deferred taxes	28,237	11,684	25,872
	20,763,293	18,469,244	19,771,707
	23,142,632	21,571,854	22,983,622

*) 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

	<u>As of June 30</u>		<u>As of</u>
	<u>2008</u>	<u>2007</u>	<u>December 31</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in Thousands</u>		
Current liabilities			
Credit from banks and others	1,550,280	(* 1,074,625	(* 1,738,308
Current maturities of long-term liabilities	724,208	(* 830,120	763,293
Trade payables	100,984	(* 135,514	(* 137,813
Other accounts payable	469,516	(* 522,250	(* 447,646
Dividend payable	-	250,000	-
	<u>2,844,988</u>	<u>2,812,509</u>	<u>3,087,060</u>
Long-term liabilities			
Loans from banks and others	8,354,742	(* 7,455,261	(* 7,796,527
Debentures	5,967,093	4,532,633	5,480,062
Debentures convertible into subsidiary shares	59,064	66,934	59,064
Debentures convertible into Company shares	2,474	3,516	2,121
Liability component in respect of options	1,113	86,066	15,062
Deferred taxes	1,614,280	1,541,129	1,610,998
Accrued rental income	13,880	14,606	15,472
Liabilities in respect of employee benefits, net	6,844	6,757	(* 6,849
Tenant deposits	76,890	49,576	50,962
Other long-term liabilities	69,895	78,001	(* 65,275
	<u>16,166,275</u>	<u>13,834,479</u>	<u>15,102,392</u>
Equity attributable to equity holders of the parent			
Issued capital	360,972	359,523	360,024
Share premium	762,226	662,830	698,907
Treasury shares	(90,875)	(49,616)	(49,616)
Retained earnings	1,770,327	1,874,469	1,914,478
Capital reserve in respect of available- for-sale financial assets	(13,077)	12,476	15,166
Capital reserve from hedging transactions	11,933	-	-
Other capital reserves	(258,852)	55,675	(39,947)
Total equity attributable to equity holders of the parent	<u>2,542,654</u>	<u>2,915,357</u>	<u>2,899,012</u>
Minority interest	<u>1,588,715</u>	<u>2,009,509</u>	<u>1,895,158</u>
Total equity	<u>4,131,369</u>	<u>4,924,866</u>	<u>4,794,170</u>
	<u>23,142,632</u>	<u>21,571,854</u>	<u>22,983,622</u>

*) **Reclassified**

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

<u>Eliezer Fishman</u>	<u>Oded Shamir</u>	<u>Ohad Shapira</u>	<u>August 28, 2008</u>
Chairman of the Board	CEO	CFO	Date of approval of the financial statements

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

Consolidated Statements of Income

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
NIS in thousands (except for net earnings (loss) per share)					
<u>Revenues</u>					
Rental income	605,977	(* 532,547)	301,760	(* 270,124)	1,124,166
Revenues from sale of apartments	18,569	391,410	10,348	186,253	569,296
Revenues from maintenance and management fees	101,146	94,116	47,775	35,608	229,700
Revenues from management and development of infrastructures	3,843	3,747	1,831	1,837	7,802
Revenues from sale of fuels	52,276	(* 45,103)	25,513	(* 23,705)	96,329
Total revenues	<u>781,811</u>	<u>1,066,923</u>	<u>387,227</u>	<u>517,527</u>	<u>2,027,293</u>
Cost of building management and maintenance	200,632	212,526	99,556	101,927	461,356
Cost of apartments and commercial space sold	14,224	283,193	7,285	139,741	407,205
Cost of management of buildings and development of infrastructure	1,503	1,870	584	995	3,895
Cost of sale of fuel	49,394	(* 42,708)	23,966	(* 22,317)	91,263
Total cost of sales and services	<u>265,753</u>	<u>540,297</u>	<u>131,391</u>	<u>264,980</u>	<u>963,719</u>
Gross profit	516,058	526,626	255,836	252,547	1,063,574
Increase (decrease) in value of investment property	(10,521)	395,812	(33,637)	398,409	612,485
Selling and marketing expenses	3,159	18,028	1,971	12,116	26,737
General and administrative expenses	88,609	124,766	38,191	80,800	263,033
Operating income	413,769	779,644	182,037	558,040	1,386,289
Financial expenses	719,513	368,734	413,281	194,514	930,692
Revaluation of liability component of options	4,943	(119,350)	100	(1,438)	(105,193)
Financial income	207,031	139,894	108,792	76,822	299,791
Other income, net	8,224	77,690	5,763	2,785	44,081
Group equity in earnings (losses) of affiliates, net	1,977	244	(1,652)	732	599
Income (loss) before taxes on income	(83,569)	509,388	(118,241)	442,427	694,875
Taxes on income	71,778	81,399	14,887	37,105	204,668
Net income (loss)	<u>(155,347)</u>	<u>427,989</u>	<u>(133,128)</u>	<u>405,322</u>	<u>490,207</u>
Attributable to:					
Equity holders of the parent	(144,151)	227,100	(111,593)	220,493	255,633
Minority interest	(11,196)	200,889	(21,535)	184,829	234,574
	<u>(155,347)</u>	<u>427,989</u>	<u>(133,128)</u>	<u>405,322</u>	<u>490,207</u>
Net earnings (loss) per share attributable to ordinary equity holders of the parent (in NIS)					
Basic net earnings (loss)	<u>(2.656)</u>	<u>4.590</u>	<u>(2.051)</u>	<u>4.388</u>	<u>4.756</u>
Diluted net earnings (loss)	<u>(2.787)</u>	<u>4.144</u>	<u>(2.094)</u>	<u>3.750</u>	<u>4.381</u>

