

Africa Israel Investments Ltd.
Condensed Interim Consolidated Financial Statements
At September 30, 2009
Unaudited

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Review Report of the Independent Auditors to the Shareholders of Africa Israel Investments Ltd.

Introduction

We have reviewed the accompanying financial information of Africa Israel Investments Ltd. and its subsidiaries (hereinafter – “the Group”) including the condensed consolidated interim statement of financial position as at September 30, 2009 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and Management are responsible for preparation and presentation of the financial information for these interim periods in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for preparation of the financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

We did not review the condensed financial information for the interim periods of subsidiaries, the assets of which included in the consolidation constitute about 16% of the total consolidated assets as at September 30, 2009, and the revenues of which included in the consolidation constitute about 15% and about 24% of the total consolidated revenues for the nine-month and three-month periods ended on that date. In addition, we did not review the condensed financial information for the interim periods of investee and jointly controlled companies accounted for based on the equity method of accounting, the investment in which totaled about NIS 547,366 thousand as at September 30, 2009, and the Group’s share in their losses, net, was about NIS 150,096 thousand and about NIS 22,170 thousand, for the nine-month and three-month periods ended on that date. The condensed financial information for the interim period of those companies was reviewed by other auditors whose review reports thereon were furnished to us and our conclusion, insofar as it relates to amounts included in respect of those such companies, is based on the review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Review Standard 1, “Review of Interim Financial Information for Interim Periods Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of financial information for interim periods consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and on the review reports of other auditors, nothing has come to our attention that causes us to believe that the above-mentioned financial information was not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying attached financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above-mentioned conclusion, we direct attention to:

- A. That stated in Note 1B to the financial statements regarding the impact of the global financial crisis on the Group’s activities, Group Management’s plans for coping with the impacts of the aforesaid crisis, the efforts to formulate a debt arrangement with the holders of the Company’s debentures and the principles of a debt arrangement as stated signed and submitted to the Court, the Company’s notification of its non-payment of debentures (Series I) on their due date and the grounds that arose to the holders of all the debentures to demand immediate repayment, all in light of the credit provided to the Group, which as at September 30, 2009 amounts to about NIS 25.6 billion (about NIS 17.2 billion short-term and about NIS 8.4 billion long-term). As at the approval date of the financial statements, the Company is continuing the efforts to reach a debt arrangement with the holders of the debentures and realization of the rest of Management’s plans as described in the above-mentioned Note.

In light of the possibility existing on the part of the holders of all the debenture series issued by the Company to call them for immediate repayment and in light of the uncertainty regarding reaching a debt arrangement as stated above and its approval by the Court, there are significant doubts regarding the continued existence of the Company as a “going concern”.

The financial statements do not include any adjustments to the values of the Company’s assets and liabilities and the classification thereof that might be necessary if the Company is not able to continue operating as a “going concern”.

- B. That stated in Note 4B(2) to the financial statements regarding restatement of the condensed consolidated statements of cash flows for the nine-month and three-month periods ended September 30, 2008.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

Breitman Almagor Zohar & Co.
Certified Public Accountants (Isr.)

November 29, 2009

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Financial Position

	<u>At September 30</u>		<u>At December 31</u>
	<u>2009</u>	<u>*2008</u>	<u>*2008</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>In Thousands of New Israeli Shekels</u>		
Non-Current Assets			
Investments in investee companies accounted for using the equity method of accounting	1,182,776	1,524,623	1,373,112
Loans to investee companies	1,385,861	1,129,781	1,231,373
Property, plant and equipment	1,604,655	1,602,986	1,615,857
Investment property	4,505,787	5,851,637	6,448,833
Investment property under construction	7,470,665	8,802,479	7,212,775
Long-term loans, investments and other debit balances	1,907,050	1,831,330	1,937,650
Inventory of real estate	2,086,130	2,649,193	2,643,158
Prepaid lease fees	75,986	75,887	77,080
Intangible assets	123,078	230,762	155,304
Excess of assets over liabilities in respect of employee benefits	2,310	2,836	1,580
Deferred tax assets	<u>199,072</u>	<u>117,755</u>	<u>244,036</u>
	<u>20,543,370</u>	<u>23,819,269</u>	<u>22,940,758</u>
Current Assets			
Inventory of buildings held for sale	3,167,563	**2,705,958	**3,112,959
Properties held for sale	793,323	513,150	-
Other inventories	364,959	585,376	427,832
Trade receivables	992,963	961,072	875,232
Other receivables and debit balances, including derivatives	1,093,059	1,860,445	1,571,292
Income taxes receivable	102,781	89,086	103,328
Marketable securities	666,976	620,031	432,535
Short-term investments	529,312	585,761	605,436
Cash and cash equivalents	<u>1,604,760</u>	<u>3,469,798</u>	<u>2,263,510</u>
	<u>9,315,696</u>	<u>11,390,677</u>	<u>9,392,124</u>
	<u>29,859,066</u>	<u>35,209,946</u>	<u>32,332,882</u>

* Reclassified – see Note 2C.

