



JERUSALEM ECONOMY LTD.

REPORT OF THE BOARD OF DIRECTORS

Members of the Board of Directors

Eliezer Fishman - Chairman

Ronit Even

Ran Oren

Yechiel Ziskind

Gabby Trabelsy, External Director

Meir Jacobson, External Director

Anat Manipaz

Eyal Fishman

Hillel Peled

Company Management

Oded Shamir - CEO

Ehud Shapiro – Deputy

CEO

Report of the Board of Directors on the state of the Corporation's affairs for the period of nine months ended September 30, 2009

All the data in the report is consolidated unless indicated otherwise.

1. THE COMPANY AND THE BUSINESS ENVIRONMENT

1.1. AREAS OF OPERATION OF THE COMPANY

The Company operates, on its own and through consolidated companies, including Industrial Buildings Corporation Ltd. (Hereinafter: "Industrial Buildings"), which is held by the Company, immediately before the date of publication of the financial statements, at a rate of approximately 72.04% and Mirland Development Corporation Plc. ("Mirland"), which is held by the Company, directly and indirectly, immediately before the date of publication of the report at a rate of approximately 53.3%, in the various areas of real estate, including leasing of income-producing real estate for commerce, trade, industry, hi-tech, offices and logistics as well as for residential and hospitality purposes, acquisition and development of land, construction of buildings, which are intended mainly for leasing throughout Israel and in many additional countries: 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

EMPHASES FOR THE THIRD QUARTER OF 2009

The profit, which is attributable to the shareholders of the Company, amounted in the third quarter to approximately NIS 91 million compared with a loss in the sum of NIS 193 million in the corresponding period last year.

The net profit in the third quarter stems primarily from tax revenues in a sum of NIS 169 million, compared with NIS 50 million in the corresponding period last year, and a decrease in the financing expenses to a sum of NIS 146 million compared with NIS 478 million in the corresponding period last year. The profit was offset in part as a result of a decrease in the fair value of real estate for investment and development by a total sum of NIS 108 million, mainly at Mondon which operates in India, compared with a decrease of NIS 81 million in the corresponding period last year (see further details in clause 1.3.4 below), and from a loss in respect of impairment of inventory of lands for construction and investment advances in the sum of NIS 73 million compared with an absence of change in the corresponding period last year. It will be emphasized that in this quarter, for the first time since the beginning of the global credit crisis, the capitalization rates used for appraisal of the value of properties in the operational countries of the Company did not increase.

The gross profit from income producing properties (NOI) in the third quarter, which includes revenues from rental and from management and maintenance, less the costs of management and maintenance of the buildings, amounted to approximately NIS 261 million, compared with approximately NIS 257 million in the corresponding period last year.

The total profit, which is attributable to the shareholders of the Company, amounted in the third quarter to approximately NIS 107 million compared with a total net loss in the sum of approximately NIS 216 million in the corresponding period last year.

EMPHASES FOR THE REPORT PERIOD

In the report period the loss attributable to the shareholders of the Company amounted to approximately NIS 104 million compared with a loss of approximately NIS 337 million in the corresponding period last year.

In the report period the loss amounted to approximately NIS 147 million compared with a loss of approximately NIS 442 million in the corresponding period last year.

The loss stems primarily from a decrease in the fair value of real estate for investment and development in the sum of approximately NIS 570 million (see further details in clause 1.4.2 below) and from a loss in respect of impairment of inventory of lands for construction and investment advances in the sum of NIS 73 million compared with a decrease in the sum of approximately NIS 91 million and 0 respectively in the corresponding period last year..

The loss was offset in part as a result of a reduction in net financing expenses to approximately NIS 482 million, compared with approximately NIS 985 million last year. For details see clause 3.5, and as a result of profit during the period in the sum of approximately NIS 90 million which stems from early repayment of a loan in Switzerland and from a buy back of bonds. For details see clause 7.i below and from tax revenues in the sum of NIS 223 million compared with a tax expense in the sum of NIS 22 million in the corresponding period last year.

In the report period the total loss attributable to the shareholders of the Company amounted to approximately NIS 39 million compared with a total loss of approximately NIS 596 million in the corresponding period last year.

The gross profit from income producing properties (NOI) in the report period, which includes revenues from rental and from management and maintenance, less the cost of management and maintenance of the buildings, amounted to approximately NIS 782 million, compared with approximately NIS 764 million in the corresponding period last year.

The gross profit in the report period amounted to approximately NIS 787 million compared with approximately NIS 776 million in the corresponding period last year.

For details regarding the effect of the economic crisis currently taking place in the global market, and for details with regard to liquidity and financing sources of the Company, see clauses 4 and 6 below.

1.2.2. SHAREHOLDERS' EQUITY

The equity of the Company that is attributable to the shareholders of the Company amounts to approximately NIS 1,879 million compared with equity in the sum of approximately NIS 1,772 million as of June 30, 2009 and approximately NIS 1,918 million as of December 31, 2008.

Equity per share amounts to approximately NIS 35.8 per share compared with approximately NIS 33.7million as of June 30, 2009 and approximately NIS 36.5 per share as of December 31, 2008.

The shareholders' equity of the Company amounts to approximately NIS 2,909 million compared with approximately NIS 3,021 million as of December 31, 2008.

1.2.3. INVESTMENTS AND SALES FLOWS

The total investments of the Company in real estate during the report period amounts to a sum of approximately NIS 460 million according to the following breakdown:

Income producing properties and lands intended for construction of income producing properties: Approximately NIS 109 million.

Properties under development: Approximately NIS 269 million.

Inventory of buildings, apartments for sale and land for residential construction, net, less advance payments: Approximately NIS 82 million.

Proceeds from sales of investment real estate in the report period amounted to approximately NIS 137 million.

Proceeds from sales of apartments in the report period amounted to approximately NIS 600 thousand.

1.2.4. SUMMARY TABLE OF PRINCIPAL DATA FROM OPERATIONS DURING THE PERIOD, IN NIS MILLIONS

	<u>7-9/2009</u>	<u>1-9/2009</u>	<u>1-9/2008</u>
Revenues from income producing properties	<u>368</u>	<u>1,100</u>	<u>1,088</u>
Gross profit from income producing properties (NOI)	261	782	764
Gross profit from sale of fuels	1	4	5
Other gross profit	-	1	7
Gross profit	<u>262</u>	<u>787</u>	<u>776</u>
Increase (decrease) in the fair value of real estate	(107)	(570)	(91)
Loss from impairment of inventory of lands for construction	73	73	-
Selling, administrative and general expenses	<u>48</u>	<u>150</u>	<u>146</u>
Profit (loss) from ordinary operations	34	(6)	539
Other revenues and increase in rate of holding	11	26	18
Financing expenses, net	(158)	(482)	(985)
Profit from buy back of bonds and loan turnover	12	90	-
Profit (loss) from associated companies	7	2	8
Profit (loss) before tax	<u>(94)</u>	<u>(370)</u>	<u>(420)</u>
Tax revenues (expenses)	<u>169</u>	<u>223</u>	<u>(22)</u>
Net (loss)	<u>75</u>	<u>(147)</u>	<u>(442)</u>
Profit (loss) attributable to shareholders	91	(104)	(337)
Profit (loss) attributable to minority	<u>(16)</u>	<u>(43)</u>	<u>(105)</u>

1.2.5. COMPANY BALANCE SHEET – SELECT DATA IN NIS MILLIONS

	<u>30.9.2009</u>	<u>31.12.2008</u>
Total balance	22,740	22,421
Shareholders' equity including minority rights	2,909	3,021
Shareholders' equity attributable to shareholders	1,879	1,918
Investment real estate	15,792	15,586
Investment real estate under development	817	941
Inventory of buildings and apartments for sale	555	598
Inventory of land for residential construction, short term	197	183
Inventory of land for residential construction, long term	357	327
Asset designated for realization	198	-
Current assets	2,044	1,904
Current liabilities	4,222	3,791
Long term liabilities	15,514	16,110
Non-Recourse loans	5,280	5,253
Liability for deferred taxes	1,260	1,484
Liability in respect of asset designated for realization	95	-

1.3. PRINCIPAL CONSOLIDATED COMPANIES

1.3.1. INDUSTRIAL BUILDINGS

The principal area of operation of Industrial Buildings is the initiation, construction and acquisition of buildings intended for lease and sale for industry, trade, commerce, residential, hi-tech and offices. As of 30.9.2009 Industrial Buildings owns buildings in Israel and overseas of a total area of approximately 1,942 thousand square meters, with an average occupancy of approximately 90% during the report period.

In addition, Industrial Buildings provides management and maintenance services to buildings that are owned by it and to buildings not owned by it, which are used by tenants in the fields of hi-tech, offices and commerce and for residential tenants, and this through a subsidiary and through a third party.

Industrial Buildings engages in the initiation, planning and construction of apartments for sale in Israel, the United States, Germany and Thailand. In addition, Industrial Buildings has investments in Mirland, Mondon and Svitland, which operate in these fields in Russia, India and countries of the Commonwealth of Independent States, respectively.

The rate of holding of Industrial Buildings as at September 30, 2009	71.98%.
The market value* of investment as at 30.9.09	approximately NIS 1,322 million.
The market value* immediately prior to the date of publication of the report	approximately NIS 1,454 million.
The investment account on the Company's books as at 30.9.09	approximately NIS 1,721 million.

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

1.3.2. Mirland Development Corporation PLC, (Hereinafter "Mirland")

Mirland was incorporated in Cyprus on 10.11.2007 as a private company according to Cyprian law.

Commencing from 18.12.2006 Mirland shares began to be traded on the AIM exchange in London.

In the month of December, 2007 Mirland issued negotiable bonds on the Tel Aviv Stock Exchange, and became a "reporting corporation" according to Israeli securities laws.

Mirland engages, on its own and through subsidiaries in the initiation and development of projects in the real estate field in Russia, for commerce, offices and logistics and for residential purposes, this commencing with the acquisition of vacant land, completion of the planning and approval processes and up to completion of construction of the projects and the sale or management and lease thereof.

The Company's rate of holding of Mirland as of the balance sheet date:

The Company directly: 28.77%, Industrial Buildings 34.04% (Industrial Buildings is 71.98% held as of the date of the report).

The Company's total direct share, together with the Company's proportionate share of Industrial Buildings (Hereinafter the Company's direct and indirect share), amounts to 53.28% as at September 30, 2009 and to approximately 53.3% immediately before the day of publication of the report.

Market value* of the Company's direct and indirect share as at 30.9.09	NIS 494 million
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The market value* of the Company's direct and indirect share immediately before the day of approval of the reports	NIS 553 million
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The Company's direct and indirect share of the equity included in an investment account, as at 30.9.09	NIS 650 million
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(*) The Company management estimates that the net asset value of Mirland is significantly higher than the market value.