*) Reclassified

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 of available-		Capital reserve from hedging transactions	Other capital reserves	Total	Minority interest	Total equity
					for-sale financial assets						
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	-	-	-	-		(28,243)	-	-	(28,243)	(8,407)	(36,650)
Foreign currency translation adjustments of foreign operations	-	-	-	-		-	-	(218,905)	(218,905)	(139,787)	(358,692)
Capital reserve from hedging transactions	-	-	-	-		-	11,933	-	11,933	-	11,933
Total net income (loss) recognized directly in equity	-	-	-	-		(28,243)	11,933	(218,905)	(235,215)	(148,194)	(383,409)
Net loss				(144,151)		-	-	-	(144,151)	(11,196)	(155,347)
Total revenues (expenses) recognized	-	-	-	(144,151)		(28,243)	11,933	(218,905)	(379,366)	(159,390)	(538,756)
Share purchase by the Company	-	-	(41,259)	-		-	-	-	(41,259)	-	(41,259)
Exercise of stock options into shares	852	58,457	-	-		-	-	-	59,309	-	59,309
Conversion of debentures into shares	96	4,862	-	-		-	-	-	4,958	-	4,958
Dividend paid to minority interest	-	-	-	-		-	-	-	-	(33,018)	(33,018)
Share-based payment	-	-	-	-		-	-	-	-	3,402	3,402
Purchase of minority shares	-	-	-	-		-	-	-	-	(117,437)	(117,437)
Balance at June 30, 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

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 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
Loss in respect of available-for-sale financial assets, net	-	-	-	-	1,747	-	1,747	957	2,704
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	77,309	77,309	33,814	111,123
Total revenues recognized directly in equity	-	-	-	-	1,747	77,309	79,056	34,771	113,827
Net income	-	-	-	227,100	-	-	227,100	200,889	427,989
Total recognized revenues	-	-	-	227,100	1,747	77,309	306,156	235,660	541,816
Exercise of stock options into shares	3,610	320,896	-	-	-	-	324,506	-	324,506
Conversion of debentures into shares	1,719	81,237	-	-	-	-	82,956	-	82,956
Acquisition of subsidiary shares by minority interest	-	-	-	-	-	-	-	275,728	275,728
Dividend paid to minority interest	-	-	-	-	-	-	-	(16,672)	(16,672)
Acquisition of minority interest	-	-	-	-	-	-	-	(88,439)	(88,439)
Declared dividend	-	-	-	(250,000)	-	-	(250,000)	-	(250,000)
<u>Balance as of June 30, 2007</u>	<u>359,523</u>	<u>662,830</u>	<u>(49,616)</u>	<u>1,874,469</u>	<u>12,476</u>	<u>55,675</u>	<u>2,915,357</u>	<u>2,009,509</u>	<u>4,924,866</u>