** Retroactive application – see Note 4.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Financial Position

	<u>At September 30</u>		<u>At December 31</u>
	<u>2009</u>	<u>*2008</u>	<u>*2008</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
<u>In Thousands of New Israeli Shekels</u>			
Equity			
Share capital and premium	368,604	368,604	368,604
Premium on shares	1,812,964	1,812,964	1,812,964
Capital reserves	(1,309,328)	(2,102,253)	(1,412,359)
Retained earnings	<u>(96,135)</u>	<u>3,607,385</u>	<u>916,296</u>
Total equity allocated to the holders of the Company's equity rights	776,105	3,686,700	1,685,505
Options issued by subsidiaries	23,229	17,771	19,173
Minority interest	<u>3,485,239</u>	<u>3,740,798</u>	<u>3,432,876</u>
Total equity	<u>4,284,573</u>	<u>7,445,269</u>	<u>5,137,554</u>
Long-Term Liabilities			
Debentures	1,723,735	9,169,576	8,490,560
Convertible debentures	–	1,548	–
Liabilities to banks and institutions	5,432,166	7,277,017	4,884,011
Other liabilities	512,331	387,137	540,902
Options issued	42,000	51,419	38,553
Employee benefits	26,350	26,461	25,757
Provisions	2,264	–	–
Liabilities for deferred taxes	<u>633,454</u>	<u>842,772</u>	<u>669,869</u>
	<u>8,372,300</u>	<u>17,755,930</u>	<u>14,649,652</u>
Current liabilities			
Debentures	7,598,114	92,991	631,776
Short-term credit from banks and others	6,573,298	**6,213,281	**8,437,313
Liabilities held for sale	33,391	–	–
Contractors and suppliers	945,188	1,250,254	1,304,165
Other payables and credit balances, including derivatives	1,056,178	1,453,822	1,181,731
Income taxes payable	46,522	80,213	43,329
Advances from customers	702,984	796,168	709,341
Provisions	<u>246,518</u>	<u>122,018</u>	<u>238,021</u>
	<u>17,202,193</u>	<u>10,008,747</u>	<u>12,545,676</u>
	<u>29,859,066</u>	<u>35,209,946</u>	<u>32,332,882</u>

* Reclassified – see Note 2C.