In total the Company's direct and indirect share immediately prior to the day of publication of the report amounts to approximately 53.25%.

1.3.3. Svitland Ltd(Hereinafter "Svitland")

Svitland engages, on its own and through subsidiaries, in the initiation and development of projects in the real estate field in countries of the Commonwealth of Independent States, including Ukraine, Lithuania, Latvia, Moldova and Belarus, for commerce, offices, logistics and for residential purposes.

The Company's rate of holding of Svitland as at the day of the report:

The Company directly: 32%.

Industrial Buildings 32% (Industrial Buildings is 71.98% held as at the date of the report).

The Company's total direct and indirect share of Svitland amounts, as at September 30, 2009, to 55.03%.

The Svitland investment account on the Company's books directly and indirectly as at 30.9.09 is set at approximately NIS 113 million.

1.3.4. Mondon Investments Ltd (Hereinafter "Mondon")

Mondon engages, on its own and through subsidiaries, in the initiation and development of projects in the real estate field in India, for commerce, offices and logistics and for residential purposes.

At AEZPL, a subsidiary of Mondon that is held at a rate of 42% by Mondon, which possesses a mall for construction in the region of the city of Ludhiana, which is in the state of Punjab, there is uncertainty as to the financial ability of the partner to meet its obligations toward Mondon and toward the joint venture for construction of the mall and for payment of the excess return due to Mondon pursuant to the joint venture agreements. In accordance with the aforesaid, Mondon effectuated in its financial statements for September 30, 2009, a reduction in the value of the investment that it made up to now in the joint venture by a sum of approximately 1,298 million Rupees (approximately NIS 105 million). In addition, Mondon effectuated a reduction of advance payments on account of an investment in agricultural lands in India by a sum of 315 million Rupees (approximately NIS 25 million). See further details in note 6 to the financial statements and in clause 7(p) below.

The rate of holding of Mondon as at the day of the report:

The Company directly: 36%.

Industrial Buildings 36% (Industrial Buildings is 71.98% held as at the date of the report).

The Company's total direct and indirect share of Mondon amounts, as at September 30, 2009, to 61.91%.

The Mondon investment account on the Company's books directly and indirectly as at 30.9.09 is set at approximately NIS 118 million.

1.4. INCOME PRODUCING PROPERTIES – KEY DATA

As at September 30, 2009, the Company (including the minority interest in consolidated companies) holds rental space of approximately 3.6 million square meters, of which approximately 1.9 million square meters are overseas.

The Company's properties are leased to approximately 7,948 tenants. The occupancy rate of the Company's properties as at 30.9.2009 is 89.84% compared with 89.8% as at 31.06.2009 and 90.6% as at 31.12.2008.

1.4.1. SUMMARY DATA OF RENTAL SPACE AND REVENUES

The Company, consolidated, together with the proportionate share of the Company of associated companies

	Occupancy rate 30.909.	Area Square meters 30.909.	Rental revenues in the report period NIS thousands (1)
<u>Israel</u>			
The Company	87.45%	303,269	62,612
Industrial Buildings	89.50%	1,370,000	248,367
JEC Construction and Supervision	91.07%	24,586	7,077
TAAM the Company's share – 50% (associated) (2)	72.25%	13,190	3,732
Total Israel	89.03%	1,711,045	321,788
<u>Overseas</u>			
Europe – the Company without Industrial Buildings and Mirland	91.38%	1,117,291	307,297
Canada – The Company without Industrial Buildings	90.15%	173,405	74,268
Europe – through Industrial Buildings	90.23%	324,195	100,581
Canada and the United States – through Industrial Buildings	88.84%	246,073	90,116
Russia – through Mirland	85.98%	71,451	44,332
Total overseas	90.55%	1,932,415	616,594
Total	89.84%	3,643,459	938,382

Adjustment for financial statements

(1) Deduction of rental revenues included in the profits of associated companies

5,943

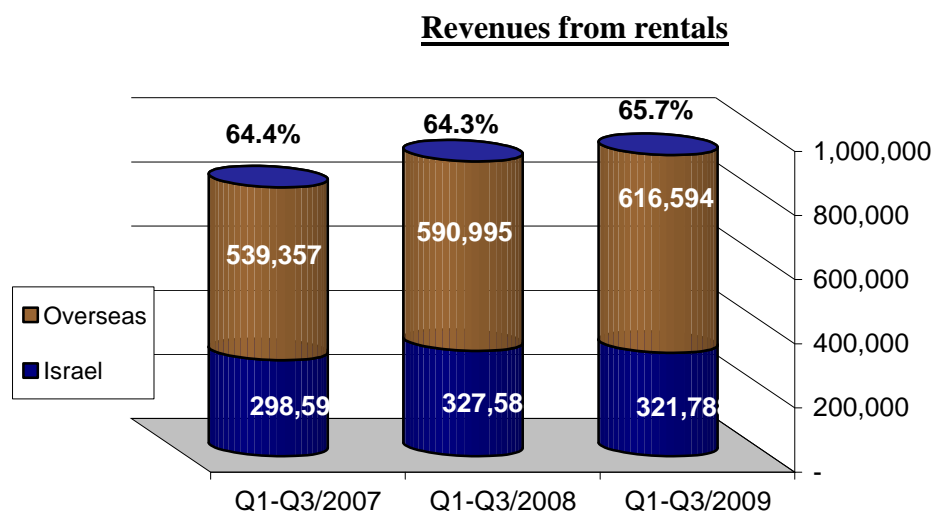
(2) Deduction of the Company's share (50%) of TAAM revenues – an associated company

3,732

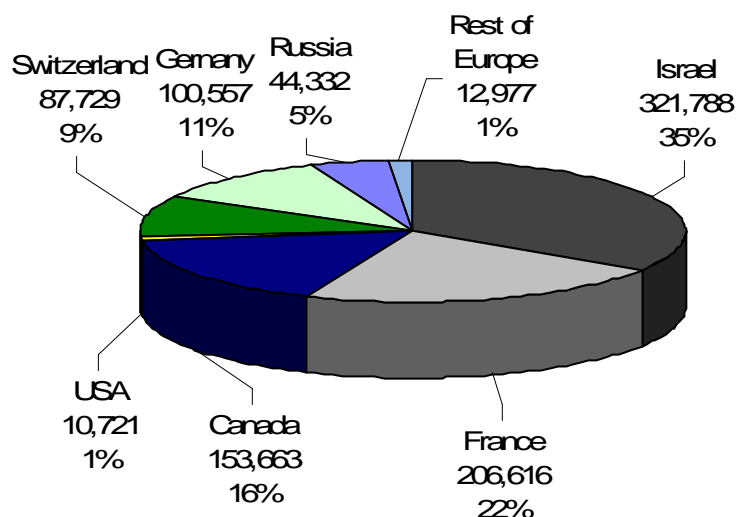
Revenues from rent in the statements of income

928,707

REVENUES FROM RENT DURING THE REPORT PERIOD, NIS THOUSANDS, IN ISRAEL AND OVERSEAS DURING THE FIRST NINE MONTHS OF 2007-2009



Revenues from rentals by countries



1.4.2. INVESTMENT REAL ESTATE AND INVESTMENT REAL ESTATE UNDER DEVELOPMENT

- a. Investment real estate – during the report period the value of investment real estate increased from NIS 15,586 million to NIS 15,792 million.

The increase stems from an appreciation of land overseas in the sum of approximately NIS 409 million as a result of changes in the rate of the Shekel as against the local currencies of the countries in which the Company's overseas real estate assets are situated(*), as a result of acquisitions and investments in the sum of approximately NIS 163 million, as a result of reclassifications in the report period, from investment real estate under development to investment real estate of properties for which construction was completed in the sum of approximately NIS 267 million, (of which in Israel approximately 213 and in France approximately NIS 54 million), and due to a freeze on construction of properties in the countries of the Commonwealth of Independent States in the sum of approximately NIS 26 million. In addition, appreciation of a project in Belarus in the sum of approximately 115 million against a commitment in respect of future payments expected to flow from the project.

The increase was offset due to a decrease in the value of investment real estate, which stems from impairment expenses in a total sum of NIS 432 million (**). The impairments stem mainly from an increase in the capitalization rates that were used in value appraisals against the background of the global credit crisis. The change also stems from write offs as a result of realization of assets in the sum of approximately NIS 144 million and reclassification of a sum of NIS 198 million which was previously under investment real estate to assets designated for realization, with respect to which a sale agreement was signed, in France, Canada and Israel.

(*)The change stems mainly from the strengthening of the following currencies: Euro approximately 4%, Canadian Dollar 12.5%, U.S. Dollar (1.2%), Swiss Franc 2.4%.

(**)Mainly in the following countries: France approximately 249, Canada approximately 139, Germany approximately 41, Russia approximately 38, Switzerland approximately 19, Poland approximately 12, United States approximately NIS 8 million, offset against revenues from appreciation in Israel of approximately NIS 32 million, and in the countries of the Commonwealth of Independent States in the net sum of approximately NIS 42 million.

- b. Investment real estate under development – during the report period the value of investment real estate under development decreased from NIS 942 million to NIS 817 million.

The decrease stems mainly from an impairment in the sum of approximately 138 million (of which in Russia approximately NIS 28 million, in India approximately NIS 105 million and in Israel approximately NIS 5 million), from reclassifications of a sum of approximately NIS 267 million which was previously under investment real estate under development to investment real estate due to construction completions, and a sum of approximately NIS 26 million due to a freeze on construction of properties in the countries of the Commonwealth of Independent States. The reduction was offset in part as a result of investments in the sum of approximately NIS 272 million, from reclassification in the report period of approximately NIS 30 million which was previously under inventory of lands for residential construction in Russia to investment real estate under development, and as a result of appreciation in the sum of approximately NIS 4 million which stems from changes in the rate of the Shekel as against the local currencies of the countries in which the overseas investment real estate assets under development are situated.

- c. In the investment real estate line item investments in Israel are included in the total sum of NIS 6,369 million, of which the value of lands for construction and construction rights in a sum of approximately NIS 853 million.

In the investment real estate line item investments overseas are included, in a total sum of NIS 9,423 million (without properties intended for sale in the sum of approximately NIS 198 million) of which the value of lands for construction and construction rights amounts to a sum of approximately NIS 586 million.

- d. For details regarding material investment real estate assets of the Company in accordance with the directive of the Securities Authority dated 22.02.2009 as to disclosure with regard to fair value of investment real estate assets, see Appendix A of the report.