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 of available-for-sale financial assets	Capital reserve from hedging transactions	Other capital reserves	Total	Minority interest	Total equity
					Unaudited					
NIS in Thousands										
Balance as of April 1, 2008	360,969	762,074	(49,616)	1,881,920	(24,705)	(16,946)	(152,485)	2,761,211	1,752,736	4,513,947
Loss in respect of available-for-sale financial assets, net	-	-	-	-	11,628	-	-	11,628	320	11,948
Foreign currency translation adjustments of foreign operations	-	-	-	-	-	-	(106,367)	(106,367)	(63,949)	(170,316)
Capital reserve from hedging transactions	-	-	-	-	-	28,879	-	28,879	-	28,879
Total net income (loss) recognized directly in equity	-	-	-	-	11,628	28,879	(106,367)	(65,860)	(63,629)	(129,489)
Net loss	-	-	-	(111,593)	-	-	-	(111,593)	(21,535)	(133,128)
Total revenues (expenses) recognized	-	-	-	(111,593)	11,628	28,879	(106,367)	(177,453)	(85,164)	(262,617)
Share purchase by the Company	-	-	(41,259)	-	-	-	-	(41,259)	-	(41,259)
Conversion of debentures into shares	3	152	-	-	-	-	-	155	-	155
Share-based payment	-	-	-	-	-	-	-	-	1,652	1,652
Purchase of minority shares	-	-	-	-	-	-	-	-	(80,509)	(80,509)
Balance as of June 30, 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

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

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								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	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	-	-	-	-	4,437	-	4,437	943	5,380	
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 6 months ended June 30		For the 3 months ended June 30		Year Ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
NIS in Thousands					
<u>Cash flows from operating activities</u>					
Net income (loss)	(155,347)	427,989	(133,128)	405,322	490,207
Adjustments to reconcile net income to net cash provided by operating activities (A)	100,662	(131,958)	141,502	(344,386)	(* (201,789))
Net cash provided by (used for) operating activities	(54,685)	296,031	8,374	60,936	288,418
<u>Cash flows from investing activities</u>					
Purchase of fixed assets	(2,214)	(8,138)	(218)	(4,227)	(18,081)
Investment in investment property	(464,901)	(* (514,126))	(189,934)	(* (223,269))	(1,191,978)
Investment in investment property under development	(125,387)	(* (205,372))	(79,176)	(* (45,344))	(509,580)
Repayment (grant) of loans to affiliates	28,342	(16,496)	28,464	(15,114)	(3,903)
Advances on account of investments	(248,273)	(7,055)	-	(6,001)	(52,225)
Long-term debts	(62,872)	(136,120)	(21,623)	(129,702)	(150,082)
Repayment of long-term debts	-	-	-	-	27,489
Proceeds from sale of investment property	25,383	33,814	9,759	19,913	58,006
Grant (repayment) of loans to proportionately consolidated subsidiary	(14,118)	-	-	-	(3,254)
Proceeds from the sale (purchase) of short-term investments, net	(191,172)	257,962	(25,580)	363,724	132,452
Investment in affiliate	-	-	-	-	(25,000)
Investment in long-term deposits	(1,128,246)	(127,631)	(765,811)	(102,351)	(357,402)
Acquisition of newly consolidated subsidiaries (B)	-	(254,434)	-	(44,549)	(261,861)
Investment in companies previously consolidated by the proportionate consolidation method (C)	-	(23,788)	-	(23,788)	(23,788)
Repayment of long-term deposits	12,286	-	-	-	75,520
Proceeds from partial sale of investment in proportionately consolidated subsidiary	-	-	-	-	(401)
Net cash used in investing activities	(2,171,172)	(1,001,384)	(1,044,119)	(210,708)	(2,304,088)