** Retroactive application – see Note 4.

Lev Leviev
Chairman of the Board of Directors

Izzi Cohen
CEO

Ron Fainaro
CFO

Approval date of the financial statements: November 29, 2009

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Income

	For the				
	Nine Months Ended September 30		Three Months Ended September 30		Year Ended December 31
	2009	*2008	2009	*2008	2008
	(Unaudited)		(Unaudited)	(Audited)	
In Thousands of New Israeli Shekels					
Revenues					
Construction and real estate transactions	1,932,448	**2,072,354	659,414	**745,092	**2,783,908
Rental and operation of properties	376,991	420,679	86,367	133,542	564,452
Industry	1,009,352	1,525,964	362,951	549,204	1,915,557
Other activities	291,978	300,553	112,757	119,701	398,387
Increase in fair value of investment property, net	–	322,843	–	247,197	165,585
Increase in fair value of investment property under construction, net	485,396	–	–	–	–
Other income	<u>234,695</u>	<u>166,767</u>	<u>194,607</u>	<u>14,899</u>	<u>195,033</u>
	<u>4,330,860</u>	<u>4,809,160</u>	<u>1,416,096</u>	<u>1,809,635</u>	<u>6,022,922</u>
Cost and expenses					
Construction and real estate transactions	1,718,750	**1,988,749	591,870	**702,787	**2,630,412
Decline in value of land and buildings	494,271	987,718	145,063	987,718	1,365,968
Maintenance, supervision and management of real estate and properties	135,439	129,404	28,864	44,037	191,460
Decline in value of investment property, net	60,189	–	17,712	–	–
Decline in value of investment property under construction, net	–	98,689	107,154	98,689	2,060,671
Industry	950,641	1,339,991	337,216	469,937	1,815,630
Other activities	253,870	240,609	94,276	91,753	318,723
Share in losses of investee companies accounted for using the equity method of accounting, net	7,957	335,606	44,737	495,411	533,074
Administrative and general expenses	232,710	281,064	74,547	87,988	391,461
Amortization of intangible and other expenses	<u>228,237</u>	<u>261,937</u>	<u>68,049</u>	<u>204,225</u>	<u>381,535</u>
	<u>4,082,064</u>	<u>5,663,767</u>	<u>1,509,488</u>	<u>3,182,545</u>	<u>9,688,934</u>
Operating income (loss)	<u>248,796</u>	<u>(854,607)</u>	<u>(93,392)</u>	<u>(1,372,910)</u>	<u>(3,666,012)</u>
Financing expenses	1,122,788	1,248,015	461,243	425,943	1,718,920
Financing income	<u>487,667</u>	<u>504,957</u>	<u>136,947</u>	<u>2,073</u>	<u>609,245</u>
Financing expenses, net	<u>635,121</u>	<u>743,058</u>	<u>324,296</u>	<u>423,870</u>	<u>1,109,675</u>
Operating loss before taxes on income	<u>(386,325)</u>	<u>(1,597,665)</u>	<u>(417,688)</u>	<u>(1,796,780)</u>	<u>(4,775,687)</u>
(Taxes on income) tax benefit	<u>(376,310)</u>	<u>(424,180)</u>	<u>28,568</u>	<u>(338,420)</u>	<u>(171,538)</u>
Loss for the period	<u>(762,635)</u>	<u>(2,021,845)</u>	<u>(389,120)</u>	<u>(2,135,200)</u>	<u>(4,947,225)</u>
Allocated to:					
Holders of the Company's equity rights	(1,016,946)	(2,168,362)	(348,038)	(2,122,302)	(4,860,956)
Minority interest	<u>254,311</u>	<u>146,517</u>	<u>(41,082)</u>	<u>(12,898)</u>	<u>(86,269)</u>
Loss for the period	<u>(762,635)</u>	<u>(2,021,845)</u>	<u>(389,120)</u>	<u>(2,135,200)</u>	<u>(4,947,225)</u>
Loss per share attributed to the holders of the Company's equity rights					
Basic and diluted loss per share (in NIS)	(18.37)	(41.71)	(6.37)	(40.99)	(91.85)

* Reclassified – see Note 2C.

** Retroactive application – see Note 4.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Comprehensive Income

	For the				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels				
Loss for the period	(762,635)	(2,021,845)	(389,120)	(2,135,200)	(4,947,225)
<u>Other components of comprehensive income (loss)</u>					
Currency translation differences in respect of foreign activities	139,247	(1,922,439)	(182,800)	(130,469)	(1,037,627)
Change in fair value of cash flow hedges, net of tax	(13,079)	(27,051)	9,681	(17,727)	(52,983)
Realization of comprehensive income of investee company accounted for using the equity method of accounting	<u>15,857</u>	<u>—</u>	<u>15,857</u>	<u>—</u>	<u>—</u>
Total comprehensive loss for the period	<u>(620,610)</u>	<u>(3,971,335)</u>	<u>(546,382)</u>	<u>(2,283,396)</u>	<u>(6,037,835)</u>
<u>Total comprehensive loss allocated to:</u>					
Holders of the Company's equity rights	(903,806)	(3,648,780)	(449,200)	(2,217,966)	(5,651,480)
Minority interest	<u>283,196</u>	<u>(322,555)</u>	<u>(97,182)</u>	<u>(65,430)</u>	<u>(386,355)</u>
Total comprehensive loss for the period	<u>(620,610)</u>	<u>(3,971,335)</u>	<u>(546,382)</u>	<u>(2,283,396)</u>	<u>(6,037,835)</u>

Due to the initial application of IAS 1 (amended) in these financial statements, the Company presents for the first time a separate statement of comprehensive income. See also Note 3A(1), regarding the first-time application of new standards.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Changes in Equity