1.4.3. SUMMARY OF OVERSEAS INCOME PRODUCING REAL ESTATE

Status summary of overseas income producing real estate according to country as at – 30.9.2009				
Country	Built-up area in square meters 100% (1)	Number of tenants	Occupancy rate	Fair value in NIS thousands as at 30.9.09
Canada	401,097	2,321	89.96%	*1,658,537
United States	18,381	38	76.73%	70,425
France	805,150	116	91.17%	*3,344,967
Germany	352,158	1,472	90.02%	1,510,376
Switzerland	221,710	689	96%	1,638,449
Poland	44,228	52	75.18%	162,952
The Netherlands	13,000	1	100%	55,296
Russia	71,451	174	85.98%	576,891
Ukraine	5,240	43	63.03%	17,993
Total overseas	1,932,415	4,906	90.55%	9,035,886
Including consolidated companies, 100% area and value. Without our proportionate share of associated companies of an area of 25,487 square meters, at a value of NIS 140 million				

The aforementioned balances include assets designated for realization in the total sum of NIS 198,400 thousand according to the aforementioned distribution.

Canada 140,720 NIS thousands

France 33,527 NIS thousands

Israel 24,153 NIS thousands

BREAKDOWN OF OVERSEAS INCOME PRODUCING REAL ESATE ACCORDING TO GROUPS OF PROPERTIES AS AT 30.6.2009 ⁽¹⁾

Remark	Country	Location and name	Designation of the properties	The number of properties	The rate of the Company's rights in the properties	Built-up area of the properties as a whole	Number of tenants as of 30/09/09	Percentage of occupancy as of 30/09/09	Fair value	NOI for the period 1-9/2009
	Canada	Across Canada	Offices and commercial	4	100%	104,765	259	89.66%	516,324	27,473
	Canada	(Woodbine)Toronto	Offices and commercial	1	100%	68,640	154	90.90%	358,101	18,500
2	Canada	Across Canada	Offices and commercial	2	100%	51,510	97	92.63%	237,684	13,121
2	Canada	Nova Scotia (Sunnyside)	Offices and commercial	1	100%	28,858	105	94.50%	184,826	11,193
2	Canada	Toronto (Chalkfarm)	Residential	1	100%	82,398	1,057	87.00%	197,778	4,517
2	Canada	Toronto (Kipling)	Residential	1	100%	64,926	649	89.10%	163,823	5,141
2	United States	Atlanta	Offices	2	100%	18,381	38	76.73%	70,425	4,898
	France	Paris	Offices	1	100%	13,803	5	100.00%	402,160	21,575
	France	Lyon	Offices	1	100%	9,798	3	39.28%	68,487	1,142
	France	Across France (L3)	Offices and commercial	17	100%	88,037	18	68.84%	265,666	10,578
	France	Across France (L4)	Offices and commercial	6	100%	33,797	10	93.85%	93,881	6,306
	France	Across France - Holding	Offices and light industry	12	100%	137,205	59	80.31%	753,878	43,185
	France	Colombes	Light industry	1	100%	48,152	1	100.00%	432,905	22,130
	France	Toulouse	Light industry	1	100%	53,656	4	100.00%	232,899	13,177
	France	Valdolines	Light industry	1	100%	31,482	2	99.23%	218,739	8,078
	France	Across France - (L7)	Offices	7	100%	235,441	7	100.00%	345,773	28,067
	France	Across France - (L6)	Light industry	3	100%	121,582	4	100.00%	267,628	16,884
8	France	Nantes	Light industry	1	100%	15,244	1	100.00%	49,037	478
2	France	Across France	Logistics center	3	95%	16,953	2	50.54%	213,912	9,671
	Germany	Berlin (Mulle)	Commercial and residential	3	95%	14,618	179	90.74%	112,686	5,420
	Germany	Across Germany - (Hazim)	Commercial	5	100%	22,629	19	68.49%	103,981	11,172
	Germany	Across Germany - (Topneks)	Commercial	7	100%	8,176	18	99.08%	53,693	2,575
	Germany	Across Germany - (Tartufo)	Commercial	8	100%	11,791	31	94.99%	66,685	2,980
	Germany	Waltrop - (B.73)	Industry	1	94%	10,107	7	97.24%	35,235	1,449
	Germany	Across Germany (B.69)	Apartments, commercial and cinema	2	94%	14,126	42	85.62%	71,958	4,277
	Germany	Across Germany	Apartments, industry and commercial	11	95%-100%	32,131	175	93.79%	107,232	6,501
2	Germany	Across Germany	Commercial	12	95%-100%	16,057	33	84.09%	112,565	6,275
2	Germany	Across Germany	Fuel stations	9	100%	23,858	10	92.86%	74,718	4,729
2	Germany	Essen	Offices and commercial	1	95%	15,819	16	98.57%	66,871	3,820
2	Germany	Bautzen	Offices	1	95%	1,798	1	100.00%	19,923	1,640
2	Germany	Across Germany	Residential	7	95%	49,142	735	82.76%	119,866	7,289
2	Germany	Berlin	Residential	1	100%	5,076	44	70.05%	38,359	1,988
2	Germany	Across Germany	Offices	3	100%	12,022	21	87.96%	125,511	5,306
2	Germany	Across Germany	Commercial	5	95%-100%	28,431	47	96.51%	146,507	8,265

Remark	Country	Location and name	Designation of the properties	The number of properties	The rate of the Company's rights in the properties	Built-up area of the properties as a whole	Number of tenants as of 30/09/09	Percentage of occupancy as of 30/09/09	Fair value	NOI for the period 1-9/2009
2	Germany	Across Germany	Commercial	2	100%	7,285	22	92.41%	24,689	1,486
2	Germany	Zeltz	Commercial	2	100%	11,756	2	100.00%	29,610	2,367
2	Germany	Zittau	Logistics center	1	100%	3,352	1	100.00%	11,246	922
2	Germany	Berlin	Commercial	1	100%	4,453	47	90.84%	32,286	1,276
2	Germany	Zwickau	Logistics center	1	100%	19,286	10	82.26%	20,893	1,412
2	Germany	Rosengarten	Logistics center	1	100%	4,692	3	91.47%	14,838	857
2	Germany	Murrhardt	Commercial	1	100%	2,588	6	100.00%	16,954	1,178
2	Germany	Across Germany	Industrial plant	2	100%	12,965	2	100.00%	27,494	1,743
2	Germany	Stuttgart	Commercial	1	94%	20,000	1	100.00%	76,575	4,360
	Switzerland	Across Switzerland (K1)	Commercial	25	100%	25,095	26	100.00%	250,826	9,712
	Switzerland	Across Switzerland (KF1)	Apartments	14	90%	46,230	363	89.83%	360,359	9,512
	Switzerland	Across Switzerland (K2)	Offices and industry	2	100%	11,843	3	100%	48,085	2,227
	Switzerland	Across Switzerland (K3)	Commercial	17	100%	30,479	27	96.72%	209,307	8,318
	Switzerland	Across Switzerland (KF2)	Apartments and commercial	5	90%	21,816	199	99.71%	115,670	3,516
	Switzerland	Across Switzerland (K4)	Offices and industry	5	100%	30,585	45	95.11%	227,572	9,530
2	Switzerland	Zurich	Offices	1	90%	12,522	12	98.96%	103,840	8,257
2	Switzerland	Erfelden	Commercial	1	100%	43,141	14	96.59%	322,791	14,947
2	The Netherlands	Nieuwegin	Logistics center	1	100%	13,000	1	100.00%	55,296	4,387
	Poland	Blonie	Offices, Logistics and commercial	1	50%	27,869	8	74.77%	96,284	3,879
6,7	Poland	Warsaw (Jaglonska)	Offices, Logistics and commercial	1	50%	16,359	44	75.87%	66,669	2,058
3,6	Russia	Yeroslavel	Commercial	1	49%	33,256	104	92.00%	116,543	12,261
3	Russia	Moscow (Hidro)	Commercial	1	100%	18,780	42	66.00%	227,025	4,332
3	Russia	Moscow (Mag)	Offices	1	100%	19,415	28	95.00%	233,323	14,817
4	Ukraine	Lisichansk	Commercial	2	88%	5,240	43	63.03%	17,993	223
				232		1,932,415	4,906	90.55%	9,035,886	463,375

REMARKS:

- 1) Includes consolidated companies, 100% area and value. Without our proportionate share of associated companies of an area of 25,487 square meters, at a value of NIS 140 million.
- 2) Through Industrial Buildings.
- 3) Through Mirland.
- 4) Through Svitland.
- 5) Includes a new property in Bougie, France, with an area of 3,722 square meters. Construction of the structure was completed, a tenant has not yet been found.
- 6) The total built-up area and the total value of the properties, was calculated according to the rate of the Company's rights in the properties.
- 7) The property value in the above table does not include the value of construction rights included in the financial statements in the sum of approximately NIS 55 million.
- 8) As of the second quarter the tenant ceased paying rent due to economic hardships. The subsidiary is taking legal proceedings for collection of the debt and for eviction of the tenant.

1.5. MISCELLANEOUS

- a. In the month of November 2008 the Board of Directors of the Company approved a buy back plan of all the series of bonds of the Company by the Company or a wholly owned subsidiary of the Company, within the framework of trade on the stock exchange and/or off the floor, in a financial scope of up to NIS 50 million, which will be effected at prices that will be prescribed from time to time according to the discretion of the management. As of the date of approval of the plan and up to the date of the report the Company acquired, on its own or through the subsidiary, by buy back, negotiable bonds of the Company in the total scope of approximately NIS 50 million.

As of September 30th the subsidiary held bonds as follows:

NIS 46,356 thousand par value bonds (series E).

NIS 33,850 thousand par value bonds (series F).

NIS 6,750 thousand par value bonds (series G).

NIS 13,867 thousand par value bonds (series H).

Within the framework of the acquisition plan the Company acquired bonds (series D) in the sum of NIS 8,981 thousand par value, which were stricken from trade on the stock exchange.

On November 15, 2009 the Board of Directors of the Company approved the extension of the scope of the buy back plan of the Company's bonds by an additional amount of up to NIS 15 million.

During the course of the month of November 2009 the Company acquired, through a wholly owned registered partnership, bonds as follows:

Approximately NIS 7,060 thousand par value (series D) in consideration of a sum of approximately NIS 5.9 million

and approximately NIS 11,685 thousand par value (series E) in consideration of a sum of approximately NIS 9.1 million.