*) 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 6 months ended June 30		For the 3 months ended June 30		Year Ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in Thousands				
<u>Cash flows from financing activities</u>					
Deposits from tenants, net	15,030	(8,441)	14,932	(9,158)	10,951
Change in accrued income	10,877	(1,360)	282	(680)	-
Capital issuance to minority in subsidiary	-	131,028	-	2,314	140,658
Exercise of stock options into shares	22,825	93,712	-	72,197	105,335
Dividend paid to Company shareholders	-	-	-	-	(238,524)
Dividend paid to minority interest	(33,018)	(16,672)	(33,018)	(16,672)	(16,672)
Issuance of debentures, net	538,885	481,698	234,237	-	1,751,844
Redemption of debentures	(74,387)	(116,660)	-	-	(383,682)
Redemption of debentures convertible into Company shares	(106,355)	-	-	-	-
Early redemption of debentures convertible into subsidiary shares	-	-	-	-	(1,565)
Receipt of long-term loans and other long- term liabilities	1,075,736	1,053,200	759,941	863,145	1,987,088
Repayment of long-term loans and other long-term liabilities	(157,827)	(466,117)	(97,228)	(365,094)	(797,653)
Short-term credit from banks and others, net	(53,621)	(491,480)	(37,215)	(361,844)	(177,630)
Deferred charges in respect of loans	(1,397)	-	(952)	-	(3,259)
Purchase of Company shares	(41,259)	-	(41,259)	-	-
Acquisition of minority shares in subsidiary	(43,735)	(79,997)	(43,735)	(13,963)	(194,488)
Acquisition of minority interest	(61,938)	-	(25,925)	-	(7,887)
Net cash provided by financing activities	<u>1,089,816</u>	<u>578,911</u>	<u>730,060</u>	<u>170,245</u>	<u>2,174,516</u>
<u>Translation differences from cash balances of foreign operations</u>	11,568	38,466	47,878	48,334	(40,766)
<u>Increase (decrease) in cash and cash equivalents</u>	(1,124,473)	(87,976)	(257,807)	68,807	118,080
<u>Cash and cash equivalents at beginning of period</u>	<u>1,542,324</u>	<u>1,424,244</u>	<u>675,658</u>	<u>1,267,461</u>	<u>1,424,244</u>
<u>Cash and cash equivalents at end of period</u>	<u>417,851</u>	<u>1,336,268</u>	<u>417,851</u>	<u>1,336,268</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 6 months ended June 30		For the 3 months ended June 30		Year Ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
NIS in Thousands					
(A) Adjustments to reconcile net income to net cash provided by operating activities					
Income and expenses not involving cash flows:					
Gain from sale of investment in subsidiary	-	-	-	-	(554)
Excess negative cost created upon acquisition	-	-	-	-	16,186
Depreciation and amortization	2,436	1,287	1,058	819	(* 18,344)
Reduced inventory of land for construction and inventory of buildings and apartments for sale	17,525	-	17,525	-	(* 3,000)
Loss (gain) from short-term investments	25,958	(31,545)	19,690	(33,781)	(31,600)
Decrease (increase) in value of investment property	10,520	(395,812)	33,636	(398,409)	(612,485)
Revaluation of liability component of options	(4,943)	119,350	(100)	1,438	105,193
Revaluation of financial derivative	12,690	-	10,088	-	192
Revaluation of long-term loans and debentures	223,900	34,595	199,714	65,670	131,316
Revaluation of long-term receivables and bank deposits	(21,130)	(3,830)	(29,961)	(6,751)	(89,984)
Group equity in losses (earnings) of affiliates, net of dividend received, net	(1,975)	(244)	1,653	(732)	3,061
Deferred taxes, net	66,477	27,088	19,082	29,133	104,392
Change in liabilities in respect of employee benefits, net	(5)	53	-	10	39
Cost of share-based payment	3,402	5,926	1,652	3,477	15,820
(Loss) gain from decrease in holding stake in subsidiary	-	(71,875)	-	918	(68,656)
Goodwill amortization	-	-	-	-	5,028
Gain from acquisition of minority interest in subsidiaries	(21,155)	(6,176)	(21,155)	(6,176)	-
	<u>313,700</u>	<u>(321,183)</u>	<u>252,882</u>	<u>(344,384)</u>	<u>(400,708)</u>
Changes in assets and liability items					
Decrease (increase) in trade receivables	(6,255)	8,958	(1,422)	(12,541)	(20,933)
Decrease (increase) in other accounts receivable	(52,763)	3,893	(35,286)	(73,224)	55,384
Decrease (increase) in inventories of buildings and apartments for sale less customer advances and in inventories of land for construction	(206,955)	152,773	(77,575)	26,227	(* 196,827)
Increase (decrease) in trade payables	(17,467)	10,173	(4,217)	44,081	2,687
Increase (decrease) in other accounts payable	70,402	13,428	7,120	15,455	(35,046)
	<u>(213,038)</u>	<u>189,225</u>	<u>(111,380)</u>	<u>(2)</u>	<u>198,919</u>
	<u>100,662</u>	<u>(131,958)</u>	<u>141,502</u>	<u>(344,386)</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 6 months ended June 30		For the 3 months ended June 30		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	-	49,863	53,238
Investment property	-	(694,809)	-	(341,611)	(702,236)
Long-term liabilities	-	430,315	-	232,734	430,315
Excess of cost created upon acquisition	-	(43,178)	-	14,465	(43,178)
	<u>-</u>	<u>(254,434)</u>	<u>-</u>	<u>(44,549)</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	17,865
Excess of cost created upon acquisition	-	(6,342)	-	(6,342)	(6,342)
Fixed assets, net	-	(841)	-	(841)	(841)
Long-term liabilities	-	24,987	-	24,987	15,835
Investment property	-	(77,780)	-	(77,780)	(77,780)
Deferred taxes	-	-	-	-	9,152
Minority interest	-	18,323	-	18,323	18,323
	<u>-</u>	<u>(23,788)</u>	<u>-</u>	<u>(23,788)</u>	<u>(23,788)</u>
(D) <u>Significant non-cash transactions</u>					
Sale of fixed assets on credit	<u>-</u>	<u>9,012</u>	<u>-</u>	<u>9,012</u>	<u>2,192</u>
Purchase of investment property on credit	<u>23,327</u>	<u>-</u>	<u>23,327</u>	<u>-</u>	<u>9,154</u>
Conversion of debentures into shares	<u>2,569</u>	<u>82,956</u>	<u>80</u>	<u>46,189</u>	<u>86,052</u>
Declared dividend	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</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 6 months ended June 30		For the 3 months ended June 30		Year Ended December 31
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in Thousands				
(E) <u>Additional cash flow information</u>					
Cash paid during the period for:					
Interest	<u>399,561</u>	<u>261,055</u>	<u>200,748</u>	<u>107,725</u>	<u>753,860</u>
Taxes on income	<u>16,849</u>	<u>83,220</u>	<u>4,502</u>	<u>58,043</u>	<u>104,026</u>
Cash received during the period for:					
Interest	<u>75,534</u>	<u>41,130</u>	<u>39,617</u>	<u>19,227</u>	<u>129,122</u>
Taxes on income	<u>449</u>	<u>6,086</u>	<u>225</u>	<u>6,042</u>	<u>20,329</u>
Dividend received from affiliates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,659</u>