	Attributable to the Company's equity holders								Minority interest	Options issued by subsidiaries	Total equity
	Share capital and premium	Premium on shares	Capital reserve from cash flow hedges	Other capital reserves	Translation adjustments	Revaluation reserve for acquisition in stages	Retained earnings	Total			
In Thousands of New Israeli Shekels											
For the nine-month period ended September 30, 2009 (unaudited)											
Balance at January 1, 2009 (audited)	368,604	1,812,964	(37,750)	24,444	(1,419,576)	20,523	916,296	1,685,505	3,432,876	19,173	5,137,554
Comprehensive income (loss) for the period	–	–	1,724	–	111,416	–	(1,016,946)	(903,806)	283,196	–	(620,610)
Share-based payments (net of tax)	–	–	–	–	–	–	4,515	4,515	–	4,056	8,571
Exit of subsidiary from the consolidation	–	–	–	–	–	(10,109)	–	(10,109)	(71,618)	–	(81,727)
Dividend paid to the minority	–	–	–	–	–	–	–	–	(217,408)	–	(217,408)
Issuance of capital to the minority	–	–	–	–	–	–	–	–	62,717	–	62,717
Acquisition of additional rights in subsidiaries	–	–	–	–	–	–	–	–	(4,524)	–	(4,524)
Balance at September 30, 2009 (unaudited)	<u>368,604</u>	<u>1,812,964</u>	<u>(36,026)</u>	<u>24,444</u>	<u>(1,308,160)</u>	<u>10,414</u>	<u>(96,135)</u>	<u>776,105</u>	<u>3,485,239</u>	<u>23,229</u>	<u>4,284,573</u>
For the nine-month period ended September 30, 2008 (unaudited)											
Balance at January 1, 2008 (audited)	368,113	800,807	–	24,444	(666,802)	20,523	6,174,572	6,721,657	4,537,479	12,945	11,272,081
Comprehensive loss for the period	–	–	(27,051)	–	(1,453,367)	–	(2,168,362)	(3,648,780)	(322,555)	–	(3,971,335)
Issuance of ordinary shares, net*	477	1,011,362	–	–	–	–	–	1,011,839	–	–	1,011,839
Share-based payments (net of tax)	–	–	–	–	–	–	1,175	1,175	–	4,826	6,001
Debentures converted into shares	14	795	–	–	–	–	–	809	–	–	809
Dividend to the equity holders	–	–	–	–	–	–	(400,000)	(400,000)	–	–	(400,000)
Dividend paid to the minority	–	–	–	–	–	–	–	–	(25,418)	–	(25,418)
Minority rights in business combination	–	–	–	–	–	–	–	–	(482,238)	–	(482,238)
Issuance of capital to the minority	–	–	–	–	–	–	–	–	58,881	–	58,881
Acquisition of additional rights in subsidiaries	–	–	–	–	–	–	–	–	(25,351)	–	(25,351)
Balance at September 30, 2008 (unaudited)	<u>368,604</u>	<u>1,812,964</u>	<u>(27,051)</u>	<u>24,444</u>	<u>(2,120,169)</u>	<u>20,523</u>	<u>3,607,385</u>	<u>3,686,700</u>	<u>3,740,798</u>	<u>17,771</u>	<u>7,445,269</u>

* Net of issuance expenses in the amount of about NIS 5,031 thousand.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Changes in Equity

	Attributable to the Company's equity holders								Minority interest	Options issued by subsidiaries	Total equity
	Share capital and premium	Premium on shares	Capital reserve from cash flow hedges	Other capital reserves	Translation adjustments	Revaluation reserve for acquisition in stages	Retained earnings	Total			
In Thousands of New Israeli Shekels											
For the three-month period ended September 30, 2009 (unaudited)											
Balance at July 1, 2009 (audited)	368,604	1,812,964	(55,943)	24,444	(1,187,081)	10,414	250,398	1,223,800	3,532,157	23,302	4,779,259
Comprehensive income (loss) for the period	–	–	19,917	–	(121,079)	–	(348,038)	(449,200)	(97,182)	–	(546,382)
Share-based payments (net of tax)	–	–	–	–	–	–	1,505	1,505	–	(73)	1,432
Dividend paid to the minority	–	–	–	–	–	–	–	–	(12,453)	–	(12,453)
Issuance of capital to the minority	–	–	–	–	–	–	–	–	<u>62,717</u>	–	<u>62,717</u>
Balance at September 30, 2009 (unaudited)	<u>368,604</u>	<u>1,812,964</u>	<u>(36,026)</u>	<u>24,444</u>	<u>(1,308,160)</u>	<u>10,414</u>	<u>(96,135)</u>	<u>776,105</u>	<u>3,485,239</u>	<u>23,229</u>	<u>4,284,573</u>
For the three-month period ended September 30, 2008 (unaudited)											
Balance at July 1, 2008 (audited)	368,590	1,812,169	(9,324)	24,444	(2,042,232)	20,523	5,728,749	5,902,919	3,766,022	15,842	9,684,783
Comprehensive loss for the period	–	–	(17,727)	–	(77,937)	–	(2,122,302)	(2,217,966)	(65,430)	–	(2,283,396)
Share-based payments (net of tax)	–	–	–	–	–	–	938	938	–	1,929	2,867
Debentures converted into shares	14	795	–	–	–	–	–	809	–	–	809
Minority rights in business combination	–	–	–	–	–	–	–	–	41,221	–	41,221
Acquisition of additional rights in subsidiaries	–	–	–	–	–	–	–	–	<u>(1,015)</u>	–	<u>(1,015)</u>
Balance at September 30, 2008 (unaudited)	<u>368,604</u>	<u>1,812,964</u>	<u>(27,051)</u>	<u>24,444</u>	<u>(2,120,169)</u>	<u>20,523</u>	<u>3,607,385</u>	<u>3,686,700</u>	<u>3,740,798</u>	<u>17,771</u>	<u>7,445,269</u>