- b. During the course of the month of April 2008, the Board of Directors of Industrial Buildings approved a buy back plan of shares of Industrial Buildings by Industrial Buildings in the amount of up to NIS 150 million within the framework of trade on the stock exchange and/or off the floor by 31.12.09. As of the date of approval of the plan until 31.9.2009 Industrial Buildings acquired approximately NIS 17.6 million par value shares in consideration of approximately NIS 113 million. The shares that were so acquired became dormant as a result of the acquisition thereof.

Subsequent to the balance sheet date Industrial Buildings acquired approximately 228 thousand shares by buy back in consideration of a sum of approximately NIS 1.4 million.

- c. During the course of the month of September 2008, the Board of Directors of Industrial Buildings approved a buy back plan of bonds of Industrial Buildings, by a wholly owned subsidiary of Industrial Buildings, of all the series of bonds of Industrial Buildings excluding bonds (series D) up to a total amount of NIS 100 million ("the preceding buy back plan"). The plan was fully realized during the course of the month of September 2008.

During the course of the month of August 2009, the Board of Directors of Industrial Buildings approved an additional buy back plan of bonds of Industrial Buildings, by a wholly owned subsidiary of Industrial Buildings, of all the series of bonds of Industrial Buildings, excluding bonds (series D), up to a total amount of NIS 40 million ("the current buy back plan"), less proceeds that will be received from sale of bonds of Industrial Buildings that will be sold by the subsidiary during the course of the buy back plan period, the duration of which is until August 31, 2011.

In addition, during the course of the period between exhaustion of the preceding buy back plan and until approval of the current buy back plan, the management of Industrial Buildings effectuated from time to time a buy back of bonds and this within the framework of random transactions and not as part of a consistent and ongoing policy, in accordance with specific market conditions and business opportunities.

During the course of the report period a wholly owned subsidiary of Industrial Buildings acquired bonds of Industrial Buildings pursuant to the current buy back plan in a total sum of approximately NIS 88 million.

During the course of the report period the subsidiary sold bonds in an amount of approximately NIS 79 million.

As of September 30th the subsidiary holds bonds in a total amount of approximately NIS 98 million as follows:

NIS 32,356 thousand par value bonds (series G) in a total amount of approximately NIS 37,039 thousand.

NIS 36,569 thousand par value bonds (series H) in a total amount of approximately NIS 36,546 thousand.

NIS 14,612 thousand par value bonds (series I) in a total amount of approximately NIS 12,201 thousand.

NIS 1,283 thousand par value bonds (series K) in a total amount of approximately NIS 1,205 thousand.

NIS 5,811 thousand par value bonds (series L) in a total amount of approximately NIS 5,587 thousand.

Subsequent to the balance sheet date acquisitions of bonds (series H, I, and K) were effected by the subsidiary of Industrial Buildings in consideration of the sum of approximately NIS 10 million and with a profit of approximately NIS 1.8 million.

In addition, sales of bonds (series G and I) were effectuated by the subsidiary of Industrial Buildings in consideration of the sum of approximately NIS 45 million.

- d. The total direct investments of the Company in consolidated companies, in cooperation with Industrial Buildings and/or Darban Investments: 152 million U.S. Dollars, according to the following breakdown:

Mirland: 86 million U.S. Dollars (capital 34.5 million Dollars, bonds and loans 23.3 million Dollars, guarantee 28.2 million Dollars). In addition, subsequent to the balance sheet date the Company transferred a loan in the sum of 2.8 million Dollars according to its proportionate share of the Group companies' rate of holding of Mirland.

Mondon: 40.9 million U.S. Dollars.

Svitland: 29.1 million U.S. Dollars.

Serbia: 6.1 million U.S. Dollars.

Amounts of similar scope were invested through Industrial Buildings.

- e. Profits (losses) of the consolidate companies during the report period amount to the following:

Industrial Buildings approximately NIS 119 million, Mirland approximately NIS (83) million, Mondon approximately NIS (124) million, Svitland approximately NIS (44) million.

2. FINANCIAL CONDITION

2.1 CURRENT ASSETS AND LIABILITIES

As at September 30, 2009 the current assets on the balance sheet amounted to approximately NIS 2,044 million against current liabilities of approximately NIS 4,222 million, a current ratio at a rate of approximately 48%.

As at December 31, 2008 the current assets on the balance sheet amounted to approximately NIS 1,904 million against current liabilities of approximately NIS 3,297 million. A current ratio at a rate of approximately 58%.

The change in the ratio stems mainly from an increase in the volume of short term credit and current maturities of long term liabilities, and from a decrease in cash and accounts receivable and debit balances, which was partly offset as a result of an increase in the short term investments line item.

2.2 WORKING CAPITAL

As of 30.9.09 the working capital deficit amounted to a sum of approximately NIS 2,178 million compared with a deficit in the sum of approximately NIS 1,383 million as of 31.12.08. The working capital deficit stems from such that the Company finances part of its long term investments (real estate in Israel and overseas and investments in investee companies) through short term credit. In addition, there has been an increase in the volume of short term credit of the Company as a result of an increase in the current maturities of bonds and loans in Israel and overseas from NIS 831 million to NIS 1,605 million. The Company is acting to obtain renewed financing for long term loans in Canada, in the sum of approximately NIS 374 million, which is included in the current maturities of the Company. In addition, the Company is acting to obtain long term credit from banks overseas (non recourse) to finance its investments in unencumbered properties in Germany and in France. If and insofar as the renewed financing in Canada and the financing in Germany and in France will be obtained, the working capital deficit will decrease.

The Company has negative working capital, however in the opinion of the Board of Directors of the Company, the Company does not have a liquidity problem and this taking into consideration the cash flow forecast of the Company and the assumptions at the basis thereof as detailed at length in clause 4 below.

2.3 INVENTORY OF LANDS FOR RESIDENTIAL CONSTRUCTION

The inventory of lands for construction (short term) line item is set as at the balance sheet day at approximately NIS 197 million compared with approximately NIS 183 million as of December 31, 2008. The increase stems mainly from investments in the Perhoshkovo project in the suburbs of Moscow, in St. Petersburg, Russia, in Bangkok, Thailand, in Berlin, Germany and in Marom Hasharon, Israel. The increase was partially offset by a sum of approximately NIS 83 million being reclassified to long term inventory for residential construction of projects in Russia.

The inventory of lands for construction (long term) line item is set as at the balance sheet day at approximately NIS 357 million compared with approximately NIS 327 million as at December 31, 2008. The increase stems from a sum of approximately NIS 83 million being reclassified to long term inventory for residential construction of projects in Russia, and from the strengthening of the various currencies as against the Shekel, offset against losses from impairments of lands in the sum of approximately NIS 73 million, of which in the Ukraine a sum of approximately NIS 48 million and in India a sum of approximately NIS 25 million.

2.4 INVESTMENT REAL ESTATE

The total investment real estate as at September 30, 2009 amounts to approximately NIS 15,792 million compared with approximately NIS 15,586 million as at December 31, 2008. For details see clause 1.4.2 (a) above.

2.5 INVESTMENT REAL ESTATE UNDER DEVELOPMENT

During the report period the value of investment real estate under development decreased from NIS 941 million to NIS 817 million.

For details see clause 1.4.2 (b) above.

2.6 LOAN CREDIT AND BONDS LESS CASH AND DEPOSITS

As at September 30, 2009 the loans and the bonds, less cash and deposits, amounted to approximately NIS 13,918 million compared with approximately NIS 13,933 million as at December 31, 2008.

The total of the Company's non-recourse loans overseas, consolidated, amounts to approximately NIS 5,280 million.

As at September 30, 2009 the loans and the bonds less cash and deposits at the Company, without the subsidiaries, Industrial Buildings, Mirland, Mondon and Svitland, amounted to approximately NIS 7,356 million (including guarantees to the subsidiaries in Canada) compared with approximately NIS 7,422 million as at December 31, 2008.

The decrease stems mainly from a net reduction in loans, mainly as a result of currency changes against the Shekel rate, and from a payment in the sum of approximately NIS 82 million in respect of bonds during the report period.

The total of the Company's non-recourse loans overseas, without Industrial Buildings, Mirland, Mondon and Svitland, amounts to approximately NIS 3,802 million.

2.7 SHAREHOLDERS' EQUITY

The equity of the Company attributable to the shareholders of the Company amounts to approximately NIS 1,879 million compared with shareholders' equity in the sum of approximately NIS 1,772 million as of June 30, 2009 and approximately NIS 1,918 million as of December 31, 2008.

The shareholders' equity of the Company amounts to approximately NIS 2,909 million compared with approximately NIS 3,021 million as of December 31, 2008.

The change in the equity attributed to the shareholders during the period, stems mainly from a loss in the period in the sum of approximately NIS 104 million, from a decrease in capital reserve from hedging transactions in the sum of approximately NIS 19 million, which was offset as a result of an increase in capital reserve in respect of adjustments stemming from translation of financial statements of subsidiaries overseas in the sum of approximately NIS 43 million, and from an increase in capital reserve in respect of financial assets available for sale in the sum of approximately NIS 41 million.

As at September 30, 2009 the capital attributed to minority rights amounted to approximately NIS 1,030 million compared with approximately NIS 1,102 million as at December 31, 2008.

3. RESULTS OF OPERATIONS

The operating loss during the report period amounted to approximately NIS 6 million compared with operating profit of approximately NIS 539 million in the corresponding period last year.

The change in the operative profit stems mainly from a change in the fair value of the investment real estate which in the report period declined by approximately 570 million compared with a decline of NIS 91 million in the corresponding period last year. In addition, a loss from impairment of inventory of lands for construction of approximately NIS 73 million compared with 0 in the corresponding period last year.

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

3.1 RENTAL REVENUES

The total rental revenues of the Company amounted during the period to approximately NIS 929 million compared with approximated NIS 912 million in the corresponding period last year. An increase at a rate of 1.86%.

The revenues from the rent in Israel amounted to approximately NIS 318 million, compared with approximately NIS 324 million in the corresponding period last year. A decrease at a rate of 1.85%. The change stems mainly from a decrease in the sum of approximately NIS 17 million due to the sale of Cellcom House in Netanya by Industrial Buildings during the course of the month of October 2008, against a total increase in the sum of approximately NIS 8 million in respect of occupancy of Stage II of a commercial center in Be'er Sheva, additional office buildings in Rosh Ha'ayin and Sha'ar Hanegv and from linkage of a majority of the rental contracts to the consumer price index.

Rent overseas amounted to approximately NIS 611 million compared with approximately NIS 588 million in the corresponding period last year. The increase stems mainly from the acquisition of properties in Germany and in France during the course of the first half of 2008, which generated only partial income during the corresponding period. The increase was partially offset as a result of a decline at a rate of approximately 1.2% in the occupancy rate of the properties. In addition, an increase due to improvement in occupancies in Canada and in Switzerland.