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

Notes to the Interim Consolidated Financial Statements

Note 1:- General

- a. These financial statements are prepared in condensed form as of June 30, 2008 and for the six- 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 June 30, 2008, the consolidated Company ("the Group") has a working capital shortfall of NIS 466 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.

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 in paragraph (b) below.

Derivatives

The Group from time to time enters into derivative contracts such as forward contracts or interest-rate swap (IRS) transactions, in order to protect itself against the risks of fluctuations in foreign currency exchange rates and interest rates. These derivatives are initially recognized according to fair value, and attributable transaction costs are charged to the statement of income as incurred. After the initial recognition, the derivatives are measured at fair value. Derivatives are recognized in the balance sheet as assets when their fair value is positive, and as liabilities when their fair value is negative.

Gains or losses deriving from changes in the fair value of derivatives not used for hedging purposes are charged immediately to the statement of income.

The fair value of forward contracts is calculated by referring to existing exchange rates in contracts with similar due dates. The fair value of IRS contracts is determined based on the market prices of similar instruments.

Notes to the Interim Consolidated Financial Statements

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

a. Basis of reporting (cont.)

Hedging of cash flows

The effective portion of the gain or loss from the hedging instrument is recognized directly in equity, whereas the non-effective portion is recognized immediately in the statement of income.

Amounts charged to equity are carried to the statement of income when the results of the hedging transaction are charged to the statement of income – for example, when the hedged income or expense is recognized in the statement of income or when a forecast transaction occurs. When the hedged item is the cost of a non-financial asset or liability, this cost includes also the relevant amounts that were charged directly to equity.

