

Jerusalem Economic Corporation Ltd.

Chapter B – Management Discussion

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 2006 (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.

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Jerusalem Economic Corporation Ltd. ("the Company")
Management Discussion for the Three Months Ended March 31, 2007

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

1. The Company and its Business Environment

a. The Company's areas of activity

The Company's activities, independently and through subsidiaries including Industrial Building Corporation Ltd. ("Industrial Buildings"), which is held at a rate of 64.02% as at the date of this report, are in the various areas of real estate, including the acquisition and development of land and the lease and sale of income producing real estate for commercial, industrial and residential purposes.

The Company operates in these areas of activity in numerous countries around the world including Israel, the U.S., Canada, Germany, France, the Netherlands, Poland, Switzerland, Portugal, the Ukraine, Lithuania and Macedonia through foreign subsidiaries and trustees as well as in Russia through Mirland, which is directly and indirectly held by the Company at a rate of 44.4%.

b. Highlights for the Reported Period

1) Profitability

The Company's operating income in the reported period amounted to approximately NIS 222 million as opposed to approximately NIS 139 million in the corresponding period of last year, an increase of about 60%. The increase is mainly a result of the expansion of foreign activities and revenues from sale of apartments.

The Company's net income in the reported period amounted to approximately NIS 22.7 million, as compared with a net loss of approximately NIS 60.6 million in the corresponding period of last year.

In accordance with International Financial Reporting Standards ("IFRS"), in the reported period, financial expenses comprise expenses totaling approximately NIS 118 million resulting from the revaluation of the equity component of the debentures and options in view of the continuing increase in the share's price.

The total liability recorded in the balance sheet in respect of this item as of balance sheet date amounts to approximately NIS 287 million. Based on the share price on the date the financial statements were published, there is much higher probability of the conversion of the debentures and the exercise of the options into shares.

If and when the debentures are converted and the options are exercised into shares, the liability will be reversed and the total of NIS 287 million will be transferred to the Company's shareholders' equity.

2) Condensed data of operations in NIS in millions:

	Three months ended March 31,	
	2007	2006
Rental income	278,207	205,051
Revenues from sale of apartments and commercial spaces	205,157	4,353
Total other revenues	45,641	27,587
Total costs	<u>254,926</u>	<u>72,568</u>
Gross profit	274,079	164,423
Increase (decrease) in fair value of investment property	(2,597)	211
Selling, general and administrative expenses	<u>49,878</u>	<u>25,321</u>
Operating income	221,604	139,313
Other income	74,905	1,691
Financial expenses, net	<u>229,060</u>	<u>184,638</u>
Income (loss) before taxes	67,449	(43,634)
Taxes on income	44,294	20,489
Income (loss) from affiliates	<u>(488)</u>	<u>3,554</u>
Income (loss) after taxes	<u>22,667</u>	<u>(60,569)</u>
Income (loss) attributable to minority	6,607	(67,645)
Income attributable to the shareholders	<u>16,060</u>	<u>7,076</u>
Net income (loss)	<u>22,667</u>	<u>(60,569)</u>

3) **Selected data of the Company's balance sheet in NIS in millions:**

	March 31,	
	2007	2006
Total balance sheet	20,018,633	14,025,463
Shareholders' equity and minority interests	4,311,940	2,281,708
Investment property	14,842,654	10,596,171
Current assets	3,089,389	1,285,197
Current liabilities	3,727,670	3,003,416
Long-term liabilities	11,979,023	8,740,339
Deferred tax liability	1,450,343	882,985

4) **Principal holdings:**

a) **Industrial Buildings:**

As of the date of the publication of this report, the Company holds 64.02% of the shares of Industrial Buildings Ltd. ("Industrial Buildings"): the market value of the investment as of March 31, 2007 is approximately NIS 2,302 million; the market value near the date of the publication of this report is approximately NIS 2,462 million; the outstanding investment balance in the Company's books as of March 31, 2007 is approximately NIS 1,732 million and the excess of value as of the date of the publication of this report is NIS 730 million.

b) **Mirland Development Corporation Plc. ("Mirland"):**

Mirland had its IPO on the AIM in London in the last quarter of 2006. On January 3, 2007, the underwriters accompanying the offering exercised options to purchase Mirland shares. The Company's holding rate in Mirland as of March 31, 2007 is as follows: the Company's direct holdings – 27.04% and Industrial Buildings (64.02% held by the Company) – 27.04%. The Company's direct holdings with the addition of Industrial Buildings' relative share (directly and indirectly) is 44.35%. The direct and indirect market value of the investment near the date of the approval of the financial statements is NIS 2,244 million. The total investment in Mirland in the Company's books as of March 31, 2007 approximates NIS 736 million and the excess of value as of the date of the publication of this report is NIS 1,508 million (including the Company's share in Industrial Buildings, as reflected in a. above).

5) Properties

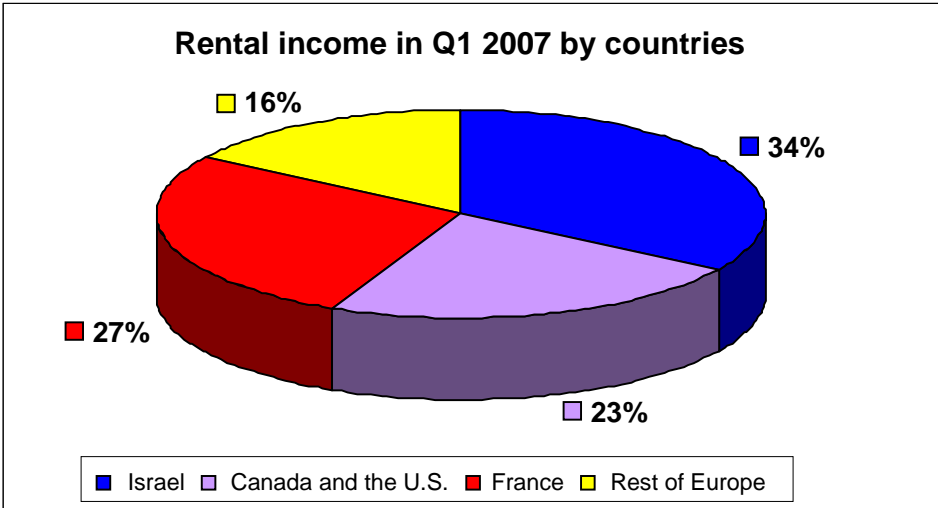
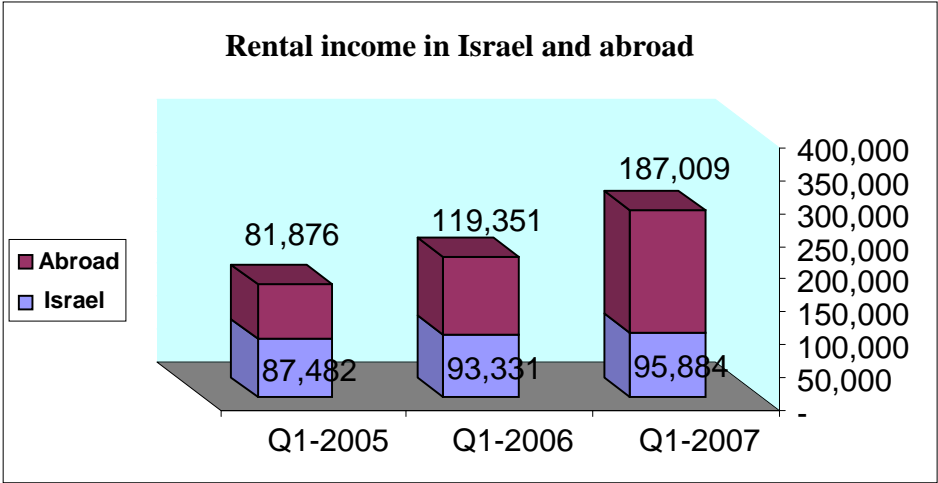
As of the date of signing the financial statements, the Company, along with others, holds about 3.2 million sq. m. of rental area, of which 1.5 million sq. m. abroad.

The Company's properties are leased to some 7,000 tenants. The average occupancy rate of the Company's properties as of balance sheet date is about 89%.