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Changes in Equity

	Attributable to the Company's equity holders							Minority interest	Options issued by subsidiaries	Total equity	
	Share capital and premium	Premium on shares	Capital reserve from cash flow hedges	Other capital reserves	Translation adjustments	Revaluation reserve for acquisition in stages	Retained earnings				Total
	In Thousands of New Israeli Shekels										
For the year ended December 31, 2008 (audited)											
Balance at January 1, 2008 (audited)	368,113	800,807	–	24,444	(666,802)	20,523	6,174,572	6,721,657	4,537,479	12,945	11,272,081
Comprehensive loss for the year	–	–	(37,750)	–	(752,774)	–	(4,860,956)	(5,651,480)	(386,355)	–	(6,037,835)
Issuance of ordinary shares, net*	477	1,011,362	–	–	–	–	–	1,011,839	–	–	1,011,839
Share-based payments (net of tax)	–	–	–	–	–	–	2,680	2,680	–	6,228	8,908
Debentures converted into shares	14	795	–	–	–	–	–	809	–	–	809
Dividend to equity holders	–	–	–	–	–	–	(400,000)	(400,000)	–	–	(400,000)
Dividend paid to minority	–	–	–	–	–	–	–	–	(240,520)	–	(240,520)
Minority rights in business combinations	–	–	–	–	–	–	–	–	(482,238)	–	(482,238)
Issuance of capital to the minority	–	–	–	–	–	–	–	–	58,881	–	58,881
Acquisition of minority rights	–	–	–	–	–	–	–	–	(54,371)	–	(54,371)
Balance at December 31, 2008 (audited)	<u>368,604</u>	<u>1,812,964</u>	<u>(37,750)</u>	<u>24,444</u>	<u>(1,419,576)</u>	<u>20,523</u>	<u>916,296</u>	<u>1,685,505</u>	<u>3,432,876</u>	<u>19,173</u>	<u>5,137,554</u>

* Net of issuance expenses in the amount of about NIS 5,031 thousand.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Cash Flows

	For the				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2009	*2008	2009	*2008	2008
	(Unaudited)		(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels				
Cash flows from operating activities					
Loss for the period	(762,635)	(2,021,845)	(389,120)	(2,135,200)	(4,947,225)
Adjustments:					
Share in losses of investee companies accounted for based on the equity method of accounting	7,957	335,606	44,737	495,411	533,074
Gain from decline in rate of holdings	(47,833)	(135,272)	(42,070)	(6,681)	(34,303)
Gain from increase in rate of holdings	(826)	–	–	–	–
Depreciation and amortization	71,274	92,016	23,733	39,647	120,960
Decline in value of inventory of land and buildings	494,271	987,718	145,063	987,718	1,365,968
Decline in value of investments, net	69,016	44,803	8,350	11,118	44,672
Loss from decline in value of intangible assets	31,071	47,039	29,253	47,039	155,662
Change in value of investment property under construction, net	(485,396)	98,689	107,154	98,689	2,060,671
Capital losses (gains) on sale of property, plant and equipment and investment property, net	54,497	(772)	(485)	(10)	(118,122)
Share-based payments	8,571	6,001	1,432	2,867	*8,908
Marketable securities, net	(34,310)	24,291	(16,008)	42,585	36,562
Change in fair value of investment property, net	60,189	(322,843)	17,712	(247,197)	(165,585)
Taxes on income (tax benefit)	376,310	424,180	(28,568)	338,420	171,538
Capitalization of liabilities in respect of put options to the minority	1,391	5,260	486	621	5,260
Financing expenses, net	644,359	939,202	314,850	233,009	1,229,710
Change in real estate category	75,333	(167,395)	47,485	(6,373)	(95,470)
Change in long-term debt	297,443	(366,614)	–	(48,895)	(336,070)
Change in inventory of buildings held for sale	(81,537)	*** (232,858)	1,729	*** 19,942	(630,035)
Change in other inventories	60,780	(139,250)	6,608	(66,167)	*32,298
Change in trade receivables and other receivables and debit balances	78,452	(208,519)	(262,506)	(210,585)	161,573
Change in contractors, trade payables and other payables and credit balances	(287,423)	372,640	110,433	(177,164)	*141,916
Change in advance deposits from customers	27,370	(141,335)	(19,828)	(110,212)	(183,563)
Change in provisions and employee benefits	37,137	15,469	20,960	14,371	22,599
Income taxes paid, net	(71,150)	(188,814)	(64,102)	(69,978)	(238,252)
Net cash provided by (used in) operating activities	624,311	(532,603)	57,298	(747,025)	(657,254)

* Reclassified – see Note 2C.