Where a forecast transaction or firm commitment is no longer expected to occur, amounts that were formerly recognized in equity are carried to the statement of income. Where the hedging instrument has expired or been sold, extinguished or realized, or if its purpose as a hedging instrument has been voided, amounts formerly recognized in equity remain in equity up to the time of the occurrence of the forecast transaction or the firm commitment.

b. 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.

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

Notes to the Interim Consolidated Financial Statements

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:

As of	CPI for month (in points)		Official exchange rate (in NIS)			
June 30, 2008	195.62	195.44	3.352	5.2849	3.3152	3.2887
June 30, 2007	186.7	185.4	4.249	5.7132	4.0195	3.4496
December 31, 2007	191.15	190.03	3.846	5.6592	3.9229	3.420
December 31, 2006	184.9	184.9	4.225	5.5643	3.6408	3.4655
December 31, 2005	185.0	185.4	4.603	5.4465	3.9642	3.4985

*) Index according to 1993 average base = 100

Rate of change during the period	Israeli consumer price index *)		U.S. dollars	Euro	Canadian dollar	Swiss franc
	for	Known				
	%	%				
For the six-month period ended June 30, 2008	2.34	2.85	(12.8)	(6.6)	(15.5)	(3.8)
For the three- month period ended June 30, 2008	2.24	2.44	(5.7)	(5.9)	(4.8)	(8.1)
For the six-month period ended June 30, 2007	0.97	0.27	0.6	2.7	10.4	(0.5)
For the three- month period ended June 30, 2007	0.72	0.53	2.3	3.2	11.6	1.2
For the year ended December 31, 2007	3.4	2.8	(9.0)	1.7	7.7	(1.3)

Notes to the Interim Consolidated Financial Statements

Note 3:- Geographical Segments

	<u>Israel</u>	<u>Canada</u>	<u>USA</u>	<u>Europe</u>					<u>Total</u>	
				<u>France</u>	<u>Switzerland</u>	<u>Russia</u>	<u>Germany</u>	<u>Poland</u>		<u>Other</u>
				<u>Unaudited</u>						
NIS in Thousands										
<u>For the six-month period ended</u>										
<u>June 30, 2008</u>										
Segment revenues	<u>302,639</u>	<u>138,241</u>	<u>18,646</u>	<u>147,435</u>	<u>59,558</u>	<u>34,651</u>	<u>69,358</u>	<u>9,328</u>	<u>1,955</u>	<u>781,811</u>
Increase (decrease) in fair value of investment property	<u>94,420</u>	<u>(20,005)</u>	<u>-</u>	<u>(167,167)</u>	<u>(8,913)</u>	<u>(26,534)</u>	<u>42,618</u>	<u>84,594</u>	<u>(9,535)</u>	<u>(10,522)</u>
Segment results	<u>289,856</u>	<u>31,872</u>	<u>6,334</u>	<u>(48,307)</u>	<u>29,868</u>	<u>(29,171)</u>	<u>81,921</u>	<u>93,553</u>	<u>(13,608)</u>	<u>442,318</u>
Expenses not allocated to segments										<u>(28,549)</u>
Operating income										<u>413,769</u>
	<u>Israel</u>	<u>Canada</u>	<u>USA</u>	<u>Europe</u>					<u>Total</u>	
				<u>France</u>	<u>Switzerland</u>	<u>Russia</u>	<u>Germany</u>	<u>Poland</u>		<u>Other</u>
				<u>Unaudited</u>						
NIS in Thousands										
<u>For the six-month period ended</u>										
<u>June 30, 2007</u>										
Segment revenues	<u>220,424</u>	<u>138,166</u>	<u>392,637</u>	<u>155,218</u>	<u>41,103</u>	<u>17,923</u>	<u>60,183</u>	<u>9,277</u>	<u>(9,753)</u>	<u>1,025,178</u>
Increase (decrease) in fair value of investment property	<u>1,820</u>	<u>26,375</u>	<u>-</u>	<u>5,699</u>	<u>-</u>	<u>288,060</u>	<u>60,277</u>	<u>-</u>	<u>13,581</u>	<u>395,812</u>
Segment results	<u>177,185</u>	<u>66,908</u>	<u>91,566</u>	<u>134,008</u>	<u>25,200</u>	<u>251,405</u>	<u>82,705</u>	<u>869</u>	<u>(33,798)</u>	<u>796,048</u>
Expenses not allocated to segments										<u>16,404</u>
Operating income										<u>779,644</u>
	<u>Israel</u>	<u>Canada</u>	<u>USA</u>	<u>Europe</u>					<u>Total</u>	
				<u>France</u>	<u>Switzerland</u>	<u>Russia</u>	<u>Germany</u>	<u>Poland</u>		<u>Other</u>
				<u>Unaudited</u>						
NIS in Thousands										
<u>For the three-month period ended</u>										
<u>June 30, 2008</u>										
Segment revenues	<u>149,819</u>	<u>65,174</u>	<u>12,033</u>	<u>72,412</u>	<u>28,525</u>	<u>18,328</u>	<u>35,053</u>	<u>4,749</u>	<u>1,134</u>	<u>387,227</u>
Increase (decrease) in fair value of investment property	<u>85,842</u>	<u>(20,005)</u>	<u>-</u>	<u>(167,167)</u>	<u>(8,913)</u>	<u>(21,124)</u>	<u>43,203</u>	<u>81,196</u>	<u>(26,670)</u>	<u>(33,638)</u>
Segment results	<u>178,940</u>	<u>5,436</u>	<u>3,660</u>	<u>(110,667)</u>	<u>6,130</u>	<u>(16,562)</u>	<u>60,717</u>	<u>92,871</u>	<u>(30,639)</u>	<u>189,886</u>
Expenses not allocated to segments										<u>(7,849)</u>
Operating income										<u>182,037</u>

