



Jerusalem Economy Ltd.

Report of the Board of Directors

Members of the Board of Directors

Eliezer Fishman, Chairman

Ronit Even

Ran Oren

Yecheil Ziskind

Gabby Trabelsy, External Director

Meir Jacobson, External Director

Anat Manipaz

Eyal Fishman

Hillel Peled

Board of Management

Oded Shamir, CEO

Ehud Shapiro, Deputy CEO

THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR 2009 (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.

Board of Directors' Report on the State of the Corporation's Affairs for the period of the three months ended March 31, 2009.

All of the figures in this report are consolidated unless otherwise stated.

1. The Company and its Business Environment

1.1. Areas of Operations

The Company operates, either alone or via consolidated subsidiaries, including Industrial Building Company Ltd. (hereinafter: "IBC"), which is held by the Company, as at the date of publication of this Report, at a rate of approximately 71.67%, and MirLand Development Corporation Plc. ("Mirland"), which is held by the Company, directly and indirectly, as at the date of publication of this Report, at a rate of approximately 53.13%, in the various areas of real estate, including the leasing of investment real estate for commerce, industry, hi-tech, office and logistics and residential and hospitality purposes, acquisition and development of land, construction of buildings intended mainly for leasing around Israel and overseas.

The Company operates directly and indirectly in the above areas in many countries including Israel, the United States, Canada, Germany, France, the Netherlands, Poland, Switzerland, Portugal, Ukraine, Russia, Belarus, Lithuania, Serbia, India and Thailand.

1.2. Emphases for the Report Period

1.2.1. Profitability

The Company's loss during the period amounted to approximately NIS 108 million compared with a net loss of approximately NIS 22 million during the corresponding period last year. The loss stems from a decrease in the fair value of investment real estate in the sum of approximately NIS 161 million (see further details in section 1.4.2 below) compared with an increase of approximately NIS 23 million last year.

The loss was partly set off by a decrease in net financing expenses to approximately NIS 180 million compared with approximately NIS 203 million last year. For details see section 3.5 below.

The gross profit from investment properties (NOI), which includes revenues from rental, management and maintenance, less the costs of management and maintenance of buildings amounted to approximately NIS 251 million, compared with approximately NIS 257 million during the corresponding period last year.

Gross profit in the Report Period amounted to approximately NIS 253 million compared with NIS 260 billion during the corresponding period last year.

The profit from regular operations during the Report Period amounted to approximately NIS 37 million compared with a profit from regular operations of approximately NIS 232 million during the corresponding period last year.

The loss ascribed to the shareholders of the Company amounted during the Report Period to approximately NIS 102 million compared with a loss of approximately NIS 32 million during the corresponding period last year.

The Company's total loss amounted during the Report Period to approximately NIS 122 million compared with a total loss of approximately NIS 276 million during the corresponding period last year.

The profits (losses) of consolidated subsidiaries during the Report Period are as follows:
IBC – approximately NIS 7 million; Mirland – approximately NIS (18) million, Mondon Investments Ltd. ("Mondon") – approximately NIS (11) million; Svitland Ltd. ("Svitland") – approximately NIS (5) million.

For details of the effect of the financial crisis currently hitting the global market, and for details of liquidity and of the sources of the Company's financing, see sections 4 and 6 below.

1.2.2. Shareholders' Equity

The Company's equity, ascribed to shareholders of the Company, amounted as at the date of the report to the sum of NIS 1,805 million compared with NIS 1,918 million during the corresponding quarter last year. Equity ascribed to shareholders (not including shares purchased in a buy-back) amounted to approximately NIS 34.3 compared with NIS 36.5 during the corresponding period last year.

The reduction stemmed mainly from the Company's losses during the Report Period and a reduction in capital funds as a result of hedging transactions against interest rates on foreign currency loans.

1.2.3. Investment and Sales Flows

The Company's total investments in real estate during the Report Period amounted to the sum of approximately NIS 200 million in accordance with the following details:

Investment properties and land intended for the construction of investment properties: approximately NIS 41 million.

Properties under development: approximately NIS 121 million.

Inventory of buildings, apartments for sale and land for residential construction, net, less advance payments: approximately NIS 32 million.

Increase in advances on account of the purchase of land, mainly in India and Ukraine: approximately NIS 6 million.

Proceeds for the sale of investment real estate during the Report Period amounted to approximately NIS 15 million.

1.2.4. Table of Principal Data of Operations during the Period, in NIS Millions

	<u>1-3/2009</u>	<u>1-3/2008</u>
Revenues from investment properties	352	363
Gross profit from investment properties (NOI)	251	257
Gross profit from sale of apartments and commercial space	-	1
Other gross profit	<u>2</u>	<u>2</u>
Gross profit	253	260
Increase (decrease) in fair value of investment real estate	(161)	23
Sales, General & Management Expenses	<u>55</u>	<u>51</u>
Profit (loss) from ordinary operations	37	232
Other revenues	9	2
Financial expenses, net	<u>180</u>	<u>203</u>
Profit (loss) before tax	(134)	32
Taxation revenues (expenses)	29	(57)
Profit (loss) from affiliates	<u>(3)</u>	<u>4</u>
Net (loss)	<u>(108)</u>	<u>(22)</u>
Profit (loss) ascribed to minority	(6)	10
Profit (loss) ascribed to shareholders	<u>(102)</u>	<u>(32)</u>

1.2.5. **Balance sheet – select details in NIS Millions**

	<u>31.3.2009</u>	<u>31.12.2008</u>
Total Balance	23,041	22,421
Equity including minority rights	2,897	3,021
Equity ascribed to shareholders	1,805	1,918
Investment real estate	15,880	15,586
Investment real estate under development	1,131	941
Inventory of buildings and apartments for sale	608	598
Inventory of land for residential construction	182	183
Current Assets	2,001	1,904
Current liabilities	3,935	3,308
Long-term liabilities	16,209	16,092
Non-recourse loans	5,572	5,253
Liabilities for deferred taxes	1,429	1,473

1.3. **Principal consolidated subsidiaries**

1.3.1. **IBC**

The principal area of operations of IBC is the initiation, construction and purchase of buildings intended for lease and sale for industry, commerce, residential, high-tech and offices. As at March 31, 2008, IBC owned buildings in Israel and overseas of a total area of approximately 1,938,000 sqm, with an average occupancy of 90% during the Report Period.

In addition, IBC provides management and maintenance services to buildings that are owned by it and to buildings not owned by it, and used by tenants in the field of high-tech, offices and commerce, and for residential tenants, via a subsidiary and via a third party.

IBC deals in the initiation, planning and construction of apartments for sale in Israel, the USA, Germany and Thailand. In addition, IBC has investments in Mirland, Mondon and Svitland, which operate in these fields in Russia, India and countries of the Commonwealth of Independent States, respectively. As at the balance sheet date, IBC has the following inventory of land for future construction: 240 apartments in Tel Aviv Towers, 98 apartments in South Tel Aviv (IBC holds 50% of the rights), 57 apartments in Ramle, 44 units for vacation residences in Tiberias, luxury residences and/or a hotel in Florida, of a total area of approximately 20,000 sqm (IBC holds 50% of the rights), approximately 870 apartments and low-rise houses near to Zur Natan (subject to amendment of the Municipal Building Plan for Stage B – IBC holds 90% of the rights), approximately 20 apartments in Berlin, Germany, and a project including two buildings one of which is a 70 storey skyscraper made up, inter alia, of approximately 211 luxury apartments, a hotel and commercial space in Bangkok, the capital of Thailand (IBC holds 50% of the rights).

In addition to the above operations, IBC also implements projects in which it provides management services for planning, implementation and supervision of development and infrastructure works for residential and industrial areas for the Israel Lands Administration, local authorities and various other entities.