3.2 GROSS PROFIT FROM INCOME PRODUCING PROPERTIES (NOI)

The profit in this clause, which includes revenues from rental and from management and maintenance, less the cost of management and maintenance of the buildings, amounted to approximately NIS 775 million, compared with approximately NIS 764 million in the corresponding period last year.

3.3 GROSS PROFIT

The gross profit in the report period amounted to approximately NIS 787 million compared with approximately NIS 776 million last year.

3.4 CHANGES IN INVESTMENT REAL ESTATE AND INVESTMENT REAL ESTATE UNDER DEVELOPMENT

For impairment of investment real estate and investment real estate under development see reference in clause 1.4.2 above.

3.5 FINANCING EXPENSES

During the report period, the financing expenses less financing revenues amounted to approximately NIS 482 million, compared with approximately NIS 985 million last year.

Below are the principal net financing expenses during the period:

Net interest expenses: NIS 455 million.

Net expenses in respect of index increase: NIS 129 million.

Net expenses from exchange rate differentials in respect of currency balances NIS 33 million.

Profit from negotiable securities approximately NIS 69 million.

The decrease in financing expenses compared with the corresponding period last year stems mainly from an increase in the known index in the report period at a rate of approximately 3.62%, compared with an increase at rate of approximately 5% in the corresponding period last year, from an increase/(decline) in the exchange rates of currencies against the Shekel during the report period at rates of: U.S. Dollar 1.16% Canadian Dollar 12.45% Euro 4.02% Swiss Franc 2.44% compared with a decline in the exchange rates of currencies in the corresponding period last year: U.S. Dollar (11.05%), Canadian Dollar (15.8%) Euro (11.65%), Swiss Franc (8.01%).

Mondon, a consolidated company whose functional currency is the Rupee, obtained loans from its shareholders in Dollars. As a result of the strengthening of the Rupee against the Dollar the revenues from currency differentials amounted to a sum of approximately NIS 10 million.

Mirland provided loans to subsidiaries in the total sum of approximately NIS 447 million. As a result of the weakening of the Ruble against the Dollar financing expenses amounted to approximately NIS 12 million. (In the loan amounts capital loans provided by Mirland to subsidiaries in Russia in the total sum of approximately NIS 1060 million Dollars, and which as a result of the weakening of the Ruble against the Dollar the impact on capital reserves in respect thereof was in the total sum of approximately NIS 1.5 million, were not included).

Svitland, a consolidated company, provided Dollar loans to subsidiaries in countries of the Commonwealth of Independent States in the sum of approximately NIS 118 million. As a result of the strengthening of the Dollar against the Hryvnia the revenues from currency differentials amounted to a sum of approximately NIS 1.1 million.

3.6 INCREASE IN RATE OF HOLDINGS

The revenues amounted to a sum of approximately NIS 8 million during the report period: Profit from an increase in the rate of holdings of Industrial Buildings, as a result of a buy back effectuated by Industrial Buildings of its shares during the report period in the sum of NIS 6 million and revenues in the sum of approximately NIS 2 million stemming from acquisition of Mirland shares on the stock exchange through Industrial Buildings.

3.7 NET OTHER REVENUES

This clause amounted to net revenues in the sum of approximately NIS 18 million during the report period stemming mainly from revenues of approximately NIS 7 million in respect of adjustment of the sale price of a commercial center in Canada, which was sold during the course of 2006 and cancellation of a provision for a lawsuit in France in the sum of NIS 9 million due to the winning of the case in respect of the lawsuit.

3.8 TAXES ON INCOME

During the report period tax revenues were recorded in the sum of approximately NIS 223 million, compared with expenses in the sum of approximately NIS 22 million in the corresponding period last year.

The difference stems mainly as a result of tax revenues during the report period in the sum of approximately 237 stemming from the Economic Streamlining (Legislative Amendments for Implementation of the General Plan for 2009-2010) Law, 5729-2009, which was adopted in the Knesset during the course of the month of June 2009, which prescribes, inter alia, that the corporate tax rate will be gradually reduced up to and inclusive of 2016 to 18%. The tax revenues of the Company, without subsidiaries, IBC, Mirland, Mondon and Svitland amount to a sum of approximately NIS 77 million.

4. **LIQUIDITY AND FINANCING SOURCES**

The total cash, net, during the report period, provided by operating activities amounted to approximately NIS 26 million compared with a sum of approximately NIS 36 million in the corresponding period last year.

The net cash during the report period provided by **operating activities**, after neutralizing changes in the inventory of apartments and in the inventory of lands for residential construction, mainly Germany, Russia, Ukraine, Thailand and India, amounts to a sum of approximately NIS 108 million, compared with a sum of approximately NIS 318 million provided by operating activities, after such neutralization, in the corresponding period last year.

The cash, net, used for **investment activity**, amounted to approximately NIS 59 million during the report period, compared with approximately NIS 2,158 million in the corresponding period last year.

The investment activity during the report period was mainly intended for investments in investment real estate in Israel in the sum of approximately NIS 64 million and overseas in the sum of approximately NIS 45 million, for investments in overseas investment real estate under development in the sum of approximately NIS 269 million, of which approximately NIS 173 million in Mirland and in Israel in the sum of approximately NIS 67 million, by acquisition of short term investments in the sum of approximately NIS 24 million, offset against proceeds from realization of investment real estate in the sum of approximately NIS 137 million, realization of short term investments in the sum of approximately NIS 114 million and repayment of long term deposits in the sum of approximately NIS 97 million.

The cash, net, used for **financing activities** during the report period, amounted to approximately NIS 51 million, compared with cash, net, provided by financing activities in the sum of approximately NIS 941 million, in the corresponding period last year.

The principal financing operations during the report period are: Receipt of net loans in the sum of approximately NIS 157 million, repayment of bonds in the sum of approximately NIS 454 million, issue of bonds in the sum of approximately NIS 400 million and a dividend paid to the minority by IBC in the sum of approximately NIS 33 million.

BELOW IS THE CASH FLOW FORECAST OF THE COMPANY, ON A SOLO BASIS, FOR A 24 MONTH PERIOD IN NIS THOUSANDS

	Twelve month period ended on:	30.9.2010	30.9.2011
(1)	Balance of unused lines of credit as at beginning of period	324,936	396,310
(2)	Cash flow from operating activities in Israel	69,482	68,267
(3), (2)	Cash flow from operating activities overseas after repayment of loans	105,600	89,504
(4)	Cash flow from sales of properties in Israel	38,528	10,437
(4)	Cash flow from sales of properties overseas	68,491	1,090
(5)	Receipt of loans overseas, net	65,546	122,297
(6)	Revenues from sale of unencumbered securities	68,323	28,222
	Dividend from Industrial Buildings 72%	72,000	72,000
(7)	Receipt of loans in Israel	137,000	48,608
(8)	Raising and sale of bonds in Israel	65,719	100,000
	Total funds	1,015,625	936,735
	Interest on loans from banks in Israel – including self-financing overseas	-72,903	-86,381
	Interest on public and private bonds	-145,593	-129,464
	Public and private bond fund	-295,422	-432,448
(9)	Additional investments in Israel and part of self-financing overseas	-72,363	21,195
	Annual cash surplus (shortfall)	429,343	309,637
(10)	Adjustments to value of securities and foreign currency exchange rates immediately before the day of publication of the report	-33,034	-
	Balance of unused lines of credit as at end of period	396,310	309,637

Below are details of the assumptions standing behind the cash flow forecast:

1. Possibility of using obligo up to the amount of the lines of credit according to the needs of the Company. The lines of credit are based upon bank approvals as given orally to the Company management. The Company assumes that there will be no adverse change in the lines of credit during the flow period.

The lines of credit depend upon changes in exchange rates as detailed in clause 6 below and in the value of securities: Real estate assets and Industrial Buildings' shares. The flow is prepared in accordance with the exchange rates and the value of the securities as at the balance sheet date.

2. During the course of the cash flow forecast periods there will be no change in the occupancy rates and in the level of the rental prices. The figure does not include real costs of rent and increases as a result of linkage of the rent to the index, according to valid rental contracts. It will be clarified that rent flow in Israel and overseas is not based upon future expiration dates of rental contracts but rather upon a general assessment of occupancy rates and rent as detailed above.

3. During the course of the cash flow forecast periods non-recourse loans were repaid in Canada in the total sum of NIS 374 million. On 1.1.2009 a loan in the sum of NIS 95 million was repaid, with respect to which a renewal agreement was signed with a bank – see Section 8(c) below. With respect to a loan in the sum of approximately NIS 56 million that is to be repaid in the first quarter of 2010 the Company assumes, based upon negotiations that it is conducting, receipt of refinancing in an amount greater than the repayment amount by a sum of approximately NIS 11 million. With respect to an additional loan in the sum of NIS 223 million, the maturity date of which is in the second quarter of 2010, the Company assumes that the amount that will be refinanced will be lower than the repayment amount by a sum of approximately NIS 34 million. The changes are included in the net overseas loans line item (note 5 below).

The aforementioned amounts do not include repayment of a property loan with respect to which a sale agreement was signed - see Section 7(k) below. This Section includes cash flow from operating activities received by the Company through repayment of owners' loans and dividends from overseas subsidiaries.

4. With respect to approximately NIS 29 million of projected revenues from sale of properties in Israel, sale agreements were signed. The rest of the assumptions with regard to sale of properties in Israel are not based on binding agreements but rather on the work plans of the Company for sale of properties.

A majority of the revenues from sale of properties overseas stems from sale of a property in Canada. See further details in clause 7(k) below.

In this clause the cash flow from sale of properties overseas includes cash flow received by the Company through repayment of owners' loans and dividends from overseas subsidiaries.

5. The Company assumes receipt of loans overseas in the sum of approximately NIS 212 million in respect of unencumbered real estate assets overseas at a value of approximately NIS 439 million, with the addition of the sum of approximately NIS 11 million and less the sum of NIS 34 million as detailed in assumption 3 above. In this clause the cash flow from overseas is received by the Company through repayment of owners' loans and dividends from overseas subsidiaries.

6. Sale of the shares will be effectuated according to the market conditions and the needs of the Company. The consideration was determined according to the market prices as at 30.09.09.

7. The Company assumes receipt of loans in Israel in amounts as detailed hereinafter: A loan in the sum of NIS 40 million that was bank approved subsequent to the balance sheet date, a loan in the sum of approximately NIS 49 million in respect of unencumbered real estate assets in Israel at a value of approximately NIS 121 million and a loan in the sum of approximately NIS 100 million, which is calculated at a rate of 60% of the market value of unencumbered Industrial Buildings shares as of the day of

publication of the report.