Notes to the Interim Consolidated Financial Statements

Note 3:- Geographical segments (continued)

	<u>Israel</u>	<u>Canada</u>	<u>USA</u>	<u>Europe</u>					<u>Total</u>	
				<u>France</u>	<u>Switzerland</u>	<u>Russia</u>	<u>Germany</u>	<u>Poland</u>		<u>Other</u>
<u>Unaudited</u>										
<u>NIS in Thousands</u>										
<u>For the three-month period ended</u>										
<u>June 30, 2007</u>										
Segment revenues	<u>112,398</u>	<u>67,419</u>	<u>186,326</u>	<u>73,069</u>	<u>18,621</u>	<u>11,427</u>	<u>37,190</u>	<u>4,625</u>	<u>(14,902)</u>	<u>496,173</u>
Increase (decrease) in fair value of investment property	<u>1,021</u>	<u>26,375</u>	<u>-</u>	<u>9,848</u>	<u>-</u>	<u>288,060</u>	<u>60,277</u>	<u>-</u>	<u>7,634</u>	<u>393,215</u>
Segment results	<u>88,226</u>	<u>46,125</u>	<u>34,584</u>	<u>90,072</u>	<u>11,860</u>	<u>263,845</u>	<u>69,241</u>	<u>(2,676)</u>	<u>(40,881)</u>	<u>560,396</u>
Expenses not allocated to segments										<u>2,356</u>
Operating income										<u>558,040</u>

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

Notes to the Interim Consolidated Financial Statements

Note 4:- Significant Events during the Reported Period

- a. In January-June 2008, the Company invested, via its wholly-owned subsidiary operating in India, NIS 188 million for construction and development of a combined residential and commercial project. This amount is stated under advances on account of investments.
- b. In February 2008, the Company invested, via a subsidiary operating in Kiev, USD 1.6 million (approx. NIS 5.5 million) for construction of commercial and residential space. This amount is stated under advances on account of investments.
- c. 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 approx. NIS 15,000 accrued to the Company, which was charged to the financing item.
- d. On April 29, 2008, a wholly-owned subsidiary of the Company acquired in full the share capital of a foreign company which (together with a foreign partner) owns rights to construct a high-tech campus in Minsk, Belarus. In exchange for shares of the foreign company and for rights of the partner, the Company would pay approx. €2.4 million (approx. NIS 12.9 million), of which approx. €1 million (approx. NIS 5.4 million) were paid upon acquisition and the balance is payable according to milestones agreed by the parties.
- e. On May 14, 2008, the Company through a subsidiary entered into a joint venture agreement with a foreign company registered in Belarus (hereinafter – the partner), pursuant to which a joint company of the Company and the partner will act to put up a combined project of commercial and office space with an overall built area of 100,000 square meters in Minsk.
- f. In May 2008, a wholly-owned foreign subsidiary of the Company entered into an agreement to acquire a property used for industrial use in Eastern Germany for total consideration of €2.1 million. The transaction closed in July 2008.
- g. During January-June 2008, approx. NIS 2,397,000 of Company debentures (Series C) were converted into approx. 96,000 Company shares.
- h. During the first half of 2008, the Company converted approx. NIS 1.3 million par value of debentures (Series D) of Industrial Buildings into 146,000 ordinary shares of Industrial Buildings
- i. On March 18, 2008, the board of directors of Industrial Buildings reviewed its dividend distribution policy and resolved to continue with a dividend policy whereby Industrial Buildings 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.