Concentration of data on areas and rental income:

	The Company consolidated with the addition of the Company's relative share in affiliates		
	Occupancy rate 31.03.07	Area in sq. m. 31.03.07	Rental Income in the reported period NIS in thousands (1)
Israel:			
The Company in Israel	82%	319,406	20,282
Industrial Buildings	89%	1,344,777	71,716
JEC Construction & Supervision	82%	24,639	1,457
SIC - 50% (affiliate) (2)	78%	13,190	2,429
Total Israel	88%	1,702,012	95,884
Overseas:			
Europe: the Company (excluding Industrial Buildings)	94%	854,298	94,545
Canada: the Company (excluding Industrial Buildings)	93%	193,458	43,159
Europe: through Industrial Buildings	94%	193,332	26,911
Canada and U.S. - through Industrial Buildings	74%	246,073	22,394
Total overseas	91%	1,487,161	187,009
Total	89%	3,189,173	282,893
(1) Including rental income included in earnings of affiliates			<u>2,257</u>
(2) SIC - 50% (affiliate)			<u>2,429</u>
Total rental income in the financial statements			<u><u>278,207</u></u>

Chart – revenues from rental fees in Israel and abroad in the first quarter of each of the years 2005-2007 in NIS in thousands:



6) Miscellaneous

- a) The Company is looking into the possibility of offering its assets in France through foreign subsidiaries on the French Stock Exchange using a REIT.
- b) During the first quarter of 2007, the Company raised a net total of approximately NIS 669 million from the public and from institutional investors (consolidated) using debentures, convertible debentures and realizing convertible options into debentures. The Company (excluding Industrial Buildings) raised approximately NIS 504 million, net.
- c) On December 31, 2006, Ma'alot the Israel Securities Rating Company Ltd. determined an initial A/STABLE rating for the issuance of non-marketable debentures at a scope of up to NIS 1 billion. Out of the proceeds from the debentures, approximately NIS 400 million are held for making new investments and the balance of NIS 600 million is designed to replace an existing debt.

During the first quarter of 2007, the Company issued debentures (series F) to institutional entities in a total of approximately NIS 482 million par value (included in b. above). The debentures were listed for trade on the Stock Exchange under a shelf prospectus published by the Company in May 2007.

- d) During April 2007, Mondon Investments Ltd. ("Mondon"), in which 36% of the shares are held by the Company and another 36% of the shares are held by Industrial Buildings (which is 64.02% held by the Company), filed a prospectus draft with the Israeli Securities Authority based on its annual financial statements for the period ended December 31, 2006.

Mondon will engage in real estate activities in India. According to the prospectus draft, Mondon will issue debentures (for more details, see chapter 8a below).

c. Foreign real estate

1) Acquisitions during the reported period:

During the first quarter of 2007, the Company, through foreign subsidiaries, completed 6 transactions for the acquisition of income-producing properties and of companies holding income-producing properties in France and Germany with a total area of some 176 thousand sq. m. for a total consideration of approximately NIS 494 million.

The following table presents data of income-producing real estate acquired overseas as of March 31, 2007.

Country	Built area in sq. m. 100% (1)	No. of tenants	Built area in sq. m. – the Company's share (2)	Occupancy rate	Fair value as of 31.12.06 with the addition of investments of Q1 2007
Canada	421,150	2,184	288,955	82%	2,020,476
U.S.	18,381	38	10,587	86%	103,935
France	549,298	181	542,652	97%	3,461,055
The Netherlands	13,000	1	8,320	100%	66,992
Poland	54,820	35	54,820	76%	150,965
Switzerland	195,263	784	183,140	97%	1,218,573
Russia	32,651	51	15,068	69%	284,380
The Ukraine	6,875	3	6,050	100%	9,235
Germany	195,723	962	130,390	93%	926,867
Total foreign investments	<u>1,487,161</u>	<u>4,239</u>	<u>1,239,982</u>	91%	<u>8,242,478</u>

Investments in 2007 (included in the above data)

Country	Built area in sq. m. 100% (1)	No. of tenants	Built area in sq. m. – the Company's share (2)	Occupancy rate	Fair value as of 31.12.06 with the addition of investments of Q1 2007
France	120,182	4	120,182	100%	257,071
Germany	55,340	221	27,026	99%	209,000
Total investments in 2007	<u>175,522</u>	<u>225</u>	<u>147,208</u>		<u>466,071</u>

- (1) Including wholly owned subsidiaries (100%), with the addition of the Company's relative share in affiliates.
- (2) Including the Company's relative share in subsidiaries and affiliates.

2) Acquisitions and negotiations through foreign subsidiaries subsequent to balance sheet date:

Acquisitions:

Country	City	Designation	Area in sq. m.	Cost of m. in NIS	Rental fees of m. in NIS
Germany (2)	Dresden & Langenstrigi	Commercial buildings used by print houses	3,457	12	1.2
Germany (2)	Zeiz & Zeulenroda	Commercial buildings used by a chain	11,736	30	3.0

In negotiations:

Country	City	Designation	Area in sq. m.	Cost of m. in NIS	Rental fees of m. in NIS
France (1)	Across France	Industry	89,889	143	11.9
Switzerland (2)	Across Switzerland	Commerce and logistics	43,000	260	19
Germany (2)	Berlin	Commercial center and logistic center	4,000	28	3.3
Germany (2)	Across Germany	4 commercial centers and logistic center	27,000	48	5.5
Germany (2)	Dusseldorf	5,000 sq. m. of land for building 15,000 sq. m. of residence, commerce or services		27.5	
Macedonia (2)		636 thousand sq. m. of land for building 1,400 housing units over 200,000 sq. m.		20.4	

(1) The buildings cover an area of some 352 thousand sq. m.

(2) Through Industrial Buildings.

3) Principal Sales:

The Manhattan residential and commercial project: as of balance sheet date, sales contracts have been signed for 187 of the 191 apartments (98%) in the Manhattan project for luxury apartments by a foreign affiliate of Industrial Buildings held at 50%. In the reported period, 57 apartments were delivered (in addition to the 18 apartments delivered in the last quarter of 2006) in consideration of approximately U.S. \$ 96 million (Industrial Buildings' share is U.S. \$ 48 million). As of balance sheet date, 75 apartments have been delivered in consideration of approximately U.S. \$ 134 million (Industrial Buildings' share is U.S. \$ 67 million).

4) Refinancing:

Negotiations for refinancing of properties in France:

Subsidiaries of the Company which hold 20 structures across France with an overall area of some 226.3 thousand sq. m. have signed a memorandum of understandings with an international financial institution for obtaining refinancing based on the fair value of the properties. Under the refinancing, the subsidiaries will receive loans equivalent to 85% of the fair value of the properties but not exceeding €137 million.

The refinancing will allow the subsidiaries to repay existing loans of approximately €75 million. The Company estimates that after the repayment of the existing loans, the subsidiaries will have excess cash (net of expenses, including repayment expenses) of approximately €45 million. The excess cash will serve, among other things, to repay the outstanding shareholders loans that the Company extended to the subsidiaries.

Subsidiaries of Industrial Buildings have signed a memorandum of understandings with an international financial institution for obtaining financing for two properties in France. Under the financing agreement, the subsidiaries will receive loans totaling some 85% of the fair value of the properties but not in excess of €23.5 million. The financing will derive excess of cash of approximately €23.5 million for the subsidiaries.

The refinancing is contingent on the existence of several prerequisites to the credit provider's satisfaction.

d. Investees:

1) Principal subsidiaries:

a) Industrial Buildings

As of the date of the publication of this report, the Company holds 64.02% of the shares of Industrial Buildings.

Industrial Buildings is primarily engaged in developing, setting up and acquiring buildings designated for rent and sale for the industry, workshops, trade, residence, high-tech and offices. Industrial buildings owns buildings in Israel and overseas in an overall area of some 1,785 thousand sq. m., not including roofed parking lots in an area of 136 thousand sq. m. with an average occupancy rate of 88.3%.

Furthermore, Industrial Buildings supplies management and maintenance services for buildings, whether owned by it or not, in an area of some 920 thousand sq. m. in Israel and overseas which serve tenants of different fields such as high-tech, offices and commerce as well as residence, through a subsidiary and a third party.

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

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

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

b) Mirland

Mirland, which was directly held by the Company and by Industrial Buildings each at a rate of 40% and by Durban Investments Ltd. ("Durban") at a rate of 20% (together: "the parties"), and coordinates the parties' investments in real estate properties in Russia, was offered on the AIM in London ("the offering").

On December 13, 2006, 30% of Mirland's shares were offered on the AIM in London and on January 4, 2007, Mirland issued an additional 3.5% of its shares under an option granted to underwriters. In this context, Mirland raised a net total of approximately U.S. \$ 293 million (approximately NIS 1,154 million). As a result of the above, the Company's direct stake in Mirland declined from 40% to 27.04% and its indirect and direct stake declined from 66% to 44.4%. The Company recorded a capital gain totaling approximately NIS 534 million, of which NIS 492 million in respect of the offering to the public was recorded in the financial statements as of December 31, 2006 and the balance of approximately NIS 42 million in respect of the exercise of the underwriters' option was recorded in the financial statements for the first quarter of 2007.