IBC's holdings as at March 31, 2009: 71.58%.

Market value of investment as at March 31, 2009 : approximately NIS 1,110 million.

Market value immediately prior to date of publication of Report*: approximately NIS 1,056 million.

Investment account on the Company's books as at March 31, 2009 : approximately NIS 1,685 million.

* In the opinion of management of the Company, IBC's net asset value is significantly greater than market value.

As a result of a buy-back of shares by IBC, as at the date of publication of the Report, the Company holds 71.67% of IBC.

1.3.2. **Mirland Development Corporation PLC (hereinafter: “Mirland”)**

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

As of December 18, 2006, Mirland's shares began to be traded on the AIM exchange in London.

In December 2007, Mirland issued negotiable bonds on the Tel Aviv Stock Exchange thereby becoming a “reporting corporation” under Israeli securities laws.

Mirland deals, alone and via subsidiaries, in the initiation and development of projects in the field of real estate in Russia, for commerce, offices and logistics, and for residential purposes, from the acquisition of vacant land, completion of planning and approval processes, and up until completion of construction and sale or management and lease of projects.

In addition to the public's holdings, Mirland's shares are held by the Company, IBC and Darban Industries Ltd. (“**Darban**”), all three of which are public companies that are traded on the Tel Aviv Stock Exchange, and that are held and controlled by Mr. Eliezer Fishman and members of his family.

The Company's holdings of Mirland as at the balance sheet date:

The Company directly: 28.77%; IBC, 33.99% (IBC is 71.58% held as at the date of the Report).

The total of the Company's direct share, plus the Company's proportionate share of IBC (hereinafter the Company's direct and indirect share) amounts, as at March 31, 2009, to 53.11%.

The market value of the Company's direct and indirect share as at March 31, 2009: NIS 166 million

The market value of the Company's direct and indirect share as at the date of approval of the reports (*): NIS 291 million

Investment account on the Company's books directly and indirectly as at March 31, 2009: NIS 752 million

(*) In the opinion of management of the Company, Mirland's net asset value is significantly greater than market value.

In total, the Company's direct and indirect portion amounts, as at the date of publication of the report, to approximately 53.13%.

1.3.3. **Svitland Ltd. (hereinafter: “Svitland”)**

Svitland deals, itself and via subsidiaries, in the construction and development of projects in the field of real estate in countries of the Commonwealth of Independent States, including Ukraine, Lithuania, Latvia, Moldova and Belarus, for commerce, offices, logistics and residential purposes.

The shares of Svitland are held by the Company, IBC and Darban.

The Company's holdings of Svitland as at the date of the Report:

The Company directly: 32%.

IBC, 32% (IBC is 71.58% held as at the date of the Report).

The Company's total share of Svitland, directly and indirectly, amounts, as at March 31, 2009, to 54.86%.

Investment account on the Company's books directly and indirectly as at March 31, 2009: NIS 137 million.

1.3.4. **Mondon Investments Ltd. (hereinafter: “Mondon”)**

Mondon deals, alone and via subsidiaries, in the construction and development of projects in the field of real estate in India, for commerce, offices, logistics and residential purposes.

Mondon's shares are held by the Company, IBC and Darban, and by Migdal Insurance Company Ltd. which holds 10% of the shares of Mondon.

The rates of holding of Mondon as at the date of the Report are:

The Company directly: 36%.

IBC, 36% (IBC is 71.58% held as at the date of the Report).

The Company's total share of Mondon, directly and indirectly, amounts, as at March 31, 2009, to 61.71%.

Investment account on the Company's books directly and indirectly as at March 31, 2009 NIS 208 million.

1.4. **Investment Real Estate – Principal Data**

As at March 31, 2009, the Company, jointly with others, holds rental space of approximately 3.7 million square meters, of which approximately 1.9 million square meters are situated overseas.

The Company's properties are leased to approximately 7,975 tenants. The rate of occupancy of the Company's properties as at the date of the Report is 90.11% compared with 90.60% as at December 31, 2008.

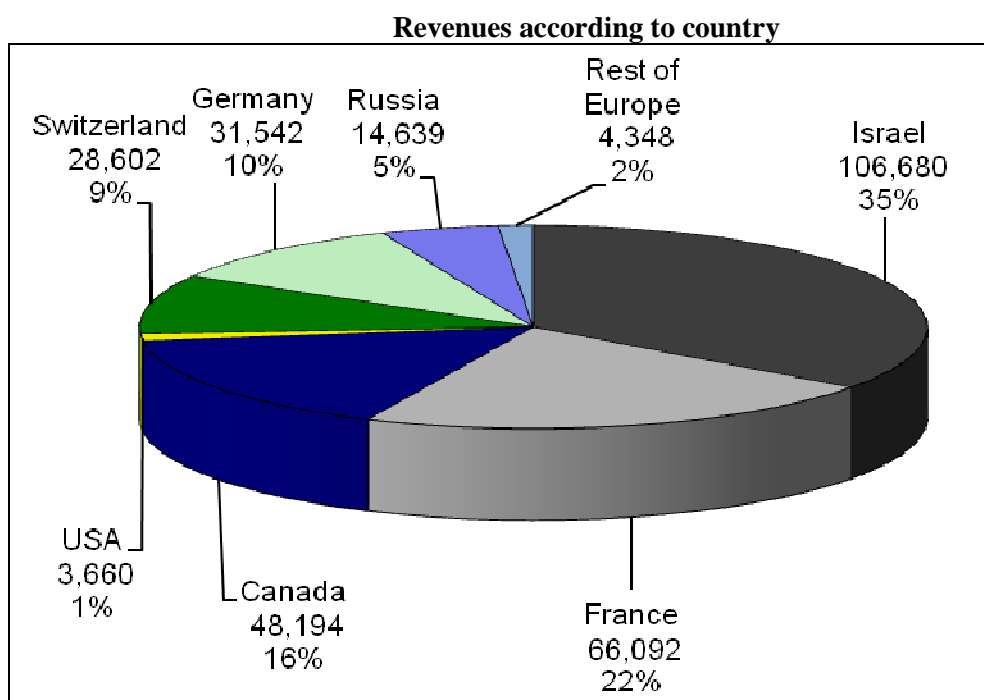
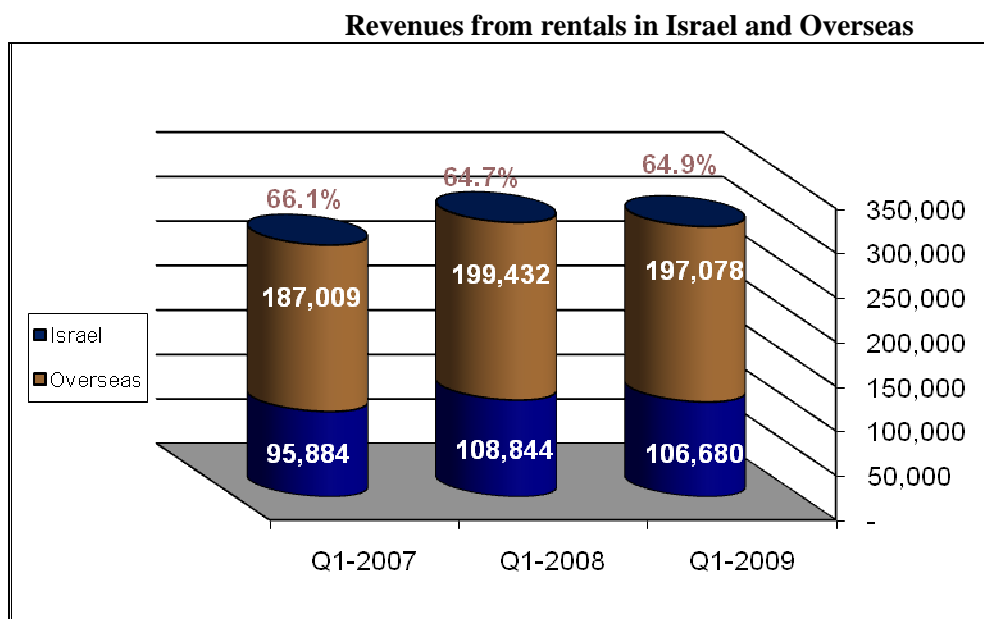
1.4.1. **Rental space and revenues**