*** Restated – Note 4.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Cash Flows

	For the				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2009	*2008	2009	*2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
In Thousands of New Israeli Shekels					
Cash flows from investing activities					
Initial consolidation of subsidiary	(78,567)	(181,097)	–	–	(181,097)
Proceeds from sale of previously consolidated investments (see Note 5C(3))	228,782	9,689	–	–	9,689
Investment in subsidiaries	(5,516)	(120,702)	–	(1,068)	(121,599)
Investment in associated and other companies	(76,050)	(119,958)	(17,770)	(50,923)	(284,936)
Loans to associated and other companies, net	(57,859)	(104,383)	(15,264)	7,074	(209,229)
Investment in intangible assets	(4,547)	(7,627)	(1,122)	(1,162)	(9,767)
Proceeds from sale of shares of investee companies	49,693	348,827	19,130	20,020	570,935
Investment in investment property and investment property under construction	(1,252,999)	(2,230,768)	(386,093)	(697,720)	(2,803,281)
Acquisition of property, plant and equipment	(56,023)	(206,276)	(18,993)	(61,712)	(310,029)
Proceeds from sale of property, plant and equipment	2,568	3,275	1,102	965	162,463
Proceeds from sale of investment property	482,290	4,685	338,864	4,685	587,250
Investment in long-term deposits and loans	(92,129)	(3,482)	(17,308)	–	(4,678)
Repayment of long-term deposits and loans	85,575	145,357	76,998	9,941	212,772
Acquisition of marketable securities	(503,144)	(1,818,091)	(32,401)	(233,415)	(2,242,642)
Sale of marketable securities	394,253	2,735,281	93,206	584,051	3,234,230
Dividends received	13,259	**38,313	12,524	**16,072	38,313
Interest received	79,608	**85,391	58,609	**28,656	89,722
Short-term investments, net	<u>78,479</u>	<u>(183,748)</u>	<u>(27,676)</u>	<u>44,258</u>	<u>(110,268)</u>
Net cash provided by (used in) investing activities	<u>(712,327)</u>	<u>(1,605,314)</u>	<u>83,806</u>	<u>(330,278)</u>	<u>(1,372,152)</u>

* Reclassified – see Note 2C.

** Retroactive application – Note 4.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Condensed Interim Consolidated Statements of Cash Flows

	For the				
	Nine Months Ended		Three Months Ended		Year Ended
	September 30		September 30		December 31
	2009	*2008	2009	*2008	2008
	(Unaudited)		(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels				
Cash flows from financing activities					
Interest paid	(813,720)	(795,406)	(323,237)	(285,878)	(1,132,869)
Dividend paid to the minority interest in subsidiaries	(217,408)	(25,418)	(12,453)	–	(240,520)
Dividend paid to the equity holders	–	(400,000)	–	–	(400,000)
Issuance of capital	–	1,016,870	–	–	1,016,870
Issuance expenses	–	(5,031)	–	–	(5,031)
Issuance of capital to the minority interest in subsidiaries	62,717	58,881	62,717	–	*58,881
Receipt of long-term loans and liabilities	3,156,099	**3,745,671	381,391	**1,030,878	*4,566,102
Repayment of long-term loans and liabilities	(2,215,029)	(1,564,675)	(278,240)	(609,569)	(1,939,481)
Short-term credit, net	<u>(670,816)</u>	<u>(877,895)</u>	<u>38,585</u>	<u>(1,605,261)</u>	<u>(1,818,976)</u>
Net cash provided by (used in) financing activities	<u>(698,157)</u>	<u>1,152,997</u>	<u>(131,237)</u>	<u>(1,469,830)</u>	<u>104,976</u>
Increase (decrease) in cash and cash equivalents	(786,173)	(984,920)	9,867	(2,547,133)	(1,924,430)
Cash and cash equivalents at beginning of the period	2,263,510	4,502,529	1,615,203	5,462,142	4,502,529
Effect of exchange rate fluctuations on balances of cash and cash equivalents	<u>127,423</u>	<u>(47,811)</u>	<u>(20,310)</u>	<u>554,789</u>	<u>(314,589)</u>
Cash and cash equivalents at end of the period	<u>1,604,760</u>	<u>3,469,798</u>	<u>1,604,760</u>	<u>3,469,798</u>	<u>2,263,510</u>

* Reclassified – see Note 2C.