Notes to the Interim Consolidated Financial Statements

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

- j. In April 2008 the board of directors of Industrial Buildings 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.
- k. During January-June 2008, the Company acquired approx. NIS 38 million of Industrial Buildings shares, and Industrial Buildings bought back approx. NIS 1.7 million of its own shares in return for approx. NIS 13.2 million. Consequently, the Company's holding stake in Industrial Buildings rose to approx. 68.39%. See Note 5d.
- l. 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.
- m. During January-June 2008 the Company by itself and through Industrial Buildings acquired shares of Mirland for an overall sum of approx. NIS 17.2 million. As a result of the acquisition, the Company's holding stake in Mirland increased to 27.52% directly and to 55.4% indirectly.
- n. On March 30, 2008, the Company Board of Directors resolved to approve a buy-back framework of up to NIS 70 million par value Company shares to be purchased from time to time, during normal trading on the stock exchange or off the stock exchange. During January-June 2008 the Company bought back approx. NIS 41 million of its own shares. See also Note 5a.
- o. During January-June 2008, the Company charged approx. NIS 28 million to a net capital reserve in respect of financial assets held for sale – due to change in fair value of its investments. Company management believes that this decrease in the value of the investments does not constitute impairment.

The Company also recognized in its income statement approx. NIS 27.4 million due to change in fair value of financial assets held for sale, which Company management believes to constitute impairment of its investments.

- p. 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 24 million, which were included in the interim financial statements under the reserve for deferred taxes.

Notes to the Interim Consolidated Financial Statements

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

- q. On June 5, 2008, Industrial Buildings 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.
- r. On June 30, 2008, the Company together with Industrial Buildings 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's share of consolidated amounted to approx. NIS 20.7 million under Other Revenues, Net.

Note 5:- Subsequent Events

- a. During July-August 2008, the Company bought back its own shares amounting to NIS 111,394,000 – of which NIS 90,551,000 were acquired from its subsidiary, such that the consolidated buy back amounted to NIS 20,843,000.
- b. During July-August 2008, approx. NIS 7,250 par value Company debentures (Series C) were converted into approx. 290 Company shares.
- c. During July-August 2008, the Company by itself and through Industrial Buildings acquired shares of the subsidiary Mirland for an overall sum of NIS 15.7 million. As a result of the acquisition, the Company's holding stake increased to 27.98% directly and to 56.03% indirectly.
- d. During July-August 2008, Industrial Buildings bought back approx. NIS 4 million par value of its own shares, in return for approx. NIS 29.6 million.

Notes to the Interim Consolidated Financial Statements

- e. In August 2008, Industrial Buildings entered into multiple agreements with 3 companies incorporated in Thailand ("the venture companies"), which own rights to land located in Bangkok, Thailand, whereby Industrial Buildings would invest upon execution of the agreement a total of approx. THB 667.3 million (approx. NIS 71.1 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%. Furthermore, Industrial Buildings committed to transfer to the venture companies (by way of owner's loan or by way of investment, as set forth in the agreement) a total of THB 334.5 million (approx. NIS 35.06 million), of which THB 99 million (approx. NIS 10.6 million) are payable upon execution of the agreement and the balance - in three unequal installments through April 2009, against transfer of equal amounts by the partner.
Industrial Buildings intends to offer to the Company and to Darban Investments Ltd., subject to all required statutory approvals by organs of said companies, to participate in investment in the venture companies - under identical terms to those of the Company investment.
- f. 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.
- g. In July 2008, Mirland discontinued its participation in 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.
Subsequent to the balance sheet date, the loan was repaid to Mirland in full, including interest and linkage differentials.
-