2. The Financial Position

Current assets and liabilities

As of March 31, 2007, current assets in the balance sheet amounted to approximately NIS 3,089 million, as compared with current liabilities of approximately NIS 3,728 million, representing a current ratio of 83%.

As of December 31, 2006, current assets in the balance sheet amounted to approximately NIS 3,007 million, as compared with current liabilities of approximately NIS 3,841 million, representing a current ratio of 78%.

The improved ratio is a result of an increase in inventories of buildings and apartments for sale, mainly due to the classification of land for construction in Russia to inventories of buildings for sale and due to a decrease in short-term credit.

The Company is acting to obtain long-term non-recourse foreign bank credit to finance 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 such conversion from time to time, in accordance with capital market conditions.

Inventories of land held for residential construction

As of March 31, 2007, inventories of land for residential construction amount to approximately NIS 262 million compared to approximately NIS 447 million as of December 31, 2006. The change results from properties in Russia whose development has begun and are classified as of the first quarter of 2007 under inventories of buildings and apartments for sale.

Real estate

As of March 31, 2007, total investment real estate amounts to approximately NIS 14,842 million compared to approximately NIS 14,188 million as of December 31, 2006. The increase in real estate is mainly a result of investments in France, Russia and Germany.

Other non-current assets

As of balance sheet date, this item totals approximately NIS 1,824 million compared to approximately NIS 1,734 million as of December 31, 2006. The main increase derives from goodwill created in investees.

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

The long-term loans and liabilities in the balance sheet amounted to approximately NIS 10,506 million as of March 31, 2007, as compared with approximately NIS 10,095 million as at December 31, 2006.

The increase is derived primarily from loans from banks in Israel and abroad and from recruiting debentures from the public for purposes of financing the Company's investments in real estate overseas.

Total non-recourse loans in the consolidated balance sheet, from banks overseas, amounted to approximately NIS 3,998 million.

Shareholders' equity

Shareholders' equity amounted to approximately NIS 4,312 million as at March 31, 2007, as compared with approximately NIS 4,055 million at December 31, 2006. As of March 31, 2007, equity attributable to shareholders in the Company amounted to approximately NIS 2,535 million as compared to approximately NIS 2,452 million at December 31, 2006.

The increase in equity attributable to the shareholders in the reported period is mainly derived from the conversion of stock options into shares totaling approximately NIS 58 million and from the conversion of debentures into shares totaling approximately NIS 37 million.

3. The Results of Operations

The Company's net income in the first quarter of 2007 amounted to approximately NIS 22.6 million compared to a net loss of approximately NIS 60.6 million in the corresponding period of last year.

The analysis of the results of operations for the reported period is as follows:

Rental income

The Company's total rental income in the reported period amounted to approximately NIS 278 million, as compared with approximately NIS 205 million in the corresponding period of last year. The increase in rental income is mainly due to revenues from buildings purchased abroad during the reported period.

The Company's total revenues from rental fees in Israel in the reported period amounted to approximately NIS 93 million, as compared with approximately NIS 91 million in the corresponding period of last year.

Consolidated revenues from rental fees overseas amounted to approximately NIS 185 million, as compared with approximately NIS 114 million in the corresponding period of last year.

Income from sale of apartments and commercial spaces

The Company's revenues from this item in the reported period amounted to approximately NIS 205 million, as compared with approximately NIS 4 million in the corresponding period of last year. The increase derives from the sale of apartments in the Manhattan project totaling approximately NIS 202 million recorded in the reported period following the delivery of 57 apartments.

Revenues from management fees

Revenues from management fees amounted to approximately NIS 44 million in the reported period compared to approximately NIS 47 million in the corresponding period of last year. The decrease in this item stems from the sale of a commercial center in Canada, City Place, and the discontinuance of managing two buildings in the Government Campus in Haifa (through Industrial Buildings). This decrease was offset in part by the increase in revenues from management fees from new properties acquired during 2006.

Maintenance expenses

Maintenance expenses are financed mainly by tenants. Maintenance costs, insurance and municipal taxes in respect of unoccupied assets are paid by the Company. The rise in maintenance expenses originates primarily from maintenance and management expenses of properties acquired overseas.

Changes in the fair value of investment properties

The amounts recorded in this item in the reported period and in the corresponding period of last year stem from adjustments to the fair value previously presented.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to approximately NIS 50 million during the reported period, as compared with approximately NIS 25 million in the corresponding period of last year. The change is mainly a result of general and administrative expenses incurred in Europe and North America due to the expansion of foreign management, supervision and control activities as well as due to the increase in selling expenses from the delivery of apartments in New York.

Operating income

The Company's operating income totaled approximately NIS 222 million compared to approximately NIS 139 million in the corresponding period of last year, an increase of about 60% - NIS 83 million. The growth in operating income is a result of the expansion of foreign activities and the delivery of 57 apartments in the Manhattan residential project in New York.

Financial expenses

Net financial expenses amounted to approximately NIS 229 million during the reported period, as compared with expenses of approximately NIS 188 million in the corresponding period of last year.

The increase in financial expenses is a result of the following:

- a. In accordance with International Financial Reporting Standards ("IFRS"), in the reported period, financial expenses comprise expenses totaling approximately NIS 118 million resulting from the revaluation of the equity component of the debentures and options in view of the continuing increase in the share's price as opposed to approximately NIS 62 million in the corresponding period of last year.
- b. In the context of hedging transactions, on July 28, 2005 and September 8, 2005, the Company entered into forward transactions whereby it shall pay NIS 50 million and NIS 100 million on July 29, 2010 and September 8, 2010, respectively with the addition of linkage differences at rates of about 12.04% and 12.21%, respectively and in return will receive NIS 50 million and NIS 100 million, respectively with the addition of actually accrued linkage differences up to those dates. The total loss in the reported year amounted to approximately NIS 253 thousand as compared with a gain of approximately NIS 2.5 million in the corresponding period of last year.
- c. Long-term credit - during the reported period, financial expenses in respect of long-term loans decreased by approximately NIS 7 million compared to the corresponding period of last year, resulting principally from the erosion of index-linked loans and loans in foreign currency partly offset by an increase in credit during the reported period.

- d. Gain from marketable securities and bank deposits - in the reported period, financial income resulting from a gain from marketable securities and interest on bank deposits totaling approximately NIS 46 million was recorded in financial expenses compared to a gain and interest of approximately NIS 18 million in the corresponding period of last year.
- e. Short-term credit - financial expenses in respect of short-term credit in Israel increased by approximately NIS 20 million in the reported period as a result of an increase in credit balances designed to finance the Company's foreign investments until alternative foreign financing is obtained and as a result of the increase in the Libor rate in the reported period.

Other income

During the reported period, this item amounted to net income of approximately NIS 75 million, as compared with approximately NIS 2 million in the corresponding period of last year. In the reported period, this item includes mostly gains from the decrease in the holding rate from the Mirland offering totaling NIS 42 million and gains from the decrease in the holding rate in Industrial Buildings due to conversions of debentures totaling approximately NIS 32 million.

Taxes on income

In the reported period, expenses of approximately NIS 44 million were recorded compared to expenses of approximately NIS 20 million in the corresponding period of last year. The increase is mainly a result of tax expenses in respect of the profits from the Manhattan project in New York.

4. Cash Flows

The balance of cash as of the beginning of the year amounts to approximately NIS 1,732 million with the addition of net cash from operating activities totaling approximately NIS 234 million, with the addition of net credit raised of approximately NIS 324 million, with the addition of the proceeds from the sale of real estate and fixed assets of approximately NIS 14 million, with the addition of the proceeds from the exercise of stock options into shares of approximately NIS 22 million and with the addition of capital issuance to minority in a subsidiary totaling approximately NIS 130 million.

Served the Company primarily for:

Investments in real estate, fixed assets and other assets including advance on account of investment, in the amount of approximately NIS 456 million, investment in long-term deposits in the amount of approximately NIS 25 million, the acquisition of short-term investments of approximately NIS 106 million, net, the acquisition of shares of subsidiaries from the minority shareholders totaling approximately NIS 66 million and the acquisition of initially consolidated subsidiaries and jointly controlled entities of approximately NIS 210 million, net, including an investment in real estate of approximately NIS 353 million.