	The Company, consolidated, together with the Company's proportionate share of consolidated subsidiaries		
	Rate of Occupancy 31.3.09	Area sqm 31.3.09	Rental revenues during the Report Period NIS thousands (1)
<u>Israel</u>			
The Company	85.82%	308,171	20,741
IBC	89.70%	1,368,234	82,274
Hakal Construction and Supervision	91.94%	24,586	2,432
Taam – Company's share: 50% (consolidated) (2)	71.07%	13,190	1,233
Total Israel	88.89%	1,714,181	106,680
<u>Overseas</u>			
Europe – the Company without IBC and Mirland	92.32%	1,122,984	98,003
Canada – the Company without IBC	91.78%	173,405	22,810
Europe – via IBC	90.09%	324,195	32,582
Canada and USA – via IBC	90.11%	246,073	29,044
Russia – via Mirland	80.61%	69,947	14,639
Total Overseas	91.20%	1,936,604	197,078
Total	90.11%	3,650,785	303,758

Adjustment for financial statements:

(1) Deduction of revenues from rental included in the profits of affiliates	1,485
(2) Deduction of the Company's share (50%) of the revenues of Taam – an affiliate	1,233
Revenues from rentals on the statements of profit and loss	301,040

Revenues from rentals during the Report Period, NIS '000s, in Israel and Overseas in Q1 of 2007-2009



1.4.2. Investment real estate

(a) During the Report Period, the value of investment real estate increased from NIS 15,585 million to NIS 15,880 million.

The increase in the value of investment real estate stems from an increase in the value of land overseas in the sum of approximately NIS 438 million stemming from changes in the rate of the shekel as against the local currencies of the countries where the Company's overseas real estate assets are situated. The change stems mainly from a change in the EUR of approximately NIS 228 million, in the USD of approximately NIS 69 million, in the CAD of approximately NIS 97 million, in the CHF of approximately NIS 44 million; from purchases and investments in real estate in the sum of approximately NIS 41 million; and from an increase in the fair value of investment real estate in Russia in the sum of approximately NIS 77 million stemming from an increase in the rate of the USD as against the RUB.

Less expenses for impairment in the sum total of NIS 246 million – mainly in the following countries: France, approximately NIS 173 million, Canada, approximately NIS 41 million and Israel, approximately NIS 19 million. The decreases stem mainly from an increase in the rates of capitalization used in the appraisals, against the backdrop of the international credit crisis. Less write-offs as a result of the realization of assets in the sum of approximately NIS 15 million.

Expenses from decreases in the fair value of real estate less a reduction in reserves for taxation in the sum of approximately NIS 77 million recorded during the Report Period amounted to the total sum of approximately NIS 84 million.

- (b) For details of the Company's investment real estate assets in accordance with the instructions of the Securities Authority of February 22, 2009, regarding disclosure of the fair value of investment real estate assets, see Appendix A to the Report.

1.4.3. Overseas Investment Real Estate

Table of Overseas Investment Real Estate Properties by Country as at March 31, 2009				
Country	Built-up area in sqm 100% (1)	Number of tenants	Rate of occupancy	Fair value in NIS 000s as at March 31, 2009
Canada	401,097	2,349	91.26%	1,670,267
USA	18,381	39	80.80%	85,498
France	804,354	119	91.09%	3,405,309
Germany	352,158	1,472	91.54%	1,563,006
Switzerland	222,091	694	94.81%	1,677,901
Poland	51,308	57	92.89%	220,910
The Netherlands	13,000	1	100.00%	55,937
Russia	69,947	150	80.61%	674,699
Ukraine	4,268	37	60.92%	20,877
Total Overseas	1,936,604	4,918	91.20%	9,374,404
(1) Including consolidated subsidiaries, 100% area and value. Without our proportionate share of affiliates of an area of 25,487 sqm, at a value of NIS 146 million.				

Details of Overseas Investment Real Estate by Groups of Properties as at March 31, 2009 ⁽¹⁾

Comment	Country	Name and Location	Designation of Property	Number of Properties	Rate of Company's Rights in Properties	Built-up area of assets as a whole	Number of tenants as at March 31, 2009	% occupancy as at March 31, 2009	Fair value	NOI for 1-3/2009
	Canada	Around Canada	Offices and Commercial	4	100%	104,765	239	91.74%	498,310	7,130
2		Toronto (Woodbine)	Offices and Commercial	1	100%	68,640	168	91.84%	400,920	6,815
	Canada	Around Canada	Offices and Commercial	2	100%	51,510	98	91.57%	232,445	4,027
2	Canada	Halifax (Sunnyside)	Offices and Commercial	1	100%	28,858	105	95.00%	182,441	3,463
2	Canada	Toronto (Chalkfarm)	Residential	1	100%	82,398	1068	87.90%	197,453	639
2	Canada	Toronto (Kipling)	Residential	1	100%	64,926	671	92.20%	158,698	1,422
2	USA	Atlanta	Offices	2	100%	18,381	39	80.80%	85,498	1,766
	France	Paris	Commercial	1	100%	13,803	5	96.49%	413,747	7,227
	France	Lyon	Offices	1	100%	9,798	3	39.28%	71,347	259
	France	Around France (L3)	Offices and Commercial	15	100%	77,337	17	69.34%	229,480	4,312
	France	Around France (L4)	Offices and Commercial	7	100%	40,775	11	94.90%	92,943	2,101
	France	Around France (Holding)	Offices and Light Industry	13	100%	140,131	60	77.98%	769,382	16,981
	France	Colombes	Offices and Light Industry	1	100%	48,152	1	100.00%	466,287	6,974
	France	Toulouse	Offices and Light Industry	1	100%	53,656	4	100.00%	242,786	4,207
	France	Valdolines	Offices and Light Industry	1	100%	31,482	2	99.23%	220,509	0
	France	Around France (L7)	Offices and Light Industry	7	100%	235,441	7	100.00%	321,597	9,009
	France	Around France (L6)	Light Industry	3	100%	121,582	4	100.00%	273,215	5,635
	France	Nantes	Light Industry	1	100%	15,244	1	100.00%	82,339	2,024
2	France	Around France	Logistics Center	3	95%	16,953	2	50.54%	221,677	3,191
	Germany	Berlin (Mulle)	Commercial and Residential	3	95%	14,618	186	89.89%	114,242	1,837
	Germany	Around Germany (Hazim)	Commercial	5	100%	22,629	13	88.53%	121,226	2,578
	Germany	Around Germany (Topneks)	Commercial	7	100%	8,176	18	99.08%	55,134	762
	Germany	Around Germany (Tartufo)	Commercial	7	100%	11,791	30	94.97%	68,622	949
	Germany	Waltrop (B.73)	Industry	1	80.51%	10,724	8	90.48%	36,056	420
	Germany	Around Germany (B.69)	Residential, Commercial & Cinema	2	94%	14,126	45	87.72%	76,999	1,392
	Germany	Around Germany	Residential, industry and commercial	11	95%-100%	32,131	184	95.15%	105,653	2,041
2	Germany	Around Germany	Commercial	12	95-100%	16,057	34	84.59%	116,672	1,937