** Retroactive application – Note 4.

The accompanying notes to the condensed interim consolidated financial statements are an integral part thereof.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General

A. The Reporting Entity

Africa Israel Investments Ltd. (hereinafter – “the Company”) is an Israeli-resident company that was incorporated in Israel and its registered address is Derech Hahoresheh 4, Yehud. The Group’s consolidated financial statements as at September 30, 2009, include the financial statements of the Company and those of its subsidiaries (hereinafter – “the Group”) as well as the Group’s rights in associated companies and jointly controlled entities. The Group’s controlling interest is Mr. Lev Leviev, who holds the Company directly and through companies he wholly owns and controls. The Group is engaged in a variety of sectors in and outside of Israel. The Company’s securities are registered for trading on the Tel-Aviv Stock Exchange.

B. Impact of the Global Financial Crisis on the Group’s Activities

As the global financial crisis, as described in Note 1B to the annual financial statements, continues, along with its impact on the Group’s activity sectors in the countries in which it operates, the Group is furthering its preparations and is continuing to consider its course of action in order to cope with the consequences of the said crisis. Among other things, the Group is concentrating on execution of existing projects, as opposed to acquisitions and investments in new projects. Regarding additional projects, the construction of which has not yet commenced, the Company is re-examining the start date for each project and the infrastructures available to the Company for commencement of each such project’s construction, taking into account the existence of a number of preconditions, including assurance of appropriate financing for each project and a higher level of confidence with respect to demand – all of this with due reference to the market conditions in the various different countries. Concurrently, the Group is acting to improve land on which the actual construction work has not yet begun, by means of obtaining the various approvals required for their development.

In light of the credit bottleneck created as a result of the said crisis, and taking into account the amount of credit that has been provided to the Group as at September 30, 2009, totaling about NIS 25.6 billion (about NIS 17.2 billion short-term and about NIS 8.4 billion long-term), the Group is taking steps to maintain and increase its liquid monetary balances by means of, among other things, taking out long-term credit against mortgaging investment properties, conversion of existing short-term credit lines from Israeli banks to medium-term and long-term credit frameworks, selling off real estate properties and investments in investee companies, as well as receiving dividends from investee companies.

On August 30, 2009, the Company’s Board of Directors authorized Company Management to open talks with the holders of the Company’s debentures in order to formulate a plan for reorganization of the Company’s liabilities to the holders of all its different debenture series.

As at September 30, 2009, the aggregate amount of the Company’s debentures amounts to about NIS 7.4 billion.

On September 24, 2009, after meetings were held for all the holders of the Company’s debentures, the holders of all the different, except for Series I, series decided to appoint joint representatives who will act, among other things, to examine the possibility of formulating an arrangement with the Company (hereinafter – “the Joint Representatives”).

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

B. Impact of the Global Financial Crisis on the Group's Activities (Cont.)

At the meeting of the holders of the Company's debentures (Series I), the said holders decided to appoint separate representatives (hereinafter – "the Separate Representatives").

On October 14, 2009, the Company gave notice of its signing a written commitment hereinafter – "the Written Commitment") vis-à-vis the debenture holders (through the Joint Representatives) and to the trustees for the holders of these debentures (hereinafter – "the Trustees") with respect to arrangement of various aspects of the Company's activities during the interim period for purposes of the talks, examination and negotiations aimed at formulation of a debt arrangement (hereinafter – "the Arrangement").

The provisions of the Written Commitment were set to remain in effect from the signing date thereof until the earlier of: (A) the date either of the parties notifies that that efforts have been discontinued; or (B) the date the Arrangement is completed (hereinafter – "the Interim Period").

As part of the Written Commitment, among other things, arrangements were determined for the interim period as follows: a mechanism for providing information to the representatives and its advisors and/or the trustees, subject to a confidentiality commitment (including publication of information that will not be published as part of the Company's public reports up to the end of the Interim Period, if and to the extent it is determined that "inside information" is involved, as defined in the Securities Law); the Company undertakes to bear the reasonable expenses of the representatives (including hiring the services of consultants) up to a total amount as agreed to; appointment of an observer on behalf of the representatives on the Company's Board of Directors; refraining from making payments to the controlling shareholder; refraining from making dispositions of significant properties of the Company without the representatives' consent; refraining from making payments of principal to the Company's financial creditors (including banks); provision of an exemption from liability in connection with damage caused due to an action or inaction of the representatives and its advisors and/or the trustees.

It is emphasized that, as a practical matter, the Written Commitment may be cancelled at any time, by notification by any of the parties of discontinuance of the efforts, and from the date of the said notification all the Company's commitments thereunder will expire.