The outstanding cash and cash equivalents at the end of the period, after deducting translation differences of approximately NIS 10 million, amount to approximately NIS 1,575 million.

5. Changes in Share Capital and Convertible Securities

	<u>Convertible debentures "C"</u>	<u>Options 6</u>	<u>Share capital</u>
Issued to outside entities as at December 31, 2006	47,470,307	4,901,345	*) 47,917,897
Changes in capital held by outside entities during reported period			
Repayment	-	-	-
Purchased by the public	-	-	-
Conversion	(19,420,475)	(830,426)	1,607,245
Expiration	-	-	-
Issuance	-	-	-
Issued to outside entities as at March 31, 2007	<u>***) 28,049,832</u>	<u>***) 4,070,919</u>	<u>49,525,142</u>
Conversion ratio	1:25	1:1	-
Share capital on a fully diluted basis	1,121,993	4,070,919	54,718,054
Share capital held by subsidiary			<u>2,554,348</u>
Total share capital on a fully diluted basis			<u><u>57,272,402</u></u>

*) Not including interest in subsidiary.

**) Convertible debentures (series C) – during the period from the balance sheet date until the date of the publication of this report, the public has converted an additional NIS 1,506 thousand par value into 60 thousand shares.

***) Options (series 6) – during the period from the balance sheet date until the date of the publication of this report, the public has converted NIS 515 thousand par value into 515 thousand shares in consideration of approximately NIS 14.3 million.

6. Exposure to Market Risks and their Management

The person in charge of managing market risks is the Chairman of the Board of Directors, Mr. Eliezer Fishman. As a rule, the Company finances its foreign investments by obtaining foreign bank loans in currencies identical to the investment currencies as well as self capital from its independent resources in Israel, through recruiting credit in the investment currencies. The available cash flows obtained from income-generating real estate abroad serves the credit in foreign currency in Israel.

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

7. Additional Events

- a. On March 27, 2007, the board of directors of Industrial Buildings decided to place the investment budget (self financing) of Industrial Buildings abroad at U.S. \$ 700 million, net of the current monetary balance received from overseas as return of investment. This amount does not include non-recourse loans to finance the acquisition of assets.

On March 30, 2007, the board of directors of the Company decided to place the investment budget (self financing) of the Company abroad at U.S. \$ 500 million, net of the current monetary balance received from overseas as return of investment (in addition to the investment budget in Industrial Buildings). This amount does not include non-recourse loans to finance the acquisition of assets.

- b. Investments and realizations in Israel
 - 1) Industrial Buildings acquired 100% of the shares of Oniv Holdings Ltd., which holds 50% of the Power Center in Be'erot Yitzhak.
 - 2) Industrial Buildings acquired, through a limited partnership held at a rate of 90%, rights to land covering some 220 thousand sq. m. on which about 740 housing units and commercial spaces can be erected near Moshav Zur Natan, north of Kochav Yair.

- 3) Industrial Buildings sold, through a subsidiary, 50% of its rights to land in the southern outskirts of Haifa to a company controlled by the Haifa Economic Corporation on which the parties intend to jointly set up a life science park. The designated area's lease potential will be about 60 thousand sq. m. to be built in stages.
- c. On December 12, 2006, the audit committee and Board of Directors of the Company and on January 31, 2007, the general meeting approved the Company's engagement in a joint venture with Industrial Buildings, Durban and a private company owned by Mr. Eliezer Fishman, in the context of which the parties will establish a joint company to engage in the real estate sector in India for purposes of commerce, storage, logistics, offices and residence. The Company holds 36% of the shares of Mondon, a company incorporated in Cyprus whose remaining shares are held as follows: Industrial Buildings - 36%, Durban - 18% and the private company owned by Mr. Eliezer Fishman and his family - 10%.
- d. On February 7, 2007, a subsidiary of Industrial Buildings entered into an agreement with Haifa Life Sciences Park Company Ltd. (in this paragraph: "the partner") in connection with an area of 32 thousand sq. m. of the partner's overall park area. According to the agreement, 50% of the rights to said plot were sold to the partner in consideration of NIS 22.3 million in order to establish a life science park. The joint venture will include buildings for lease in an overall area of some 60 thousand sq. m. Stage A of the project will consist of building in an area of about 15 thousand sq. m. The Company estimates that the construction work of stage A will commence in the second quarter of 2008 and will last some two years. The budget for the first stage of the project is estimated at approximately NIS 63 million.
- e. On February 25, 2007, Industrial Buildings established a limited partnership ("the Partnership") in which about 90% of the rights are held by Industrial Buildings as a limited partner and 10% are held a company owned by Mr. Ami Even, the spouse of Ms. Ronit Even who acts as director in both the Company and Industrial Buildings ("the partner") as a limited partner. The general partner in the Partnership is a company in which 90% of the shares are held by Industrial Buildings and 10% are held by the partner. On February 25, 2007, the Partnership entered into an agreement with Moshav Zur Natan ("the Moshav") whereby the Partnership will acquire from the Moshav its rights to a land of some 220 thousand sq. m. located west of the Moshav and north of Kochav Yair held for the construction of some 740 residential units (of which 120 semi-detached housing units) as well as commercial spaces ("the project"). Industrial Buildings has undertaken to commence construction within 18 months from closing. The project is estimated at NIS 550 million.

In consideration for the project's initiation and in return for Mr. Even's efforts as the effective factor in bringing about the engagement with the Moshav, and subject to the approval of the general meeting, the Partnership shall pay the company owned by Mr. Ami Even ("the entrepreneur") 10% of the Partnership's profits from the project before tax based on the cash flows reflected in the Partnership's financial statements according to generally accepted accounting principles ("the initiation commission").

The initiation commission will be paid to the entrepreneur upon the distribution of the Partnership's earnings to the partners, but only after the repayment of the loans extended by the partners to the Partnership plus interest at a rate not exceeding the bank's interest rate according to the loan agreement.

- f. During the reported period, the Company raised approximately NIS 482 million par value of debentures (series F) through a private placement to institutional investors.

During the reported period, Industrial Buildings raised approximately NIS 161 million par value of debentures (series I and J) through a private placement to institutional investors.

- g. On March 27, 2007, the board of directors of Industrial Buildings discussed the adjustment of the dividend distribution policy to IFRS and resolved that as of the dividend distribution for 2006, Industrial Buildings will distribute a dividend, subject to the provisions of the law and cash flow needs, at a rate of 40% of the net income net of the changes in the fair value of investment property and deferred taxes in its respect. The board also determined that this policy and its compliance with IFRS will be re-examined following the publication of Industrial Buildings' results for 2007.

8. Events Subsequent to Balance Sheet Date

- a. During April 2007, Mondon Investments Ltd. ("Mondon"), in which 36% of the shares are held by the Company and another 36% are held by Industrial Buildings (which is 64.02% held by the Company), filed a prospectus draft with the Israeli Securities Authority based on its annual financial statements for the period ended December 31, 2006.

Mondon will engage in real estate activities in India. According to the prospectus draft, Mondon will issue debentures; yet the terms of the issuance, including its scope and date, have not yet been determined and there is no certainty that the above described move will indeed be completed.

- b. On May 15, 2007, the Company published a prospectus for the listing of several series of debentures and a shelf prospectus as follows:
 - 1) Approximately NIS 482 million par value of debentures (series F) are redeemable in three equal installments on December 31 of each of the years 2015 through 2017 (inclusive), bear annual interest of 5.35% to be paid annually on December 31 of each of the years 2007 through 2017.
 - 2) A shelf prospectus of:
 - (a) Up to NIS 518 million par value of debentures (series F).
 - (b) Up to 12 additional series of debentures (series G-I). Each series of debentures will have a par value of up to NIS 600 million and the terms of the debentures will be determined in the shelf prospectus reports.
- c. On May 15, 2007, Industrial Buildings published a prospectus for the listing of several series of debentures and a shelf prospectus as follows:
 - 1) NIS 512 million par value of debentures (series I) are linked (principal and interest) to the Israeli CPI, redeemable in three equal installments in each of the years 2015 through 2017 and bear annual interest of 5.05% to be paid annually on December 31 of each of the years 2007 through 2017.

- 2) NIS 130 million par value of debentures (series J) are redeemable in three equal installments in each of the years 2011 through 2013 and bear annual interest of 6.5% to be paid annually on December 31 of each of the years 2007 through 2013.
- 3) A shelf prospectus of:
 - (a) Up to NIS 179 million par value of debentures (series I).
 - (b) Up to NIS 179 million par value of debentures (series J).
 - (c) Up to 12 additional series of debentures (series K-V). Each series of the debentures will have a par value of up to NIS 600 million and the terms of the debentures will be determined in the shelf prospectus reports.
- d. On May 21, 2007, the board of Industrial Buildings approved another dividend in respect of 2006 in a total of NIS 46,382 thousand based on the dividend distribution policy established on March 27, 2007.
- e. On May 31, 2007, the Company's board of directors decided to declare a dividend for 2006 in a total of NIS 250 million.