Comment	Country	Name and Location	Designation of Property	Number of Properties	Rate of Company's Rights in Properties	Built-up area of assets as a whole	Number of tenants as at March 31, 2009	% occupancy as at March 31, 2009	Fair value	NOI for 1-3/2009
2	Germany	Around Germany	Fuel Stations	9	100%	23,858	10	92.86%	76,381	1,587
2	Germany	Essen	Offices and Commercial	1	95%	15,819	16	98.57%	69,781	1,291
2	Germany	Bautzen	Offices	1	95% %	1,798	1	100.00%	20,583	534
2	Germany	Around Germany	Residential	7	95%	49,142	716	84.24%	119,353	2,111
2	Germany	Berlin	Residential	1	100%	5,076	48	73.99%	38,592	291
2	Germany	Around Germany	Offices	3	100%	12,022	22	88.06%	127,067	1,714
2	Germany	Around Germany	Commercial	5	95-100%	28,431	47	96.51%	153,151	2,540
2	Germany	Around Germany	Commercial	2	100%	7,285	24	95.17%	26,185	365
2	Germany	Zeltz	Commercial	2	100%	11,756	2	100.00%	30,376	725
2	Germany	Zittau	Logistics Center	1	100%	3,352	1	100.00%	11,415	344
2	Germany	Berlin	Commercial	1	100%	4,453	48	91.44%	35,639	413
2	Germany	Zwickau	Logistics Center	1	100%	19,286	9	80.49%	21,364	413
2	Germany	Rosengarten	Logistics Center	1	100%	4,692	3	91.47%	15,004	254
2	Germany	Murrhardt	Commercial	1	100%	2,588	6	100.00%	17,702	423
2	Germany	Around Germany	Industrial Factory	2	100%	12,965	2	100.00%	28,113	593
2	Germany	Stuttgart	Storage, commercial	1	94%	20,000	1	100.00%	77,696	1,476
	Switzerland	Around Switzerland (K1)	Commercial	25	100%	25,095	26	99.70%	253,413	3,076
	Switzerland	Around Switzerland (KF1)	Residential	14	90%	46,140	370	91.56%	363,695	3,818
	Switzerland	Around Switzerland (K2)	Offices and Industry	2	100%	11,843	3	91.33%	50,742	526
	Switzerland	Around Switzerland (K3)	Commercial	18	100%	30,950	29	96.17%	221,017	2,448
	Switzerland	Around Switzerland (KF2)	Residential and Commercial	5	90%	21,816	199	95.78%	119,724	1,210
	Switzerland	Around Switzerland (K4)	Offices and Industry	5	100%	30,585	45	95.24%	239,710	3,209
2	Switzerland	Zurich	Offices	1	90%	12,522	10	98.35%	104,616	2,275
2	Switzerland	Enfelden	Commercial	1	100%	43,141	12	93.62%	324,984	4,915
2	The Netherlands	Nieuwegin	Logistics Center	1	100%	13,000	1	100.00%	55,937	1,434
	Poland	Blonie	Offices and logistics	1	50%	27,823	10	95.20%	97,399	1,294
	Poland	Warsaw (Jaglonska)	Offices, Logistics and Commercial	1	50%	23,439	47	90.14%	123,511	685
3	Russia	Yeroslavel	Offices	1	49%	33,287	104	94.00%	127,441	4,310
3	Russia	Moscow (Hidro)	Commercial	1	100%	17,208	26	52.00%	250,840	2,159
3	Russia	Moscow (Mag)	Offices	1	100%	19,452	20	83.00%	296,418	4,606
4	Ukraine	Lugansk	Commercial	2	88%	4,268	37	60.92%	20,877	77
				232		1,936,604	4,918	91.20%	9,374,404	150,216

Notes:

- 1) Including consolidated subsidiaries, 100% area and value. Without our proportionate share of affiliates of an area of 25,487 sqm, at a value of NIS 149 million.
- 2) Via IBC.
- 3) Via Mirland.
- 4) Via Svitland.

1.5. Miscellaneous

- A. On March 30, 2008, the board of directors of the Company resolved to approve a buy-back of the Company's shares by the Company in the sum of up to NIS 70 million. Under the plan, the buy-back would be effected as part of trading on the stock exchange (and not from officers and/or controlling shareholders of the Company) by December 31, 2008. In August 2008, the board of directors of the Company approved increasing the scope of the buy-back plan from up to NIS 70 million to up to NIS 90 million. From the date of approval of the plan until March 31, 2009, the Company purchased approximately NIS 2,155,000 par value shares in consideration for approximately NIS 75,740,000. The shares purchased as aforesaid became dormant as a result of the purchase.
- B. In November 2008, the board of directors of the Company approved a buy-back plan for all of the series of the Company's bonds by a wholly owned subsidiary of the Company, either during the course of trade on the stock exchange and/or off the floor, in the sum of up to NIS 50 million, to be effected at the prices prescribed from time to time at the discretion of management. From the date of approval of the plan until the date of the Report, the Company itself purchased convertible bonds of the Company in the following sums and from the following series: the Company itself – NIS 9 million par value bonds (series D), via a subsidiary; NIS 43.1 million par value bonds (series E); NIS 29.7 million par value bonds (series F); NIS 6.3 million par value bonds (Series G); NIS 13.9 million par value bonds (Series H). The total sum of all of the aforesaid purchases amounts to approximately NIS 44.5 million.
- C. During the month of April, 2008, the board of directors of IBC approved a buy-back of shares of IBC by IBC in the sum of up to NIS 150 million during the course of trade on the stock exchange and/or off the floor (not from officers and/or controlling shareholders of Hamat) by December 31, 2009. As of the date of approval of the plan, and up until March 31, 2009, IBC purchased approximately NIS 15.2 million par value shares in consideration for approximately NIS 104 million. During the period following the balance sheet date, IBC purchased approximately NIS 0.3 million par value shares in consideration for the sum of approximately NIS 2 million. The shares so purchased became dormant as a result of purchase of them.
- D. During the course of September 2008, the board of directors of IBC approved a buy-back of all of the series of bonds of IBC, with the exception of bonds (series D) up to a total sum of NIS 100 million. From the date of approval of the plan until March 31, 2009, IBC purchased bonds in the total sum of approximately NIS 100.8 million as follows:
- | | |
|------------------------------------|------------------------------------|
| Bonds, series E – NIS 1.8 million | Bonds, series I – NIS 10.4 million |
| Bonds, series F – NIS 4.2 million | Bonds, series K – NIS 12 million |
| Bonds, series G – NIS 16.9 million | Bonds, series L – NIS 4.3 million |
| Bonds, series H – NIS 51.2 million | |
- During the month of May 2009, and up to just prior to the date of publication of this Report, IBC, in two random transactions, acquired approximately NIS 1.2 million par value bonds (series H) in consideration for the sum of approximately NIS 1 million. Likewise, a wholly owned subsidiary of IBC sold approximately NIS 19.6 million par value bonds (series G) and approximately NIS 5.2 million par value bonds (series L) in consideration for the total sum of approximately NIS 25.9 million.
- E. Apart from the buy-back scheme set out above, management of the Company and management of IBC are likely to effect, from time to time, buy-backs of securities of the Company or of IBC, as the case may be, or sale thereof, within the context of random transactions and not as part of a consistent and ongoing policy, in accordance with specific market conditions and commercial opportunities.
- F. The Company's total investments in consolidated subsidiaries as part of a joint venture with Darban Investments and/or IBC: USD 144 million, in accordance with the following breakdown: Mirland: USD 69.5 million (capital – USD 24 million; bonds and loans – USD 17.5 million, guarantees – USD 28 million). As at the balance sheet date, the Company undertook to lend a further USD 4.2 million.

Mondon: USD 40.4 million.

Svitland: USD 28.2 million.

Serbia: USD 5.9 million.

Similar sums were invested via IBC such that the total investments by the Company and IBC amount to approximately USD 293 million.