8. The Company assumes sale of bonds of the Company, which were acquired during the course of trade on the stock exchange within the framework of a buy back at a value of approximately NIS 66 million, and raising bonds from the public in the sum of approximately NIS 100 million in the third quarter of 2011.
9. The cash flow is based on a freeze of a majority of the investments in lands and in development until the conditions are created for debt financing in Israel and around the world from the public and from financial institutions.
This clause includes repayments of loans from Mirland in the total sum of approximately NIS 61 million during the course of the period until March 2011.
10. This clause includes adjustments of the Company's foreign currency loans, solo, as of the date immediately prior to the day of publication of the report, and adjustment of the projected proceeds from sales of securities to the value of the securities on the date of preparation of the cash flow.

The Company, without the subsidiaries, has unused lines of credit in the sum of approximately NIS 325 million as of the balance sheet date, and approximately NIS 280 million immediately before the date of publication of the report. The decline from the balance sheet date to immediately before the date of publication of the report stems mainly from a buy back of bonds of the Company in the sum of approximately NIS 15 million and from changes which occurred in foreign currency rates compared with the Shekel.

In addition, immediately before publication of the report, the Company, without consolidated companies, had unencumbered real estate assets in Israel and overseas at a value of approximately NIS 645 million, negotiable securities, unencumbered, intended for sale in the sum of approximately NIS 100 million, and shares of public consolidated companies, which are unencumbered, together with encumbered shares above what is necessary from the value agreed upon with the lenders for the purpose of maintaining the lines, at a market value in an aggregate sum of approximately NIS 794 million.

The Company has negative working capital (as detailed in clause 2 above), however in the opinion of the Board of Directors of the Company, the Company does not have a liquidity problem and this taking into consideration the cash flow forecast of the Company and the assumptions at the basis thereof as detailed above.

Notwithstanding the relative improvement in the state of the economy and in the positive economic indicators in the third quarter of 2009, it is still difficult to obtain financing from non-banking entities. In addition it is difficult to obtain financing from banking entities in Israel and overseas, which is manifested by a lower LTV ratio than in the past and by prolonged and ongoing proceedings to receive the aforementioned credit. However, the Company received additional lines of credit during the report period. The continuation or worsening of the crisis is liable to create hardships for the Company in raising credit and additional financing as stated above. In addition, the lines of credit of the Company may be reduced as a result of changes in the currency exchange rates and a decline in the value of the securities that the Company made available in favor of the banks, as detailed in clause 6 below.

The cash flow forecast and the assumptions at the basis thereof constitute forward looking information. The cash flow forecast includes various assessments and estimations concerning the revenues and the financing sources of the Company and its projected expenses and payments. These assessments are based on the existing information in the possession of the Company as of the date of publication of the report, on the work plans of the Company and on its assessments with regard to its ability to sell properties, to receive credit and loans, to maintain the existing lines of credit as well as on the currency exchange rates and securities as of the date immediately before publication of the report and on additional factors detailed in the above assumptions. There is no certainty that these assessments and estimations of the

Company will be realized in light of the great uncertainty currently prevailing due to the financial crisis, and since they are dependent, inter alia, on third parties, over which the Company has no influence or over which it has limited influence, in everything related to the financing sources of the Company, including realization of assets and receipt of credit and loans, as well as on various market factors such as currency exchange rates and securities prices, over which the Company has no influence. Any material change in such assessments and estimations, including changes: in the activity of the Company in the ordinary course of business, in the ability of the Company to realize assets and to receive loans and credit and to maintain the existing lines of credit, in the exchange rate of the foreign currencies which influence the liquidity of the Company and the lines of credit thereof, in its sources of income, or in the structure of its expenses, is liable to materially adversely effect the cash flow forecast and the state of the Company's liquidity.

5. CHANGES IN THE SHARE CAPITAL AND CONVERTIBLE SECURITIES (PAR VALUE)

	<u>Convertible bonds C</u>	<u>Share capital</u>
Issued to outsiders on 31.12.08	204,113	52,545,268
<u>Changes in capital held by outsiders during the report period</u>		
Repayment	(34,019)	
Issued to outsiders on 30.9.09	170,095	52,545,268
Conversion ratio	1:25	
Share capital in full dilution *	6,804	<u>52,552,072</u>

* The share capital does not include the Company's holdings of its shares in the sum of 4,709,424 par value.

6. EXPOSURE TO MARKET RISKS AND METHODS OF MANAGEMENT

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

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

Below are the main market risks to which the Company is exposed:

Index exposure – as of the balance sheet date the balance of the index linked credit of the Company (bonds, loans from banks and loans from institutional investors), is set at approximately NIS 6,306 million (approximately NIS 5,953 million as at December 31, 2008) less the balance of long term index linked bank deposits in the sum of approximately NIS 2,784 million (approximately NIS 2,771 million as at December 31, 2008). Thus, the exposure to the consumer price index as of the date of the financial statements amounts to approximately NIS 3,522 million (approximately NIS 3,182 million as at December 31, 2008). The aforesaid exposure mainly finances investment assets in Israel at a total value of approximately NIS 6,219 million (approximately NIS 5,778 million as at December 31, 2008), where approximately 90% of the rent in respect thereof is linked to the consumer price index.

In light of the aforesaid the Company has a surplus of linked assets over linked liabilities.

Foreign currency exposure – as a rule, the Company finances the acquisition of income producing real estate overseas through consolidated companies, by receiving loans from overseas banks, in currencies identical to the investment currency and from its independent sources in Israel, by raising credit in the investment currency. The retained cash flow received from the income producing real estate overseas serves the foreign currency credit in Israel. This policy in fact economically hedges against currency exposure of the investment amount and in accounting terms it minimizes the effect on the financing expenses or revenues in profit and loss. The Company's policy as described above regarding foreign currency exposure does not hedge the surplus balances in foreign companies and therefore the Company has accounting exposure expressed within the framework of the capital reserves from translation differentials.

Since loans of the Company in foreign currency, taken from banks in Israel, are received, usually, against Shekel lines of credit (inasmuch as they are derived from Shekel assets, mainly, Shekel deposits in banks of proceeds of bond issues that the Company effected in Israel, real estate assets in Israel, shares of Industrial Buildings and the Company and other securities in Israel), an increase of foreign currency exchange rates against the Shekel increases the scope of the Company's liability to banks and decreases the available lines of credit accordingly.

Below is the balance of foreign currency loans and guarantees to subsidiaries of the Company, solo in Israel, a change in the exchange rates of which against the Shekel reduces the available lines of credit of the Company, and the actual effect of the change from the balance sheet day and until immediately prior to the day of publication of the report.

(Below are the currency exchange rates immediately before the day of publication of the report and the rate of increase of each currency against the Shekel rate from the balance sheet date and until immediately before the day of publication of the report: Euro 5,689, American Dollar 3.826, Canadian Dollar 3.568, Swiss Franc 3.774).

As of 29.11.09

Changes in lines of credit as a result of changes in foreign currency compared with NIS					
Currency	Changes in the exchange rates from the balance sheet day and until immediately before the day of publication of the report	Balance of loans in NIS thousands, solo in Israel, as of the balance sheet day	Amount of the change immediately before the date of publication	Sensitivity to changes	
				*2.50%	*5%
Euro	3.27%	851,653	(27,823)	(21,291)	(42,583)
Dollar	1.81%	405,653	(7,340)	(10,141)	(20,283)
Canadian Dollar	1.93%	437,989	(8,471)	(10,950)	(21,899)
Swiss Franc	3.35%	201,271	(6,746)	(5,032)	(10,064)
Total reduction in lines of credit subsequent to the balance sheet date as a result of changes in exchange rates.			(50,380)	(47,414)	(94,828)

* A weakening of the foreign currency against the Shekel by those same rates will cause an increase in the lines of credit by those same amounts respectively.

The Company has balances that are exposed to changes in currency exchange rates, which are expressed in the financing expenses or revenues on the Company's profit and loss (a weakening of the Shekel, against each one of the currencies specified in the exposure against the Shekel below, will cause financing revenues and vice versa. A weakening of the Dollar, against each one of the currencies specified in the exposure against the Dollar below, will cause an increase in the financing revenues and vice versa).

Below are the balances of foreign currency exposure as of September 30, 2009, the effect of which will be expressed in the financing expenses or revenues on the Company's statement of income:

Currency	Exposure (NIS thousands)	Changes in exchange rates from the balance sheet day and until immediately before the day of publication of the report	Effect on financing revenues (expenses) from the balance sheet day and until immediately before the day of publication of the report (NIS thousands)
Rise (decline) of foreign currency against the Shekel			
Euro	53,282	3.27%	1,741
U.S. Dollar	2,432	1.81%	44
Canadian Dollar	(25,337)	1.93%	(490)
Swiss Franc	9,225	3.35%	309
Rise (decline) of foreign currency against the Dollar			
Rupee	264,419	(4.55%)	12,041
Hryvnia	80,250	(6.29%)	5,046
Ruble	218,239	(2.71%)	5,909
Total effect on profit and loss subsequent to the balance sheet date as a result of changes in exchange rates			24,599

Mondon, a consolidated company, received loans from its shareholders in Dollars. Since the functional currency of Mondon is the Rupee the exchange rate differentials at the time of translation of the aforementioned loans to the Dollar are credited to profit and loss.

Mirland, a consolidated company, provided loans to subsidiaries in Russia in the total sum of approximately NIS 1,507 million Dollars, of which a sum of approximately NIS 1,060 million Dollars is in capital loans.

Exchange rate differentials at the time of translation of the aforementioned loans to the Dollar are credited to profit and loss and currency differentials are credited to capital reserve from translation differentials.

Svitland, a consolidated company, provided loans to subsidiaries in countries of the Commonwealth of Independent States in the sum of approximately NIS 118 million. Since the functional currency of the companies in the Ukraine is the Hryvnia, exchange rate differentials at the time of translation of the aforementioned loans to the Dollar are credited to profit and loss.

Below is the shareholders' equity in respect of foreign consolidated companies, in accordance with the rate of holding, affected by changes in the exchange rates and the changes of which are expressed within the framework of capital reserves from translation differentials (a weakening of the Shekel against each one of the specified currencies will cause a rise in the shareholders' equity and vice versa), and this in accordance with the Company's policy which does not hedge against the surplus balance.