9. Donations to the Community

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

During the reported period, the Company donated, by itself and through Industrial Buildings, some NIS 0.9 million to social and health activities.

Furthermore, the Company, by itself and through Industrial Buildings, allocated buildings, without consideration, for charitable and welfare purposes, at a total area of 26,000 sq. m., with a value of NIS 3.9 million as annual rent.

Eliezer Fishman
Chairman of the Board of Directors

Oded Shamir
General Manager

Date:
May 31, 2007

JERUSALEM ECONOMIC CORPORATION LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2007

NIS IN THOUSANDS

UNAUDITED

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 2006 (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.

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The Board of Directors
Jerusalem Economic Corporation Ltd.

Re: Review of interim condensed consolidated financial statements
for the three months ended March 31, 2007

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Jerusalem Economic Corporation Ltd. ("the Company") and its subsidiaries as of March 31, 2007, and the related interim condensed consolidated statements of operations, changes in equity and cash flows for the three months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 29.3% of total consolidated assets as of March 31, 2007, and whose revenues constitute approximately 64.7% of total consolidated revenues for the three months then ended. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain affiliates, the investment in which, at equity, amounted to NIS 63.4 million as of March 31, 2007, and the Company's equity in their losses amounted to NIS 1,059 thousand for the three months then ended.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the reports of other accountants, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Tel-Aviv, Israel
May 31, 2007

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

JERUSALEM ECONOMIC CORPORATION LTD.

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,574,727	93,219	1,731,510
Short-term investments	468,109	264,307	377,348
Trade receivables	119,863	72,827	157,557
Other accounts receivable	258,613	322,886	257,037
Inventory of buildings and apartments for sale, net	668,077	531,958	483,430
Total current assets	3,089,389	1,285,197	3,006,882
NON-CURRENT ASSETS:			
Long-term deposits and receivables	1,559,169	1,449,865	*) 1,555,824
Assets in respect of employee benefits	3,216	3,950	*) 3,216
Investment in investees	126,679	141,890	126,293
Investment property	14,842,654	10,596,171	*)14,188,174
Inventory of land for residential construction	262,045	431,780	*) 447,427
Fixed assets, net	17,620	9,096	13,277
Other assets	87,100	6,829	598
Deferred taxes	10,609	4,353	24,664
Advance on account of investment	20,152	96,332	9,789
Total non-current assets	16,929,244	12,740,266	16,369,262
Total assets	20,018,633	14,025,463	19,376,144

*) Reclassified.

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

JERUSALEM ECONOMIC CORPORATION LTD.

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	3,154,417	2,580,243	3,251,334
Trade payables	125,636	86,639	140,035
Other accounts payable	447,617	327,748	449,987
Payables in respect of dividend	-	8,786	-
Total current liabilities	3,727,670	3,003,416	3,841,356
NON-CURRENT LIABILITIES:			
Loans from banks and others	6,114,409	3,949,808	5,928,930
Accrued rental income	15,718	18,005	15,966
Deferred taxes	1,450,343	882,985	1,361,987
Liabilities in respect of employee benefits	6,747	7,527	*) 6,704
Liability component in respect of conversion options of convertible debentures and liability component in respect of convertible option (series 6)	286,724	110,831	300,292
Debentures	3,857,089	3,456,216	*) 3,546,974
Debentures convertible into subsidiary's shares	81,947	197,963	*) 196,412
Debentures convertible into Company shares	21,364	68,822	*) 35,639
Other long-term liabilities	144,682	48,182	*) 86,913
Total non-current liabilities	11,979,023	8,740,339	11,479,817
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	355,801	350,884	354,194
Share premium	354,290	110,643	260,697
Treasury shares	(49,616)	(49,616)	(49,616)
Capital reserves	(35,540)	12,086	(21,634)
Capital reserve in respect of available-for-sale financial assets	5,910	2,566	10,729
Retained earnings	1,903,976	1,078,379	1,897,369
	2,534,821	1,504,942	2,451,739
Minority interests	1,777,119	776,766	1,603,232
Total equity	4,311,940	2,281,708	4,054,971
Total liabilities and equity	20,018,633	14,025,463	19,376,144

*) Reclassified.

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

May 31, 2007			
Date of approval of the financial statements	Eliezer Fishman Chairman of the Board of Directors	Oded Shamir CEO	Ohad Shapira CFO

JERUSALEM ECONOMIC CORPORATION LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands (except per share data)		
Revenues:			
Rental income	278,207	205,051	1,030,757
Revenues from sale of apartments and commercial spaces	205,157	4,353	205,085
Revenues from management fees and building maintenance	43,731	47,067	129,569
Revenues from management fees and development of infrastructures	1,910	986	6,449
Total revenues	529,005	257,457	1,371,860
Cost of sales and services:			
Building management and maintenance costs	110,599	85,012	378,049
Cost of apartments and commercial spaces sold	143,452	7,350	152,798
Cost of management and development of infrastructures	875	672	4,405
Total cost of sales and services	254,926	93,034	535,252
Gross profit	274,079	164,423	836,608
Increase (decrease) in fair value of investment property	(2,597)	211	819,756
Selling, general and administrative expenses	49,878	25,321	169,911
Operating income	221,604	139,313	1,486,453
Financial expenses	156,699	141,196	592,967
Revaluation of liability component of conversion option of convertible debentures of the Company and subsidiary and revaluation of liability component of convertible option (series 6)	(117,912)	(61,741)	(301,264)
Financial income	45,551	18,299	113,636
Other income, net	74,905	1,691	491,750
Income (loss) before taxes on income	67,449	(43,634)	1,197,608
Taxes on income	44,294	20,489	262,660
Income (loss) after taxes on income	23,155	(64,123)	934,948
Equity in earnings (losses) of investees, net	(488)	3,554	3,986
Net income (loss)	22,667	(60,569)	938,934
Attributable to:			
Equity holders of the parent	6,607	(67,645)	751,345
Minority interests	16,060	7,076	187,589
	22,667	(60,569)	938,934
Net earnings (loss) per share attributable to ordinary equity holders of the parent (in NIS):			
Basic and diluted net earnings (loss)	0.46	(1.37)	21.16

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						Total	Minority interests	Total equity
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect of available-for-sale financial assets	Other reserves			
	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	-	-	-	-	(4,819)	-	(4,819)	(2,760)	(7,579)
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	(13,906)	(13,906)	(389)	(14,295)
Total net loss recognized directly in equity	-	-	-	-	(4,819)	(13,906)	(18,725)	(3,149)	(21,874)
Net income	-	-	-	6,607	-	-	6,607	16,060	22,667
Total net income (loss)	-	-	-	6,607	(4,819)	(13,906)	(12,118)	12,911	793
Exercise of stock options into shares	830	57,603	-	-	-	-	58,433	-	58,433
Conversion of debentures into shares	777	35,990	-	-	-	-	36,767	-	36,767
Acquisition of shares by minority	-	-	-	-	-	-	-	224,561	224,561
Change in options issued to minority	-	-	-	-	-	-	-	2,449	2,449
Acquisition of minority interests	-	-	-	-	-	-	-	(66,034)	(66,034)
Balance as of March 31, 2007 (unaudited)	355,801	354,290	(49,616)	1,903,976	5,910	(35,540)	2,534,821	1,777,119	4,311,940

*) Foreign currency adjustments from the translation of financial statements of autonomous investees.

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						Total	Minority interests	Total equity
	Issued capital	Share premium	Treasury shares	Retained earnings	Capital reserve in respect of available-for-sale financial assets	Other reserves			
	NIS in thousands								
Balance as of January 1, 2006 (audited)	350,299	93,651	(49,616)	1,146,024	1,270	3,537	1,545,165	785,091	2,330,256
Loss in respect of available-for-sale financial assets, net	-	-	-	-	1,296	-	1,296	770	2,066
Foreign currency translation adjustments of foreign operations *)	-	-	-	-	-	8,549	8,549	1,175	9,724
Total net income recognized directly in equity	-	-	-	-	1,296	8,549	9,845	1,945	11,790
Net income (loss)	-	-	-	(67,645)	-	-	(67,645)	7,076	(60,569)
Total net income (loss)	-	-	-	(67,645)	1,296	8,549	(57,800)	9,021	(48,779)
Conversion of debentures into shares	585	16,992	-	-	-	-	17,577	-	17,577
Withdrawal of loans by minority	-	-	-	-	-	-	-	(193)	(193)
Dividend declared and paid to minority	-	-	-	-	-	-	-	(8,656)	(8,656)
Issuance of options to minority	-	-	-	-	-	-	-	(8,786)	(8,786)
Acquisition of shares by minority	-	-	-	-	-	-	-	289	289
Balance as of March 31, 2006 (unaudited)	350,884	110,643	(49,616)	1,078,379	2,566	12,086	1,504,942	776,766	2,281,708

*) Foreign currency adjustments from the translation of financial statements of autonomous investees.