2. **Financial situation**

2.1 **Current Assets and Liabilities**

As at March 31, 2009, current assets on the balance sheet amounted to approximately NIS 2,001 million compared with current liabilities of approximately NIS 3,935 million; a current ratio of approximately 50.8%.

As at December 31, 2008, current assets on the balance sheet amounted to approximately NIS 1,904 million compared with current liabilities of approximately NIS 3,308 million; a current ratio of approximately 58%.

The change in the ratio stems mainly from an increase in short-term credit, which was partly set off as a result of an increase in cash and receivables, and debit balances.

2.2 **Deficit in working capital**

As at March 31, 2009, this amounted to approximately NIS 1,934 million compared with a deficit of approximately NIS 1,404 million as at December 31, 2008. The deficit in working capital stems from the fact that the Company finances part of its long-term investments (real estate in Israel and overseas and investments in investee companies) via short-term credit. The Company is acting to receive long-term credit from banks overseas (non-recourse) to finance its investments in Germany and France, which if and to the extent obtained will be used, inter alia, for the repayment of short-term loans in Israel and will reduce the deficit in working capital.

The Company, without its subsidiaries, has an unused line of credit in the sum of approximately NIS 76 million as at the balance sheet date, and approximately NIS 85 million as at the date of publication of this Report. The increase from the balance sheet date until just prior to the date of publication of the report stems mainly from the sale of unencumbered securities in the sum of approximately NIS 9 million which the Company used for the repayment of loans. In addition, just prior to the publication of the report, the Company, without consolidated subsidiaries, had negotiable, unencumbered securities in the sum of approximately NIS 53 million and unencumbered assets in Israel and overseas in the value of NIS 797 million. (For the Company's liquidity, see also section 4 below).

2.3 **Inventory of land for residential construction**

Inventory of land for construction (short term) amounted, on the balance sheet date, to approximately NIS 182 million compared with approximately NIS 183 million as at December 31, 2008. This item mainly includes land at Bangkok, Thailand; Berlin, Germany; and Marom Hasharon, Israel.

2.4 **Investment real estate**

Total investment real estate as at March 31, 2009 amounted to approximately NIS 15,880 million compared with approximately NIS 15,586 million as at December 31, 2008.

For details see section 1.4.2 above.

2.5 **Investment real estate under development**

During the Report Period, the value of investment real estate under development increased from NIS 941 million to NIS 1,131 million.

The increase stemmed mainly from investments in projects in the sum of approximately NIS 119 million, from an evaluation in the sum of approximately NIS 8 million in Israel and from an increase in the value of projects overseas in the sum of approximately NIS 63 million, stemming from changes in the exchange rate of the shekel as compared with the local currencies of countries in which the Company's overseas real estate assets for investment and development are located.

2.6 **Non-current assets**

Non-current assets amounted, as at the balance sheet date, to approximately NIS 21,040 million compared with NIS 20,517 million as at December 31, 2008. The increase stemmed mainly from an

increase in the items of investment real estate and investment real estate for development, stemming from the strengthening of various overseas currencies as against the shekel.

2.7 **Credit for loans and bonds less cash and deposits**

On March 31, 2009, loans and bonds less cash and deposits amounted to approximately NIS 14,199 million compared with approximately NIS 13,614 million on December 31, 2008.

The increase stems mainly from a net increase in loans, particularly as a result of currency fluctuations as against the shekel.

The total of the Company's non-recourse loans, consolidated, amounts to approximately NIS 5,572 million.

On March 31, 2009, loans and bonds less cash and deposits at the Company without the subsidiaries IBC, Mirland, Mondon and Svitland, amounted to approximately NIS 7,685 million (including guarantees for subsidiaries in Canada), compared with approximately NIS 7,422 million as at December 31, 2008.

The increase stems mainly from a net increase in loans, mainly as a result of currency fluctuations as against the shekel, set off against payment in the sum of approximately NIS 76 million for bonds during the Report Period.

The total of the Company's non-recourse loans, without IBC, Mirland, Mondon and Svitland, amounts to approximately NIS 4,031 million.

2.8 **Shareholders' Equity**

On March 31, 2009, equity amounted to approximately NIS 2,897 million compared with approximately NIS 3,021 million on December 31, 2008.

On March 31, 2009, equity ascribed to shareholders of the Company amounted to approximately NIS 1,805 million compared with approximately NIS 1,918 million on December 31, 2008.

The change in equity ascribed to shareholders during the period stems mainly from the loss in the period in the sum of approximately NIS 102 million, from an increase in capital for adjustments stemming from the translation of the financial statements of overseas subsidiaries in the sum of approximately NIS 6 million, from a reduction of capital due to hedging transactions in the sum of approximately NIS 20 million and from an increase in capital for financial assets available for sale in the sum of approximately NIS 2 million.

On March 31, 2009, equity ascribed to minority rights amounted to approximately NIS 1,092 million compared with approximately NIS 1,102 million on December 31, 2008.

The change in equity ascribed to minority rights stems mainly from the minority's share of the loss in the sum of approximately NIS 6 million.

3. **Results of Operations**

The operating profit during the Report Period amounted to approximately NIS 37 million compared with an operating profit of approximately NIS 232 million during the corresponding period last year.

The change in operating profit stems mainly from a change in the fair value of investment real estate which, during the Report Period, fell by approximately NIS 161 million compared with an increase of approximately NIS 23 million during the corresponding period last year.

The following is an analysis of the results of operations for the Report Period:

3.1 **Rental Revenues**

The Company's total revenues from rentals amounted during the period to approximately NIS 301 million compared with approximately NIS 304 million last year.

Consolidated revenues from rental overseas amounted to approximately NIS 196 million compared with approximately NIS 198 million during the corresponding period last year.

Consolidated revenues from rentals in Israel amounted to approximately NIS 105 million compared with approximately NIS 106 million during the corresponding period last year. The change stems mainly from a decrease due to the sale of Cellcom House at Netanya by IBC during the month of October 2008, against an increase for the occupancy of Stage II of the Commercial Center at Beer Sheva and another office building at Sha'ar Hanegev by IBC.

3.2 **Gross profit from investment properties (NOI)**

Profit in this item, which includes revenues from rental, management and maintenance, less the costs of management and maintenance of buildings amounted to approximately NIS 251 million, compared with approximately NIS 257 million during the corresponding period last year.

3.3 **Gross profit**

The gross profit in the Report Period amounted to approximately NIS 253 million compared with NIS 260 million last year.

3.4 **Changes in investment real estate**

For the reduction in the value of investment real estate, see reference in section 1.4.2 above.

3.5 **Financing Expenses**

During the Report Period, financing expenses less financing revenues amounted to approximately NIS 180 million compared with approximately NIS 203 million last year.

The following are the main net financing expenses during the period:

Net interest expenses: NIS 149 million.

Net revenues for decrease in CPI: NIS 23 million.

Net expenses for exchange rate differentials for currency balances: NIS 70 million.

Profit for exercise of convertible securities: approximately NIS 16 million.

The decrease in financing expenses compared with the corresponding period last year stems mainly from a decrease in the CPI known during the Report Period at a rate of approximately 0.7% compared with an increase of approximately 0.4% during the corresponding period last year, from an increase in the exchange rates of currencies as against the shekel during the Report Period, in the following rates: USD 10.2%, CAD 7.4%, EUR 5.2%, CHF 3.2%, compared with an increase (decrease) in the exchange rates of currencies during the corresponding period last year, as follows: USD (7.62%), CAD (11.2%), EUR (0.75%), CHF 4.59%, and from profits accrued for the sale of negotiable securities in the sum of approximately NIS 16 million.

Mondon, a consolidated subsidiary, gave a loan to subsidiaries in India in INR in the sum of approximately NIS 335 million. As a result of the devaluation of the INR as against the USD, expenses for currency differentials amounted to the sum of approximately NIS 13 million.