Currency	Exposure (NIS thousands)	Change in exchange rates from the balance sheet day and until immediately before the day of publication of the report	Effect on capital reserves from translation differentials from the balance sheet day and until immediately before the day of publication of the report (NIS thousands)
Euro	295,964	3.27%	9,669
U.S. Dollar	388,605	1.81%	7,032
Canadian Dollar	132,388	1.93%	2,560
Swiss Franc	34,468	3.35%	1,155
Rupee	(68,709)	(4.55%)	3,129
Decline (rise) of foreign currency against the Dollar			
Ruble	512,560	(2.71%)	(13,878)
Total effect on shareholders' equity subsequent to the balance sheet date as a result of changes in exchange rate			9,667

In meetings of the balance sheet committee and the Board of Directors of the Company, which were held on the dates specified in clause 9 below, the currency and index exposures of the Company were presented in a detailed manner. In addition, during the course of the report period the Company held meetings together with the Chairman of the Board of Directors of the Company, who is the person responsible for management of the market risks at the Company, on the subject of the monitoring of the policy and the handling of the currency and index exposures. The resolutions adopted at these meetings were implemented by the Company management.

EFFECTS OF THE ECONOMIC CRISIS

After a long period of shrinkage in the global economic activity a recovery trend began, mainly in the financial markets in Israel and overseas. However, various economic indicators indicate that notwithstanding such recovery of the financial markets, the real economic crisis has not yet ended. Accordingly it is difficult to estimate whether the change in trend is continuing in the direction of emergence of the global economy from the recession and whether the low point passed.

Below are details of the material effects of the financial crisis as of September 30, 2009 and as of the date of publication of the report, on the state of its businesses, the results of its operations, its financial condition, its liquidity and its financial strength:

- a Notwithstanding the relative improvement in the state of the financial markets, there is still certain difficulty in obtaining financing from banking and non- banking entities. Despite the aforesaid difficulty the Company received additional lines of credit during the report period and thereafter and Industrial Buildings raised bonds (during the course of the month of June 2009). However, continuation of the real and economic crisis is liable to create hardships for the Company in raising credit and additional financing. For additional information regarding effects of the crisis on the state of liquidity of the Company see also clause 4 above.
- b During the course of the third quarter of 2009 the level of demands and the prices of rentals stabilized and this following a decline that occurred during the course of the first half of 2009 in the occupancy rate of the Company's properties in Israel as well as a certain insubstantial increase in arrears of rent payments, mainly from hi-tech companies leasing properties in Israel, in comparison with 31.12.2008. However, the continuation of the real economic crisis in the world in the course of time is liable to materially affect the operations of the Company, the results thereof and the financial condition thereof as a result of a possible decline in the revenues of the Company from rent (both due to a decline in occupancy rates and due to a decline in rent collected by it).

- c As of 2008 and with the onset of the economic crisis there was an increase in the

capitalization rates for the investment real estate assets of the Company in Israel and overseas in a manner which brought about a decline in the fair value thereof, which was partly offset by linkages of the rental contracts to the various indices. The increase in the capitalization rate for appraisal of the value of the Company's properties was prescribed in accordance with the capitalization rates customary in the territory in which the properties are situated, and taking into consideration the unique characteristics of each property or group of properties. In the third quarter of 2009 the decline was halted and the capitalization rates stabilized in most of the countries in which the Company operates. Nonetheless, the continuation of the crisis may bring about a return to the trend of capitalization rate increases in a manner that may very materially affect the Company's profits.

- d The results of operations of the Company are also affected by equity losses in respect of associated companies operating mainly in developing countries, Russia, India and countries of the Commonwealth of Independent States, as a result of an increase in the capitalization rates and changes in the exchange rates of the currencies in these countries, as detailed in clause 6 above, and the economic slow down in these countries,. Indeed a slight improvement in economic data in some of these countries is evident in the third quarter of 2009, but the improvement has not yet trickled into the real estate industry. The continuation of the economic crisis in the real estate industry and stagnation of the improvement trend in the economic data in these countries, and the effect thereof on the capitalization rates and on the exchange rates, may materially affect the Company.
- e The Company has a negotiable securities portfolio, the value of which on the date of the statements was set at NIS 146 million, immediately before the date of publication of the report the value thereof was set at approximately NIS 234 million (including a sum of approximately NIS 6 million which were sold subsequent to the balance sheet date). Should the financial crisis continue this may materially affect the value of the negotiable securities portfolio of the Company.

The Company is continuing its preparation for contending with such possible effects. Thus, inter alia, the Company intends to take operational streamlining steps. In this manner, inter alia, the Company re-examined the investments in each one of the projects which are in the planning processes and in the construction processes, and with respect to which the Company has no obligations to complete them, and accordingly it re-planned investments in the various projects while taking into consideration the cash flow of the Company and the markets in the various countries in which it operates.

7. ADDITIONAL EVENTS

- a On February 9, 2009, S&P Maalot announced a downgrade in the rating of the Company's bonds in circulation that are traded on the stock exchange from a (A+/Stable) rating to a (iA-/Negative) rating.
- b On February 9, 2009 S&P Maalot announced a downgrade in the rating for bonds of Industrial Buildings that are traded on the stock exchange from a (AA-/Stable) rating to a (iA/Negative) rating.
- c. On February 2, 2009 Industrial Buildings cancelled a transaction for acquisition of a commercial center in West Germany, with the consent of the parties. Industrial Buildings paid the seller of the property an amount of 650 thousand Euros, most of which was repayment of expenses of the seller of the property and commission fees.

- d. On February 12, 2009 a foreign subsidiary owned by Industrial Buildings (95%) decided to act to cancel a project with the government of Macedonia which was designated for construction of approximately 1,400 residential units on land acquired in consideration of a sum of 3.7 million Euros. In light of inconsistencies between representations of the government of Macedonia in relation to measurements of the land and the description thereof in the agreement and the manner of registration thereof in the land registry, the local court cancelled the registration of the land in the name of the foreign subsidiary in a manner that makes implementation of the agreement impossible. The State appealed the court's judgment, whose decision reversed the original judgment, which led the Company to renew its appeal in the court, which appeal has not yet been decided. Following this decision and in light of the government of Macedonia not meeting its obligations to construct water and electricity infrastructure for the land, Industrial Buildings has held contacts with the government of Macedonia, to cancel the agreement and to return the consideration that Industrial Buildings paid for the land and the bank guarantee that was provided by it on the date of signature of the agreement. Since the government of Macedonia did not agree, the foreign subsidiary filed a claim in a local court and Industrial Buildings estimates, in accordance with an opinion that it received from its legal advisors that the subsidiary has a solid legal right to cancel the agreement and to receive the amount that it paid together with interest. The land, which was previously under inventory of lands for construction, was reclassified to accounts receivable and debit balances.
- e. On April 27th Midroog announced a downgrade in the rating of series of the Company's bonds that are traded on the stock exchange from an A1 stable outlook rating to an A2 negative outlook rating.
- f. On April 27th Midroog announced a downgrade in the rating of series of Industrial Buildings' bonds that are traded on the stock exchange from an Aa3 stable outlook rating to an A2 stable outlook rating
- g. During the course of the month of October 2007 a foreign subsidiary wholly owned by Industrial Buildings ("the foreign company") signed an agreement for acquisition of 50% of the rights in a building in Manhattan, New York ("the structure"). During the course of the month of May 2009, a building in Manhattan, designated for conversion into a hotel, in which Industrial Buildings has 50% of the rights (through a wholly owned foreign subsidiary), partially collapsed ("the structure that collapsed"). Due to the collapse and in accordance with a directive of the local authorities, the foreign company demolished a part of the structure that collapsed and performed works to reinforce the adjacent structure. It became known to the foreign company that the owner of the structure adjacent to the part of the structure that collapsed carried out excavation works immediately before the date of the collapse. In the estimation of Industrial Buildings and from checks that were conducted on the ground this might have impacted the occurrence. The foreign company has insurance coverage in respect of the structure and as of the date of the report the foreign company is examining the scope thereof in everything concerning the collapse and the works that stemmed and that will stem in respect thereof.
- h. On June 14, 2009, Industrial Buildings published a shelf offering report pursuant to a shelf prospectus, whereby Industrial Buildings issued NIS 100 million par value bonds (series G), and 500,000 thousand warrant options from each one of the series 14 - 17 in consideration of a sum of approximately NIS 110 million.:
Each warrant option from each one of the series 14-17 was exercisable into NIS 100 million par value bonds (series G) in consideration of an exercise price of NIS 109.95. From the date of issue thereof and until the date of expiration thereof 1,918,488 warrant options (series 14-17) were exercised in consideration of approximately NIS 211 million.

The warrant options (series 14-17) expired in their entirety during the course of the report period.

- i. On June 21, 2009 subsidiaries in Switzerland signed an agreement with a bank whereby the balance of a loan in the sum of 38 million Swiss Francs, which was provided by the bank for the purpose of acquiring properties, will be repaid by early repayment in the sum of 64 million Swiss Francs.
For the purpose of financing the repayment the companies entered into an agreement with another bank whereby the companies were provided with a new non-recourse loan in an amount equal to the early repayment. The new loan is for a 5 year term, with fixed annual interest at a rate of 3.18%. As a result of repayment of the loan the Company recorded in the financial statements a profit in the sum of 19 million Swiss Francs before tax expense.
- j. On June 28, 2009, a Canadian subsidiary wholly owned by the Company signed a non-binding memorandum of understanding with a local bank whereby the bank will provide, together with another bank, a loan to the subsidiary in the sum of 16.4 million Canadian Dollars against a lien on a commercial center in Canada owned by the subsidiary. The loan will be used by the Company for repayment of an existing loan in the sum of 15.7 million Canadian Dollars, which is designated for repayment in the month of September 2009. On September 9, 2009, the receipt of the loan from the local bank was finalized.
- k. On July 29, 2009 a Canadian subsidiary wholly owned by the Company signed a sale agreement for sale of a commercial center in consideration of 40.2 million Canadian Dollars.
Out of the sale consideration, a sum of approximately 23.9 million Canadian Dollars will be used for repayment of a property secured loan and for financing the sale expenses, and the balance in the scope of approximately 16.3 million Canadian Dollars, will remain in the possession of the Company. The value of the property was set in the Company's books in the amount of the consideration. As a result, the Company recorded a net loss during the report period in the sum of approximately NIS 14 million. The asset and the liability balance in respect thereof are stated in the financial statements as an asset and liability designated for realization.
- l. During the course of the third quarter the Company provided a loan to Mirland in the sum of approximately NIS 3.8 million and subsequent to the balance sheet date the Company provided an additional amount in the sum of approximately NIS 10.5 million. The cumulative amount constitutes the Company's proportionate share of a loan of 10 million U.S. Dollars provided by the Company, IBC and Darban Investments Ltd.. The aforesaid loan bears interest of approximately 15%.
- m. On August 27, 2009 IBC provided Mirland with a loan in the sum of approximately NIS 18 million, an amount that constitutes the proportionate share of the Company in a loan of 10 million Dollars provided by the Company, IBC and Darban Investments Ltd.. The aforesaid loan bears interest of approximately 15%.
- n. On September 24, 2009 Midroog announced a downgrade in the rating of series of the Company's bonds that are traded on the stock exchange from an A2 negative outlook rating to an A3 negative outlook rating.