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

*) Reclassified.

***) Foreign currency adjustments from the translation of financial statements of autonomous investees.

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

JERUSALEM ECONOMIC CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	22,667	(60,569)	938,934
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	211,630	10,173	(883,335)
Net cash provided by (used in) operating activities	234,297	(50,396)	55,599
<u>Cash flows from investing activities:</u>			
Purchase of fixed assets	(3,913)	(285)	(5,557)
Purchase of investment property	(450,885)	(379,633)	2,253,824
Investment in inventories of land	(955)	(234,898)	(163,995)
Repayment (grant) of loans to affiliates	(1,381)	(5,728)	13,867
Acquisition of newly consolidated subsidiaries (b)	(209,885)	(26,533)	(531,011)
Advance on account of investment	(1,054)	(89,781)	(3,238)
Long-term debts	(6,418)	(25,028)	(23,074)
Repayment of long-term debts	-	-	26,328
Proceeds from sale of fixed assets	-	-	10
Proceeds from sale of investment property	13,901	16,749	579,401
Acquisition of minority shares in subsidiary	(66,034)	(8,126)	(11,595)
Acquisition of minority in subsidiaries	-	(289)	(509)
Repayment of loans to jointly controlled entity	-	100	297
Purchase of short-term investments, net	(105,762)	(72,589)	(175,802)
Investment in long-term deposits	(25,280)	(125,000)	(265,461)
Investment in companies previously consolidated by the proportionate consolidation method (c)	-	(917)	(869)
Investment in company proportionately consolidated for the first time (d)	-	-	(79,251)
Proceeds from sale of investment in company previously consolidated by the proportionate consolidation method (e)	-	-	25,491
Grant of short-term credit	-	(111,000)	-
Net cash used in investing activities	(857,667)	(1,062,958)	(2,868,792)
<u>Cash flows from financing activities:</u>			
Deposits from tenants, net	717	3,419	(2,088)
Change in accrued income	(680)	(680)	(2,719)
Capital issuance to minority in subsidiary	130,471	-	1,086,918
Exercise of stock options into shares	21,515	-	47,038
Dividend paid to minority in subsidiary	-	-	(47,543)
Issuance of debentures, net	481,698	522,726	901,230
Redemption of debentures in subsidiary	(116,660)	(136,967)	(235,385)
Redemption of debentures convertible into Company shares	-	-	(2,636)
Receipt of long-term loans and other liabilities	190,055	385,345	2,085,355
Repayment of long-term loans and other liabilities	(101,023)	(219,308)	(582,743)
Short-term credit from banks and others, net	(129,636)	497,978	1,118,227
Net cash provided by financing activities	476,457	1,052,513	4,365,654
Increase (decrease) in cash and cash equivalents	(146,913)	(60,841)	1,552,461
Translation differences from cash balances of foreign operations	(9,870)	898	25,887
Cash and cash equivalents at the beginning of the period	1,731,510	153,162	153,162
Cash and cash equivalents at the end of the period	1,574,727	93,219	1,731,510

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

JERUSALEM ECONOMIC CORPORATION LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands		
(a) <u>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Gain from sale of investment in jointly controlled entity	-	-	(2,915)
Amortization of negative goodwill	-	(530)	(623)
Depreciation and amortization	468	3,698	11,870
Loss (gain) from short-term investments	2,236	(1,693)	120
Decrease (increase) in fair value of investment property	2,597	(211)	(819,756)
Revaluation of liability component of conversion option of convertible debentures of the Company and subsidiary and revaluation of liability component of convertible option (series 6)	117,912	61,741	301,264
Revaluation of long-term loans and debentures	(31,075)	49,427	(35,474)
Revaluation (erosion) of long-term receivables and bank deposits	2,921	(3,623)	4,913
Equity in losses (earnings) of affiliates, net of dividend received	488	(3,554)	(3,986)
Deferred taxes, net	(2,045)	10,351	120,775
Change in liabilities in respect of employee benefits, net	43	19	(70)
Expenses relating to issuance of options to employees in subsidiary	2,449	-	*) 9,392
Gain from decrease in holding rate in subsidiary	(74,550)	-	(492,136)
	21,444	115,625	(906,626)
Changes in asset and liability items:			
Decrease (increase) in trade receivables	21,499	(5,370)	(66,748)
Decrease (increase) in other accounts receivable and long-term receivables	77,121	(5,543)	(21,316)
Decrease (increase) in inventories of buildings and apartments for sale less customer advances	127,501	(29,413)	(21,530)
Increase (decrease) in trade payables	(33,908)	(12,156)	23,982
Increase (decrease) in other accounts payable	(2,027)	(52,970)	108,903
	190,186	(105,452)	23,291
	211,630	10,173	(883,335)
(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)	10,805	(695)	(45,974)
Investment property	(353,198)	(27,780)	(1,908,488)
Long-term liabilities	197,581	-	1,423,451
Excess of cost created upon acquisition	(65,073)	-	-
Investment in affiliate	-	1,942	-
	(209,885)	(26,533)	(531,011)

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	NIS in thousands		
(c) <u>Investment in companies previously consolidated by the proportionate consolidation method:</u>			
The jointly controlled entities' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	-	(1,359)	(1,311)
Fixed assets, net	-	(235)	(235)
Long-term liabilities	-	677	677
	-	(917)	(869)
(d) <u>Investment in company proportionately consolidated for the first time:</u>			
The jointly controlled entity's assets and liabilities:			
Working capital (excluding cash and cash equivalents)	-	-	(14,982)
Investment property	-	-	(79,568)
Long-term liabilities	-	-	15,299
	-	-	(79,251)
(e) <u>Realization of investment in company previously consolidated by the proportionate consolidation method:</u>			
The jointly controlled entity's assets and liabilities at date of sale:			
Gain from sale of investment	-	-	2,915
Working capital (excluding cash and cash equivalents)	-	-	(1,604)
Investment property	-	-	32,982
Long-term liabilities	-	-	(8,802)
	-	-	25,491
(f) <u>Significant non-cash transactions:</u>			
Dividend declared to minority in subsidiary	-	8,786	-
Sale of fixed assets on credit	3,060	4,531	8,239
Non-cash purchase of investment property	-	-	1,469
Conversion of debentures into shares	36,767	17,577	-
Exercise of stock options into shares	36,918	-	49,652
(g) <u>Additional cash flow information:</u>			
Cash paid during the period for:			
Interest	132,830	130,349	490,798
Taxes on income	25,177	1,085	37,006
Cash received during the period for:			
Interest	21,903	17,129	57,448
Taxes on income	44	-	933

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. The accompanying financial statements have been prepared in a condensed format as of March 31, 2007 and for the three months then ended ("interim consolidated financial statements") and should be read in conjunction with the Company's audited annual financial statements as of December 31, 2006 and their accompanying notes ("annual financial statements").
- b. As of March 31, 2007, the Company in the consolidated ("the Group") has a working capital deficiency of approximately NIS 639 million. The Group's operating cash flows do not cover the current maturities of its long-term liabilities. The Group's management estimates that the credit facilities obtained from certain banks allow it to improve the current ratio through the conversion of short-term loans into long-term loans. The Group considers this type of conversion from time to time based on capital market conditions.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of presentation of the financial statements:

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

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

- b. Initial adoption of new Accounting Standards:

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

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

The initial adoption of IFRIC 8 did not have a material impact on the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. IFRIC 9 - Reassessment of Embedded Derivatives:

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

The initial adoption of IFRIC 9 did not have a material impact on the interim consolidated financial statements.

3. IFRIC 10 - Interim Financial Reporting and Impairment:

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

The initial adoption of IFRIC 10 did not have a material impact on the interim consolidated financial statements.