Mirland, a consolidated subsidiary, gave capital loans to subsidiaries in Russia in the total sum of approximately USD 267 million. As a result of the devaluation of the RUB against the USD, impact on capital was in the total sum of approximately USD 33 million. In addition, Mirland granted loans to subsidiaries in the total sum of approximately USD 106 million. As a result of the weakening of the RUB against the USD, financing expenses amounted to the sum total of approximately USD 17 million.

Svitland, a consolidated subsidiary, gave a loan to subsidiaries in the Commonwealth of Independent States in the sum of approximately NIS 90 million. As a result of the devaluation of the UAH (Ukrainian Hryvnia) as against the USD, expenses for currency differentials amounted to the sum of approximately NIS 3 million.

3.6 **Net other expenses including an increase in rate of holdings**

This item amounted to revenues in the sum of approximately NIS 9 million during the Report Period, and is comprised of the following items:

Profit from an increase in the rate of IBC's holdings as a result of a buy-back effected by IBC of its own shares during the Report Period, with revenues of NIS 3.3 million being recorded.

Other revenues – during the Report Period revenues of approximately NIS 5 million were recorded for adjustment of the sale price of a commercial center in Canada, sold by IBC during the course of 2006.

3.7 **Taxes on income**

During the report period, the Company's recorded revenues from taxes in the sum of approximately NIS 29 million, compared with expenses in the sum of approximately NIS 57 million in the corresponding period last year.

During the report period, the Company's recorded revenues from deferred taxes in the sum of approximately NIS 77 million due to impairment of the fair value of assets, compared with expenses in the sum of approximately NIS 10 million in the corresponding period last year.

4. **Liquidity and sources of financing**

Total cash, net, during the Report Period, used for current operations, amounted to the sum of approximately NIS 143 million.

Net cash during the Report Period used for **current operations** less changes in asset and liability items flowing mainly from an increase in the inventory of buildings for sale and land for construction, mainly in Germany, Russia, Ukraine, Thailand and India, amounted to the sum of approximately NIS 111 million compared with the sum of approximately NIS 77 million from currency operations during the corresponding period last year.

Net cash used for **investment operations** amounted, during the Report Period, to approximately NIS 115 million compared with NIS 1,127 million in the corresponding period last year.

Investment operations during the Report Period were intended mainly for investments in real estate in India, Ukraine, France, Russia, Germany and Israel.

Net cash flowing from **financing operations** during the report period amounted to approximately NIS 305 million compared with net cash flowing from financing operations in the sum of approximately NIS 349 million during the corresponding period last year.

The principal financing operations during the report period are: Receipt of long-term loans in the sum of approximately NIS 292 million, repayment of bonds in the sum of approximately NIS 183 million and receipt of short-term credit from banking and other corporations in the sum of approximately NIS 221 million.

The following is the Company's expected cash flow on a solo basis for a 12 month period in NIS 000s (forecast cash flow)

	Twelve months ending:	March 31, 2010	March 31, 2011
(1)	Balance of unused lines of credit as at beginning of period:	75,692	277,280
(2)	Cash flow from current operations in Israel	72,131	71,431
(2),(3)	Cash flow from current operations overseas after repayment of loans	136,367	142,461
(4)	Revenues from the sale of properties in Israel	47,493	87,542
(4)	Revenues from the sale of properties overseas	23,030	545
(5)	Receipt of loans in Germany and France	61,047	192,958
(6)	Revenues from sale of unencumbered negotiable securities	59,420	25,465
	Dividend from IBC	71,600	71,600
(5)	Loans in Israel	125,000	67,607
	Total sources	671,780	936,889
	Interest on loans from banks in Israel including self-financing overseas	-71,688	-61,067
	Total interest payments on public and private bonds	-142,780	-136,510
	Total payments of principal of public and private bonds	-104,975	-408,816
(7)	Additional investments in Israel and part of self-financing overseas	-82,882	48,089
	Annual cash surplus	269,455	378,585
(8)	Adjustments from March 31, 2009 to cash flow date – forex and securities	7,825	-
	Balance of unused lines of credit as at end of period	277,280	378,585

The following are details of the presumptions behind the forecast cash flow:

1. Possibility of using obligo up to the sum of the lines of credit based on the Company's needs.
The lines of credit are based on bank approvals, as given orally to management of the Company. The Company presumes that there will be no adverse change in the lines of credit during the period of the forecast cash flow.
2. During the period of the forecast cash flow there will be no change in the rates of occupancy and level of rental prices. The data does not include weighting of real costs of rental and increases as a result of linkage of rentals to the CPI, under valid lease contracts. Likewise, the Company has presumed no changes in the level of operating expenses compared with the previous year. Note that rental flow in Israel and overseas is not based on future dates of expiration of lease contracts but rather, on a general assessment of occupancy rates and rentals as set out above.
3. Presuming the renewal of non-recourse loans repaid overseas on the same terms: (Up to December 2009 – NIS 144 million, Q1 2010, NIS 158 million, Q2 2010, NIS 231 million).
This item includes cash flows from current operations received by the Company via repayment of shareholders' loans and dividends from overseas subsidiaries.
4. With respect to approximately NIS 12.5 million of the revenues expected in Israel in 2009, agreements for sale have been executed and the consideration is expected to be received in 2009. Other estimates regarding sale of properties are not based on binding agreements but rather, on the Company's work plans regarding the sale of specific properties.
In this item, cash flow from the sale of assets overseas includes cash flow received by the Company via repayment of shareholders' loans and dividends from overseas subsidiaries.
5. Loans calculated at a rate of 50-60% of fair value for unencumbered assets in Israel and overseas in the sum of approximately NIS 797 million. In this section, cash flow from overseas is received by the Company by way of repayment of shareholders' loans and dividends from overseas subsidiaries.
6. The shares shall be sold in accordance with market conditions and the needs of the Company. The consideration is set in accordance with market prices at the beginning of the period.
7. The cash flow is based on a freeze of most of the investments in lands and development, until the conditions are created for raising capital in Israel and around the world from the public and from financial institutions. The positive cash flow in this item in the 12 months commencing March 31, 2009 stems from a repayment of a shareholder's loan provided by the Company to Mirland, and from a repayment of a shareholder's loan provided by the Company to Mondon, which will be financed by repayment of a loan that Mondon is expected to receive with respect to a transaction to provide financing for the purchase of lands in New Delhi.
8. The lines of credit depend on fluctuations in exchange rates and in the values of collateral: real estate assets and shares of IBC, as set out in section 6 below. The cash flow is set out in

accordance with the exchange rates and values of securities as at the balance sheet date. This item includes adjustments for the Company's foreign currency loans, solo, as at the date just prior to publication of the Report, and adjustments of consideration for the sale of securities sold during the period after the balance sheet date.

The Company has negative working capital (as set out in section 2 above) however, in the opinion of the board of directors of the Company, the Company does not have a liquidity problem, taking into account the Company's forecast cash flow and the presumptions upon which it is based, as set out below.

However, as a result of the financial crisis, it is difficult to obtain financing from banking and non-banking entities in Israel and overseas, and therefore, for the purpose of examining the state of its liquidity and its forecast cash flow, the Company has presumed that it will not be possible, in the short term, to acquire debt on the capital market. Continuation of the crisis might hinder the Company's ability to obtain credit and additional financing as set out above. Likewise, the Company's lines of credit might reduce as a result of fluctuations in currency exchange rates and a drop in the value of collateral provided by the Company to the banks, as set out in section 6 below.