- o. On August 20, 2009 the Board of Directors of IBC approved distribution of a dividend in the sum of approximately NIS 100 million. The dividend was paid during the course of the month of September, 2009.

- p. In connection with Mondon's engagement in an agreement for acquisition of shares in a joint venture that is constructing a mall in the region of the city of Ludhiana, in the state of Punjab, (as described in clause 7.14.5 (e) of the Company's prospectus dated 27.5.2009 ("**the prospectus**")), it was conveyed to Mondon by the Indian partner that: (1) the merger between the company owning the rights in the land and the joint venture and the transfer of the rights in the land were completed, (2) that the debts of the joint venture to third parties, tax authorities and banks are set as of 30.9.2009 at a sum of approximately 1,076 million Rupees (approximately NIS 84.1 million). The debts do not include advance payments in respect of sales and payments for equity. Up to 30.9.2009 (inclusive) the joint venture paid interest payments on the loan from commercial banks in India in the sum of approximately 69 million Rupees (approximately NIS 5.4 million), approximately half of which (a sum of approximately 34.5 million Rupees (approximately NIS 2.7 million)) was financed by Mondon in addition to the total consideration amount, and the balance was financed by the Indian partner. Even though Mondon has half of the members of the Board of Directors in the joint venture, the signature rights in the joint venture and the daily management thereof are in the hands of the Indian partner. To the best knowledge of Mondon, as of the month of July 2009 the Indian partner ceased regular financing of its share in the repayment of the interest on the loan to the banks, and up to 30.9.2009 arrears of approximately 34 million Rupees (approximately NIS 2.7 million) accrued in the interest payments to the banks, which have a right of lien on the land. As a result thereof warning letters were sent to the joint venture from lender banks. In addition, it became evident to Mondon that in recent months the Indian partner almost completely ceased the further construction of the mall. Following these breaches of the agreement, Mondon is conducting negotiations with the partner in order to reach new agreements as to the further financing of the repayment of the loan to the banks and resolution of the remaining issues in dispute. In light of the aforesaid, there is uncertainty as to the financial ability of the Indian partner to meet its obligations toward Mondon and toward the joint venture for construction of the mall and for payment of the excess return due to Mondon pursuant to the joint venture agreement. In accordance with the aforesaid, Mondon effectuated in its financial statements for 30.9.2009 a reduction in the value of the investment that it made up to now in the joint venture by a sum of approximately 1,298 million Rupees (approximately NIS 101 million), this in addition to a reduction made in the financial statements of Mondon for 31.12.2008 in the sum of approximately 211 million Rupees (approximately NIS 16.4 million), so that the value of the investment in Mondon's books after the reduction will be set at a sum of approximately 894 million Rupees (approximately NIS 70 million).

In connection with an engagement of an Indian company wholly owned by Mondon in relation to acquisition of agricultural lands in the city of Ludhiana, in the state of Punjab, (as described in clause 7.14.5 (d) of the prospectus), in light of the fact that notwithstanding the passage of time no real change occurred in the state of affairs as described in the prospectus and with respect to the freeze on the continued performance of the agreements between the parties, Mondon decided to reduce in its financial statements for 30.9.2009 the value of the investment that it made up to now in connection with the transaction by a sum of approximately NIS 25 million, in addition to the reduction that it effectuated in its financial statements for 31.12.2008, so that the investment will be written off Mondon's books after the reduction.

8. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a On October 26, 2009 Industrial Buildings signed an option agreement, whereby the Company granted an option to purchase the land designated for construction of Tower C as well as a right to purchase an additional option for purchase of the land designated for construction of Tower D in the "Tel Aviv Towers" project.

The option for construction of Tower C is exercisable until December 1, 2009 in consideration of the sum of NIS 95 million. If the aforementioned option is exercised, the purchaser will be entitled to purchase an additional option for purchase of the land for construction of Tower D as stated above, and this in consideration of the sum of NIS 5.5 million. The aforementioned option (if purchased) is exercisable within 90 days from the day of exercise of the first option. The second option consideration will not be returned in any event.

Should the option for purchase of Tower C be exercised, Industrial Buildings is expected to record a pre-tax profit in the sum of approximately NIS 60 million. Should the option for Tower D also be exercised, the Company is expected to record an additional (pre-tax) profit in the sum of approximately NIS 75 million.

- b On October 27, 2009 Industrial Buildings entered into an agreement with Tao Tsuot Ltd. (Hereinafter – Tao), whereby the Company will acquire from Tao, in an off the floor transaction, shares of Darban Investments Ltd. (Hereinafter – Darban), where the controlling shareholder of the Company is the controlling shareholder and chairman of the Board of Directors of Darban, in consideration of an allocation of the Company's shares to Tao.

Pursuant to the agreement Industrial Buildings will acquire from Tao, in an off the floor transaction, 5,471,478 ordinary shares of Darban of NIS 1 par value, which constitute 10.51% of the share capital of Darban (Hereinafter – the Darban shares being acquired) in consideration of 15,879,556 ordinary shares of Industrial Buildings of NIS 1 par value, which the Company will allocate to Tao by way of private placement, which will constitute, subsequent to the allocation thereof, 4.9% of the share capital of Industrial Buildings (Hereinafter – the Company shares being sold) . The transaction will be completed no later than December 31, 2009, subject to the fulfillment of a number of suspending conditions and amongst them approval of the transaction by all the competent organs of Industrial Buildings, if and insofar as additional approval is required pursuant to law.

Tao undertook in the agreement that for a period of 24 months from the date of the effectuation it will not acquire additional shares of Industrial Buildings in a manner that will cause it to be deemed a stakeholder in the Company, as the term is defined in the Securities Law, 5728-1968.

The ratio between the number of Industrial Buildings shares being sold and the number of Darban shares being acquired, is set in accordance with a value appraisal of the Company and of Darban, which that was performed by an outside value appraiser independent of Industrial Buildings or the controlling shareholder thereof.

The Industrial Buildings shares being sold will be "restricted shares" and the sale thereof by Tao in the course of trade on the Tel Aviv Stock Exchange Ltd. will be governed by the restrictions prescribed in the Law and in the Securities Regulations (Details with regard to Sections 15A to 15C of the Law), 5760-2000.

- c On October 1, 2009 a Canadian subsidiary wholly owned by the Company signed a letter of undertaking with a Canadian bank, whereby the bank will renew a non-recourse loan for the subsidiary in the sum of 27 million Canadian Dollars, the maturity date of which is January 1, 2010, against a lien on a commercial center in Canada, which is owned by the subsidiary.

The letter of undertaking is for a loan for a period of 5 or 7 years, at the option of the Company. Repayment of the principal will be at a rate of 5% per year and the balance at the end of the loan period.

The loan will bear fixed interest that will be set immediately before the date of receipt thereof. According to current market conditions, the aforesaid interest is set at 6.08% and 6.33% respectively.

- d On October 18, 2009, Midroog announced a rating of A2 for additional bonds by IBC in the scope of approximately NIS 280 million and a change in the manner of rating all the bond series in circulation of IBC to a negative outlook rating.
- e On November 15, 2009, the Board of Directors of the Company resolved to enlarge the scope of the buy back plan of the negotiable bonds of the Company. For additional details see clause 1.5(a) above.
- f On November 16, 2009, the Company, Industrial Buildings and Darban entered with Mirland into an amendment to a loan agreement from the month of December 2008. Pursuant to the conditions of the amendment to the loan agreement the maturity date of 22 million U.S. Dollars out of the loan amount (the share of the Company being approximately 10 million U.S. Dollars) and the interest in respect thereof will be postponed by one year from the original maturity date, which falls at the end of the month of March 2010 (and the balance in the sum of 9 million U.S. Dollars will be repaid on the original maturity date, the share of the Company being approximately 4 million U.S. Dollars), in consideration of an annual interest premium of 3% in respect of the amount for which the repayment was postponed.

9. DISCLOSURE WITH REGARD TO THE FINANCIAL STATEMENT APPROVAL PROCESS

The Board of Directors of the Company appointed a balance sheet committee, the members of which are: Gabby Trabelsy (external director), Chairman, Meir Jacobson (external director), Anat Manipaz and Ronit Even, which will be the body responsible for oversight at the Company, and which will discuss, inter alia, the financial statements of the Company, including audit related matters that relate to oversight, and will bring its recommendations before the Board of Directors of the Company.

The balance sheet committee convenes for discussion of the financial statements after a draft of the financial statements and a draft of the report of the Board of Directors are forwarded to the committee members a number of days beforehand. At a committee meeting the CEO and the CFO of the Company review the main points of the financial statements and the material issues in the financial report, including the state of the Company's businesses, transactions and events that are not in the ordinary course of business, the material assessments and the critical estimates applied in the financial statements, the possible effect on the financial statements of significant risks and exposures, the accounting policy that was applied, changes that occurred in the accounting policy and application of the full disclosure principle in the financial statements and in the report of the Board of Directors. Within the framework of the discussion the committee members raise questions and requests for clarification of various issues in connection with the financial statements, and are answered by the Company management and a representative of the auditor. The balance sheet committee formulates its recommendations in connection with approval of the financial statements, and these are brought before the Board of Directors of the Company.

The balance sheet committee meeting was held on 25.11.2009 with the participation of Ronit Even, Meir Jacobson and Anat Manipaz and in the presence of the Company management and the auditor.

The draft financial statements and the draft report of the Board of Directors are forwarded to the members of the Board of Directors a number of days prior to the Board of Directors meeting, which was scheduled for approval of the financial statements. In the Board of Directors meeting for approval of the financial statements the CEO of the Company and the CFO of the Company review the main points of the financial statements and all the subjects that were raised within the framework of the balance sheet committee meeting as stated above. In addition, the Chairman of the balance sheet committee presents before the Board of Directors of the Company the recommendations of the committee in relation to the financial statements. Within the framework of the discussion members of the Board of Directors raise questions and requests for clarifications of various issues in connection with the financial statements, and are answered by the Company management and a representative of the auditor.

The Board of Directors meeting for approval of the financial statements was held on 29.11.2009, and all of the members of the Board of Directors participated therein, apart from Eliezer Fishman, as well as a representative on behalf of the auditor.

November 29, 2009

Eliezer Fishman

Chairman of the Board of Directors

Oded Shamir

CEO