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

IAS 23 (Revised) - Borrowing Costs:

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	Israeli Consumer Price Index *)		U.S. \$	Euro	Can\$	CHF
	Index	Known				
	for	index	%	%	%	%
	%	%				
<u>Rate of change during the period:</u>						
Three months ended March 31, 2007	(0.25)	(0.45)	(0.59)	(0.54)	(0.1)	(1.7)
Three months ended March 31, 2006	0.6	0.1	0.19	3.9	2.85	0.27
Year ended December 31, 2006	(0.05)	(0.3)	(8.2)	2.2	(8.2)	(0.9)
	Index for the month (points)		Representative exchange rate (NIS)			
<u>As of:</u>						
March 31, 2007	184.43	184.06	4.2001	5.5343	3.6008	3.4071
March 31, 2006	186.12	185.59	4.6891	5.6619	4.0545	3.5922
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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- GEOGRAPHICAL SEGMENTS

	Israel	Canada	U.S.	Europe			Other	Total
				France	Switzerland	Russia		
NIS in thousands								
Three months ended March 31, 2007 (unaudited):								
Segment revenues	108,025	70,747	206,311	82,149	22,482	6,496	32,795	529,005
Segment results	88,960	20,783	56,982	43,936	13,340	(12,440)	24,092	235,653
Unallocated expenses								14,049
Operating income								221,604
Three months ended March 31, 2006 (unaudited):								
Segment revenues	95,042	115,083	3,890	18,914	4,042	6,916	13,570	257,457
Segment results	83,026	37,550	2,199	16,936	3,410	1,877	3,532	148,530
Unallocated expenses								9,217
Operating income								139,313
Year ended December 31, 2006 (audited):								
Segment revenues	500,793	344,024	206,171	214,958	52,651	18,924	34,339	1,371,860
Segment results	427,213	242,542	60,626	466,990	58,138	174,787	116,519	1,546,815
Unallocated expenses								60,362
Operating income								1,486,453

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- BUSINESS COMBINATIONS

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

On February 28, 2007, the Company acquired 100% of the shares of Selath, a private French company holding income producing real estate. The transaction was treated under the acquisition method, in accordance with IFRS 3.

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

	Fair value	Carrying amount
	Unaudited	
	NIS in thousands	
Marketable securities	26,460	26,460
Trade receivables	714	714
Other accounts receivable	7,020	10,202
Real estate	274,584	121,842
	<u>308,778</u>	<u>159,218</u>
Trade payables	4,956	4,956
Other accounts payable	24,774	24,774
Credit from banks	55,349	-
Deferred taxes	116,369	116,369
	<u>201,448</u>	<u>146,099</u>
Net assets	107,330	<u>13,119</u>
Goodwill created upon acquisition	<u>52,035</u>	
Total cost of acquisition	<u><u>159,365</u></u>	

If the business combination had been carried out in the beginning of the period, the consolidated net income would have amounted to NIS 25,153 thousand and the revenue turnover would have amounted to NIS 11,407 thousand.

- b. The acquisition of Oniv Holdings Ltd.:

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- BUSINESS COMBINATIONS (Cont.)

The interim consolidated financial statements do not include the results of Oniv's operations, which are immaterial. The fair value of Oniv's identified assets and liabilities and their carrying amount as of the date of acquisition are as follows:

	Fair value	Carrying amount
	Unaudited	
	NIS in thousands	
Cash and cash equivalents	15	15
Trade receivables	498	498
Other accounts receivable	2,932	2,932
Fixed assets, net	844	844
Real estate	77,770	77,770
	82,059	82,059
Trade payables	83	83
Other accounts payable	3,555	3,555
Credit from banks	40,810	40,810
Deferred taxes	9,644	9,644
	54,092	54,092
Net assets	27,967	27,967
Excess of cost created upon acquisition	13,038	
Total cost of acquisition	41,005	

The overall cost of the business combination amounted to NIS 41,005 thousand and included a cash payment of approximately NIS 40.9 million. The excess of the cost created upon the acquisition was carried to the fuelling activity in a total of approximately NIS 3,108 thousand, to the management activity in a total of approximately NIS 2,039 thousand and to goodwill in a total of approximately NIS 7,891 thousand.

If the business combination had been carried out in the beginning of the period, the consolidated net income would have amounted to NIS 23,699 thousand and the revenue turnover would have amounted to NIS 534,938 thousand.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- REAL ESTATE

a. The Company:

1. In January 2007, the Mirland IPO underwriters exercised an option to purchase about 3.6 million shares of Mirland for the price determined in the IPO (£ 4.78 per share) in consideration of approximately £ 17.2 million (approximately NIS 130 million). As a result of the dilution, the Company's consolidated stake in Mirland is about 54.08% and the Company (consolidated) derived a gain from the decrease in its holdings in an amount of approximately U.S. \$ 5.3 million (approximately NIS 21 million), which was included in the statement of operations under other income, net.
2. In January 2007, Mirland completed the acquisition of 79% of the shares of a Cypriot company that owns land in Moscow, held for the construction of a skyscraper in consideration of approximately U.S. \$ 17.5 million (approximately NIS 70 million). Mirland intends to purchase the remaining 21% of the Cypriot company's shares.
3. On March 30, 2007, the Company's board of directors resolved to increase self financing for the acquisition of foreign properties up to a total of approximately U.S. \$ 500 million.

b. Industrial Buildings:

1. During January through March 2007, Industrial Buildings completed the acquisition of several properties across Germany (commercial, office, residential). The cost of acquisition totaled approximately NIS 209 million.
2. On February 25, 2007, Industrial Buildings established a limited partnership ("the Partnership") in which about 90% of the rights are held by Industrial Buildings as a limited partner. The general partner in the Partnership is a company in which 90% of the shares are held by Industrial Buildings. On February 25, 2007, the Partnership entered into an agreement with Moshav Zur Natan ("the Moshav") whereby the Partnership will acquire from the Moshav its rights to a land west of the Moshav and north of Kochav Yair held for the construction of some 740 residential units as well as commercial spaces. Industrial Buildings has undertaken to commence construction within 18 months from closing.

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

3. During March 2007, a foreign subsidiary of Industrial Buildings signed an agreement for the acquisition of shares in a company that owns an office building, commercial and logistic spaces and a parking facility in Switzerland in consideration of approximately CHF 72 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- DEBENTURES - THE COMPANY

- a. During January through March 2007, approximately NIS 19.4 million par value of debentures (series C) of the Company were converted into approximately NIS 776 thousand par value of Company shares.
- b. During January through March 2007, options (series 6) of the Company were converted into approximately NIS 830 thousand par value of Company shares, yielding receipts of approximately NIS 21.5 million to the Company.
- c. In January 2007, the Company allocated debentures (series F) by private placements to institutional investors. The debentures are linked to the CPI, bear annual interest of about 5.35% and are redeemable in 2015 through 2017. The total par value issued amounted to approximately NIS 482 million in par value in consideration of approximately NIS 482.3 million. As for the listing of the debentures for trade subsequent to balance sheet date, see Note 9a(3).
- d. As for conversions of debentures (series C) subsequent to balance sheet date, see Note 9a(1).
- e. As for conversions of options (series 6) into Company shares, see Note 9a(2).

NOTE 7:- DEBENTURES - INDUSTRIAL BUILDINGS

- a. During the first quarter of 2007, approximately NIS 104 million par value of debentures (series D) of Industrial Buildings were converted into approximately NIS 12 million Ordinary shares of Industrial Buildings. As a result of the dilution in the Company's investment account in Industrial Buildings, the Company derived a gain of approximately NIS 32 million which was included in the statement of operations under other income, net.
- b. During the first quarter of 2007, Industrial Buildings issued to institutional entities approximately NIS 142 million par value of non-marketable debentures (series I) and approximately NIS 20 million par value of non-marketable debentures (series J) in consideration of approximately NIS 165 million (see also Note 9b(2)). The debentures were presented under short-term credit from others.