The forecast cash flow and the presumptions upon which it is based constitute forward looking information. The forecast cash flow includes various estimates and assumptions regarding revenues and sources of the Company's financing and expenses, and its forecast payments. These assessments are based on information in the possession of the Company as at the date of publication of the report, on the Company's work plans and on its assessments regarding its ability to sell properties, to receive credit and loans, to maintain its existing lines of credit and foreign currency exchange rates and securities as at the date of publication of the report, and other factors set out in the presumptions above. There is no certainty that these assumptions and estimates by the Company will eventuate in light of the considerable uncertainty at present due to the financial crisis and because they depend, inter alia, on third parties over which the Company has either no influence or over which its influence is limited, with respect to the sources of the Company's financing, including realization of assets and receipt of credit and loans, and various market factors such as currency exchange rates and securities prices, over which the Company has no influence. Any substantial change in these assumptions and assessments, including changes: in the Company's operations during the ordinary course of business, in the Company's ability to realize assets and to receive loans and credit and to maintain existing lines of credit, in the exchange rates of foreign currency which affect the Company's liquidity and in its lines of credit, sources of its revenue or structure of its expenses might substantially adversely effect the Company's forecast cash flow and the state of its liquidity.

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

	<u>Convertible bonds</u> <u>C</u>	<u>Share</u> <u>Capital</u>
Issued to outsiders on December 31, 2008	204,113	52,545,268
<u>Changes in capital held by outsiders during the Report</u>		
<u>Period</u>		
Repayment	(34,019)	
Issued to outsiders on march 31, 2009	170,095	52,545,268
Conversion ratio	1:25	
Share capital fully diluted *	6,804	<u>52,552,072</u>

* The share capital does not include the Company's holdings of its own shares in the sum of NIS 2,554,348 par value.

6. Exposure to market risks and methods of management

The person responsible at the Company for market risks is Mr. Eliezer Fishman, chairman of the board of directors.

During the report period, there was no substantial change in the risk exposure as reported in the periodic report for 2008.

The following are the principal market risks to which the Company is exposed:

CPI exposure – as at the balance sheet date, the balance of the Company's CPI-linked credit (bonds, loans from banks and loans from institutional investors) amounts to approximately NIS 5,714 million (approximately NIS 5,953 million as at December 31, 2008) less the balance of long-term CPI-linked bank deposits in the sum of NIS 2,743 million (approximately NIS 2,771 million as at December 31, 2008). Such that, exposure to the consumer price index as at the date of the financial statements amounts to approximately NIS 2,971 million (approximately NIS 3,182 million as at December 31, 2008). This exposure as aforesaid mainly finances investment assets in Israel at a total value of approximately NIS 5,391 million (approximately NIS 5,778 million as at December 31, 2008), the rental on which is linked to the consumer price index.

In light of the above, the Company has surplus linked assets over linked liabilities.

Between the date of the financial statements and the date of execution of the financial statements, the consumer price index increased by a rate of approximately 1.49%.

Foreign currency exposure – as a rule, the Company finances the purchase of investment real estate overseas via consolidated subsidiaries, by receiving loans from overseas banks in currencies identical to the investment currency and from its own independent sources in Israel, through raising credit in the investment currency. The available cash flow received from investment real estate overseas serves foreign currency credit in Israel. This policy in fact economically protects against currency exposure to the amount of the investment and from an accounting point of view, reduces the impact on financing expenses or revenues on the statement of profit and loss. The Company's policy as described above regarding exposure to foreign currency does not protect surplus balances in foreign companies and therefore, the Company has accounting exposure which is expressed as part of capital from conversion differentials.

Since the Company's foreign currency from banks in Israel are usually received as against lines of credit in shekels (since they are derived from shekel assets, mainly shekel deposits in banks of proceeds of bond issues effected by the Company in Israel, real estate assets in Israel, shares of IBC and the Company and other securities in Israel), increases in foreign currency exchange rates against the shekel increases the scope of the Company's liabilities to banks and reduces available lines of credit accordingly.

The following are the balances of foreign currency loans and guarantees to the subsidiaries of the Company, solo in Israel, a change in the rates of exchange of which against the shekel will reduce the lines of credit available to the Company, and the actual impact of the change from the balance sheet date and until just prior to the date of publication of this Report.

(The following are currency exchange rates just prior to the date of publication of the Report, and the rate of increase of each currency as against the shekel from the balance sheet date until the date of publication of the report: EUR 5.53, USD 4.02, CAD 3.51, CHF 3.64).

Reduction of lines of credit as a result of rate of holding of foreign currency compared with NIS					
Currency	Exchange rate fluctuation from balance sheet date until publication of the report	Balance of loans in NIS 000s, solo in Israel as at balance sheet date	Sum of change as at date of publication	Sensitivity to Fluctuations	
				*2.50%	*5%
EUR	(0.77%)	849,296	6,522	(21,232)	(42,465)
USD	(4.08%)	358,739	14,648	(8,968)	(17,937)
CAD	5.03%	417,610	(21,012)	(10,440)	(20,880)
CHF	(0.92%)	204,255	1,872	(5,106)	(10,213)
Total increase in lines of credit after the balance sheet date, as a result of exchange rate fluctuations			2,030		

* A weakening of these currencies against the shekel by these rates will give rise to an increase in the lines of credits by the same sums accordingly.

The Company has balances that are exposed to exchange rate fluctuations which are expressed in financing expenses or revenues on the Company's statement of profit and loss (a weakening of the shekel as against each of the other currencies set out in the exposure against the NIS below will cause financing revenues, and vice versa. A weakening of the USD against each of the currencies set out in the exposure against the USD below will cause an increase in financing revenues, and vice versa).

The following are balances of exposures to foreign currency as at March 31, 2009, the impact of which will be expressed in financing expenses or revenues on the Company's statement of profit and loss:

Currency	Exposure (NIS 000s)	Exchange rate fluctuation from balance sheet date until publication of the report	Impact on financing revenues (expenses) from balance sheet date until publication of the report (NIS 000s)
Increase (decrease) of foreign currency against NIS			
EUR	75,152	(0.77%)	(577)
USD	(51,694)	(4.08%)	2,111
CAD	(23,866)	5.03%	(1,201)
CHF	3,290	(0.92%)	(30)
Decrease (increase) of foreign currency against USD			
INR	290,205	(8.49%)	24,638
RUB	244,665	(7.04%)	17,224
UAH	73,904	(5.15%)	3,805

Mondon, a consolidated company, has given loans to Indian subsidiaries in INR in the sum of approximately NIS 335 million. Since Mondon's functional currency is the INR, exchange rate differentials for conversion of the above loans to USD are accredited to profit and loss.

Mirland, a consolidated subsidiary, gave loans to subsidiaries in Russia in the total sum of approximately USD 373 million, of which the total sum of approximately USD 267 million is in capital loans.

Exchange rate differentials for translation of the above loans into dollars is ascribed to the statement of profit and loss and currency differentials are ascribed to capital from translation differentials.

Svitland, a consolidated company, has given loans to subsidiaries in the Commonwealth of Independent in the sum of approximately NIS 90 million. Since the functional currency of the companies in Ukraine is the UAH, exchange rate differentials for conversion of the above loans to USD are accredited to profit and loss.

The following is equity for foreign consolidated subsidiaries in accordance with the rates of holding, affected by fluctuations in exchange rates changes in which are expressed as part of capital from conversion differentials (a devaluation of the shekel against each of the currencies set out below will cause an increase in equity, and vice-versa), in accordance with the Company's policy which does not hedge against surplus balances. Exposure to Mirland's equity as against the RUB, and of Mondon's as against the INR are not substantial:

Currency	Exposure (NIS 000s)	Exchange rate fluctuation from balance sheet date until publication of the report	Impact on equity from conversion differentials from balance sheet date until publication of the report (NIS 000s)
EUR	306,199	(0.77%)	(2,351)
USD	669,087	(4.08%)	(27,319)
CAD	140,992	5.03%	7,094
CHF	25,830	(0.92%)	(237)
INR	(68,558)	(8.49%)	5,821

At a meeting of the Company's balance sheet committee on May 25, 2009 and of the board of directors of the Company on May 27, 2009, the Company's currency and CPI exposures were presented in detail. In addition, during the report period, the Company met with the chairman of the board of directors of the Company who is responsible for management of market risks at the Company on the issue of follow-up of policy and handling of currency and CPI exposures. The resolutions passed at those meetings have been implemented by management of the Company.