NOTE 8:- RECONCILIATION OF ISRAELI GAAP TO IFRS

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

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

Accordingly, the Company provides disclosures of the following reconciliations between reporting according to Israeli GAAP and reporting according to IFRS as of March 31, 2007 and for the three months then ended.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

a. Reconciliation to balance sheet:

	March 31, 2006		
	Israeli GAAP	The effect of the transition to IFRS Unaudited	IFRS
NIS in thousands			
CURRENT ASSETS:			
Cash and cash equivalents	93,219	-	93,219
Investments in short-term available-for-sale financial assets	263,523	784	264,307
Trade receivables	133,192	(60,365)	72,827
Other accounts receivable	299,391	23,495	322,886
Inventory of buildings and apartments for sale, net	513,893	18,065	531,958
	<u>1,303,218</u>	<u>(18,021)</u>	<u>1,285,197</u>
NON-CURRENT ASSETS:			
Long-term deposits and receivables	1,494,325	(44,460)	1,449,865
Assets in respect of employee benefits	-	3,950	3,950
Investment in investees	46,041	95,849	141,890
Investment property	8,501,639	2,094,532	10,596,171
Inventory of land for residential construction	416,871	14,909	431,780
Fixed assets, net	8,557	539	9,096
Other assets	8,129	(1,300)	6,829
Deferred taxes	-	4,353	4,353
Advance on account of investment	96,332	-	96,332
Minority debts	13,680	(13,680)	-
	<u>10,585,574</u>	<u>2,154,692</u>	<u>12,740,266</u>
	<u>11,888,792</u>	<u>2,136,671</u>	<u>14,025,463</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

	March 31, 2006		
	Israeli GAAP	The effect of the transition to IFRS	IFRS
		Unaudited	
	NIS in thousands		
CURRENT LIABILITIES:			
Credit from banks and others	2,590,193	(9,950)	2,580,243
Trade payables	82,208	4,431	86,639
Other accounts payable	272,781	63,753	336,534
	<u>2,945,182</u>	<u>58,234</u>	<u>3,003,416</u>
NON-CURRENT LIABILITIES:			
Loans from banks and others	3,924,391	25,417	3,949,808
Accrued rental income	18,005	-	18,005
Deferred taxes	267,810	615,175	882,985
Liabilities in respect of employee benefits	1,860	5,667	7,527
Liability component in respect of conversion option of convertible debentures and liability component in respect of convertible option (series 6)	-	110,831	110,831
Debentures	3,448,697	7,519	3,456,216
Debentures convertible into subsidiary's shares	203,180	(5,217)	197,963
Debentures convertible into Company shares	71,123	(2,301)	68,822
Other long-term liabilities	39,531	8,651	48,182
	<u>7,974,597</u>	<u>765,742</u>	<u>8,740,339</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT:			
Issued capital	350,884	-	350,884
Share premium	109,779	864	110,643
Treasury shares	(49,616)	-	(49,616)
Retained earnings	47,088	1,031,291	1,078,379
Capital reserve in respect of available-for- sale financial assets	-	2,566	2,566
Other reserves	37,480	(25,394)	12,086
Receipts from issuance of stock options	12,659	(12,659)	-
	<u>508,274</u>	<u>996,668</u>	<u>1,504,942</u>
Minority interests	<u>460,739</u>	<u>316,027</u>	<u>776,766</u>
Total equity	<u>969,013</u>	<u>1,312,695</u>	<u>2,281,708</u>
	<u>11,888,792</u>	<u>2,136,671</u>	<u>14,025,463</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

b. Reconciliation of profit or loss:

	Three months ended March 31, 2006		
	Israeli GAAP	The effect of the transition to IFRS	IFRS
		Unaudited	
NIS in thousands			
Revenues:			
Rental income	206,422	(1,371)	205,051
Revenues from sale of apartments and commercial spaces	26,855	(22,502)	4,353
Revenues from management fees and building maintenance	47,067	-	47,067
Revenues from building management fees and development of infrastructures	986	-	986
	<u>281,330</u>	<u>(23,873)</u>	<u>257,457</u>
Total revenues			
Cost of sales and services:			
Building management and maintenance costs	84,520	492	85,012
Depreciation and amortization of real estate	43,854	(43,854)	-
Cost of apartments and commercial spaces sold	20,702	(13,352)	7,350
Cost of management and development of infrastructures	672	-	672
	<u>149,748</u>	<u>(56,714)</u>	<u>93,034</u>
Total cost of sales and services			
Gross profit	131,582	32,841	164,423
Increase in fair value of investment property	-	211	211
Selling, general and administrative expenses	24,485	836	25,321
	<u>107,097</u>	<u>32,216</u>	<u>139,313</u>
Operating income			
Financial expenses, net	102,087	82,551	184,638
Other income, net	10,309	(8,618)	1,691
	<u>15,319</u>	<u>(58,953)</u>	<u>(43,634)</u>
Income (loss) before taxes on income			
Taxes on income	1,788	18,701	20,489
	<u>13,531</u>	<u>(77,654)</u>	<u>(64,123)</u>
Income (loss) after taxes on income			
Equity in earnings (losses) of investees, net	(507)	4,061	3,554
Minority interest in losses (earnings) of subsidiaries, net	(4,330)	4,330	-
	<u>8,694</u>	<u>(69,263)</u>	<u>(60,569)</u>
Net income (loss)			

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- RECONCILIATION OF ISRAELI GAAP TO IFRS (Cont.)

- c. Notes to the reconciliations to balance sheet as of March 31, 2006 and to profit or loss for the three months then ended:

1. Investment property:

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

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

2. Employee benefits:

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

NOTE 9:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- a. The Company:

1. During April through May 2007, a total of approximately NIS 1,503 thousand par value of debentures (series C) of the Company was converted into approximately NIS 60 thousand par value of Company shares.
2. During April through May 2007, a total of approximately NIS 518 thousand par value of options (series 6) of the Company was converted into approximately NIS 518 thousand par value of Company shares. As a result of the conversion, the Company derived receipts of approximately NIS 13.4 million.
3. On May 15, 2007, according to a prospectus, the Company listed for trade debentures (series F) and also listed for trade according to a shelf prospectus another series of debentures (increments of debentures (series F) and debentures (series G-I)) as follows:
 - a) Approximately NIS 482 million par value of debentures (series F) are redeemable in three equal installments on December 31 of each of the years 2015 through 2017 (inclusive), bear annual interest of 5.35% to be paid annually in December of each of the years 2007 through 2017 (inclusive) and linked (principal and interest) to the Israeli CPI.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE (Cont.)

b) A shelf prospectus of:

(1) Up to NIS 518 million par value of debentures (series F).

(2) Up to 12 additional series of debentures (series G-I).

Each series of debentures will have a par value of up to NIS 600 million and the terms of the debentures will be determined in the shelf prospectus reports.

4. During April 2007, Mondon Investments Ltd. ("Mondon"), in which 72% of the shares are held by the Company (consolidated), 18% of the shares are held by Durban Investments Ltd. and 10% of the shares are held by a private company owned and controlled by Mr. Eliezer Fishman and his family, filed a prospectus draft with the Israeli Securities Authority based on its annual financial statements for the period ended December 31, 2006.

According to the prospectus draft, Mondon will issue debentures; yet the terms of the issuance, including its scope and date, have not yet been determined and there is no certainty that the above described move will indeed be completed.

5. On May 31, 2007, the Company's board of directors decided to declare a dividend for 2006 in a total of NIS 250 million.

b. Industrial Buildings:

1. During April through May 2007, approximately NIS 21 million par value of debentures (series D) of Industrial Buildings were converted into approximately NIS 2.4 million Ordinary shares of Industrial Buildings.

2. On May 15, 2007, according to a prospectus, Industrial Buildings listed for trade debentures (series I and J) and according to a shelf prospectus additional series (increments of debentures (series I and J) and debentures (series K-V)) as follows:

a) NIS 512 million par value of debentures (series I) are linked (principal and interest) to the Israeli CPI, redeemable in three equal installments in each of the years 2015 through 2017 and bear annual interest of 5.05% to be paid annually on December 31 of each of the years 2007 through 2017.

b) NIS 130 million par value of debentures (series J) are redeemable in three equal installments in each of the years 2011 through 2013 and bear annual interest of 6.5% to be paid annually on December 31 of each of the years 2007 through 2013.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE (Cont.)

- c) A shelf prospectus of:
- (1) Up to NIS 179 million par value of debentures (series I).
 - (2) Up to NIS 179 million par value of debentures (series J).
 - (3) Up to 12 additional series of debentures (series K-V).

Each series of the debentures will have a par value of up to NIS 600 million and the terms of the debentures will be determined in the shelf prospectus reports.

3. On May 15, 2007, a foreign subsidiary of Industrial Buildings which is 95% held by Industrial Buildings won a tender published by the Government of Macedonia to acquire land in Macedonia (near Scopia) in consideration of € 3.7 million.
4. On May 21, 2007, the board of Industrial Buildings approved another dividend in respect of 2006 in a total of NIS 46, 382 thousand based on the dividend distribution policy established on March 27, 2007.
5. On May 27, 2007, Industrial Buildings closed a transaction for the purchase of shares in a company that owns a structure for lease in Switzerland. The acquisition cost amounts to CHF 72 million (approximately NIS 236 million).