Impact of the financial crisis

As a result of the financial crisis that has hit global markets, there has been a significant decrease in the credit that banks are able to grant, there has been a significant decrease in the rates of securities on many stock exchanges around the world, and there are other significant signs of an economic recession in many countries, including countries in which the Company operates.

The following are details of the substantial impacts that the financial crisis has had as at March 31, 2009 and as at the date of publication of this Report on the state of the Company's business and operations, its financial condition, liquidity and financial strength:

- A. As at March 31, 2009, there has been a 1.5% decrease in the rate of occupancy of the Company's assets in Israel and a certain insubstantial increase in arrears of payments of rental, mainly from high-tech companies that lease properties from IBC in Israel. The change in occupancy and the drop in rentals as aforesaid will not substantially affect rental revenues. If the economic crisis around the world continues, this might substantially affect the operations, results and financial situation of the Company, as a result of a possible reduction in the Company's revenues from rentals (due both to a reduction in occupancy rates and due to a reduction in the rentals collected by it).
- B. During the Report Period, there was an increase in capitalization rates compared with some of the Company's investment real estate assets in Israel and overseas which brought about a reduction in the fair value thereof, which was partly set off by linkage of the lease agreements to various indices. An increase of the rate of capitalization for appraisal of the value of the Company's assets was set in accordance with the capitalization rates employed in the territory where the assets are situated, and taking into account the unique characteristics of each asset or group of assets. The continued worsening of the crisis might give rise to a further increase in capitalization rates which might very substantially impact the Company's profits.
- C. The Company has a portfolio of negotiable securities, the value of which as at the date of the financial statements amounted to approximately NIS 42 million, and just prior to publication of the financial statements, to approximately NIS 76 million (including the sum of approximately NIS 23 million sold after the balance sheet date). If the financial crisis continues, this might substantially affect the value of the Company's portfolio of negotiable securities.

The Company is prepared for and is acting to deal with these impacts. Inter alia, the Company intends to take operational rationalization steps. The Company is also now reevaluating its investment in each of the projects that are in planning and construction stages, which the Company has no obligations to complete, and accordingly, is reevaluating investments in the various projects taking into account the Company's cash flow and the markets that are substantially harmed as a result of the crisis.

7. Other events

- A. On February 9, 2009, S&P Maalot gave notice of reduction of the rating of the Company's bonds in circulation and traded on the stock exchange from A+/Stable to iIA-/Negative.
- B. On February 9, 2009, S&P Maalot gave notice of reduction of the rating of the IBC's bonds in circulation and traded on the stock exchange from AA-/Stable to iIA/Negative.
- C. On February 2, 2009, IBC cancelled the purchase of a commercial center in western Germany, with the consent of the Parties. IBC paid the vendor of the property the sum of EUR 650,000, most of which was a refund of the expenses of the vendor of the property, and agency fees.
- D. On February 12, 2009, a foreign subsidiary owned by IBC (95%) decided to act to cancel a project with the government of Macedonia, which was designated for the construction of approximately 1,400 residential units on land purchased in consideration for EUR 3.7 million. Due to the inconsistency between the representations of the Macedonian government as to the measurements of the land and its description in the agreement, and the method in which the land is registered on the land registry, the local court cancelled registration of the land in the name of the foreign subsidiary which made implementation of the agreement impossible. Following this ruling, negotiations are being held between the subsidiary and the government of Macedonia to rescind the agreement and refund the consideration paid by IBC for the land, and the bank guarantee provided by it upon execution of the agreement.

IBC estimates, in accordance with an opinion that it received from its legal advisors, that IBC has a solid legal right to rescind the agreement and to receive a refund of the sum that it paid, together with interest. As at the date of execution of these financial statements, IBC is in negotiations with the government of Macedonia for restitution of the sum plus interest, without instituting legal proceedings. Likewise, IBC is examining the possibility available to it of restitution of the additional costs incurred by it with respect to the project, due to breach of the agreement by the government of Macedonia.

8. Events after the balance-sheet date

- A. On April 27, Midroog gave notice of reduction of the rating of series of the Company's bonds traded on the stock exchange from A1 stable to A2 negative.
- B. On April 27, 2009 Midroog gave notice of reduction of the rating of series of IBC's bonds traded on the stock exchange from Aa3 stable to A2 stable.

During the month of October 2007, a wholly owned foreign subsidiary of IBC (the "Subsidiary") signed an agreement for the purchase of 50% of the rights in a building in Manhattan, New York (the "Building"). During the month of May 2009, due to a partial collapse of the Building, the Subsidiary destroyed one of the two structures in accordance with the instructions of the local authorities. Following various factual and safety-related investigations, the Subsidiary decided to destroy the other structure as well. The Subsidiary is aware that the owner of the building adjacent to the Building that collapsed had performed excavation works around the date of the collapse. In the assessment of IBC, and as a result of investigations performed on the site, that might have affected the events. The Subsidiary has insurance coverage for the Building and as at the date of the Prospectus, the Subsidiary is examining the scope thereof with respect to the collapse and the works that stemmed and that will stem from such collapse.

9. Disclosure regarding process of approval of financial statements

The board of directors of the Company has appointed a balance sheet committee, the members of which are: Gabi Trebelsi (external director), chairman, Meir Jacobson (external director), Anat Menipaz and Ronit Even which is the body responsible for overseeing the Company and which is to discuss, inter alia, the financial statements of the Company, including audit related matters that relate to oversight, and which is to make recommendations to the board of directors of the Company.

The balance sheet committee convenes to discuss the financial statements after drafts of the financial statements and a draft of the report of the board of directors are given to the members of the committee a few days earlier. At the committee meeting, the CEO and CFO of the Company review the main points of the financial statements and the substantial issues in the financial report, including the state of the Company's business, transactions and events that were not in the ordinary course of the Company's business, substantial assessments and critical estimates used in the financial statements, the possible impact on the financial statements of significant risks and exposures, the accounting policy employed, changes in the accounting policy and implementation of the principle of due disclosure in the financial statements and in the report of the board of directors. In this discussion, members of the committee raise questions and request clarifications on various issues with respect to the financial statements, and are replied to by management of the Company and a representative of the auditor. The balance sheet committee formulates its recommendations as to approval of the financial statements, which are brought before the board of directors of the Company. A meeting of the balance sheet committee was held on May 25, 2009, with Ronit Even, Gabby Trebelsy and Meir Jacobson present, and with the presence of management of the Company and the auditor.

The draft financial statements and the draft report of the board of directors are provided to members of the board of directors several days prior to the meeting of the board of directors set down for approval of the financial statements. At the meeting of the board of directors to approve the financial statements, the CEO and the CFO of the Company review the main points of the financial statements and all of the matters raised at the meeting of the balance sheet committee as aforesaid. Likewise, the chairman of the balance sheet committee presents the board of directors with the committee's recommendations with respect to the financial statements. In this discussion, members of the board of directors raise questions and request clarifications on various issues with respect to the financial statements, and are replied to by management of the Company and a representative of the auditor.

The meeting of the board of directors to approve the financial statements took place on May 27, 2009 and all of the members of the board of directors, apart from Anat Manipaz and Ran Oren, as well as a representative of the auditor participated in it.

Eliezer Fishman
Chairman of the Board of Directors

Oded Shamir
CEO

May 27, 2009