On October 30, 2009, a memorandum of principles (hereinafter – "the Memorandum") was signed by the Company's CEO and the Joint Representatives, with the consent of all the members represented by the Joint Representatives for a financial outline of an arrangement between the Company and its financial creditors (hereinafter – "the Arrangement"). Further to this, on November 9, 2009, a memorandum of principles to the Arrangement was signed between the Company and all the debenture holders, and on the same day the Company submitted a request in the District Court of Tel-Aviv to convene a meeting of the debenture holders and a meeting of the shareholders to approve the Arrangement in accordance with Section 350 of the Companies Law (hereinafter – "the Meeting Request").

On November 10, 2009, which is the final payment date of the debentures (Series I), the Company gave notice of non-payment of the principal of the debentures (Series I), in the amount of about NIS 557 million. Nonetheless, on this date the Company paid the interest in respect of the debentures (Series I), in the of about NIS 5.9 million.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

B. Impact of the Global Financial Crisis on the Group's Activities (Cont.)

On November 17, 2009, the Company received the response of the representatives of the debentures (Series I) to the Meeting Request. The response mainly presents a complete objection to inclusion of the holders of the debentures (Series I) in the general meeting of the debenture holders and recognition of these holders as having significantly special and different economic and legal interests from those of the other debenture holders, which justifies classifying them as a separate meeting. This is true since, among other things, the Company is not insolvent and there are indications that it is able to meet its short and medium term liabilities, and as things seem reasonably to appear (so they contend) – even in the long run. It is noted that if this position is ultimately accepted and it is decided that the meeting of the holders of the debentures (Series I) shall be a separate from the meeting of all the other debenture holders, this could confer on the holders of the debentures (Series I) the power to prevent approval of the Arrangement formulated with the Joint Representatives.

On November 18, 2009, the Company gave notice that the Company's controlling shareholder, Mr. Lev Leviev, informed it that during November he reached agreements with banks that provided him (including to private companies he wholly owns) credit, which is secured by, among other things, liens on his holdings in the Company, regarding the said credit. As part of these agreements, some of the banks required that in the framework of the Arrangement formulated with the Joint Representatives of all the holders of the Company's debentures (except for the holders of the debentures (Series I)), a number of clarifications and/or changes be included in connection with certain obligations the controlling shareholder is intended to undertake as part of the proposed arrangement. In light of that stated above, the Company requested from the Joint Representatives to receive their position with respect to the clarifications and/or changes requested by the banks. To the best of the Company's knowledge, discussions are being held between the parties in connection with the above-mentioned clarifications and/or changes that have not yet ripened into agreements.

On November 22, 2009, the Company submitted to the Court a reply to the response of the representatives of the holders of the debentures (Series I) to the Meeting Request, wherein the Company rejected all the contentions of the representatives of the holders of the debentures (Series I) against the need for the Arrangement and against only one meeting for all the debenture holders to approve the Arrangement. As part of this answer, the assessment of Company Management was presented whereby there is a reasonable basis to assume that in its financial statements as at September 30, 2009, which are expected to be approved at the end of November 2009, the Company will be required to include a report with respect to the significant doubts existing regarding its continued existence as a "going concern", in light of the high level of uncertainty concerning its position to the extent the proposed arrangement is not completed and due to the grounds inuring to the holders of all the series of the Company's debentures to demand the immediate repayment thereof.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

B. Impact of the Global Financial Crisis on the Group's Activities (Cont.)

In addition, on November 22, 2009, the Joint Representatives submitted a reply to the response of the of the debentures (Series I) to the Meeting Request wherein the Joint Representatives rejected all the contentions of the representatives of the holders of the debentures (Series I) against the need for the Arrangement and against only one meeting for all the debenture holders to approve the Arrangement. On November 23, 2009, a reply to the Meeting Request was filed by the Securities Authority wherein the Securities Authority notified that it believes that if it were to be determined that the Company is insolvent, one creditors' meeting would need to be convened. However, to the extent the Court reaches the conclusion that the answer to the question whether the Company is insolvent is unclear or negative, the Securities Authority believes that the separate approval of every meeting of the holders of the various debenture series is to be received. On November 24, 2009, the Official Receiver submitted a reply to the Meeting Request wherein the Official Receiver notified that he sees does not see fit to intervene in the Company's judgment and made reference to the reply of the Securities Authority.

On November 24, 2009, the Court's decision was rendered whereby the hearing on the Meeting Request will be held on December 1, 2009.

On November 22, 2009, the Company notified that copies were provided to its representatives of correspondences between the trustees of the Company's debenture series and the Joint Representatives involving demands by the Joint Representatives on the trustees to act to call the Company's debenture series for immediate repayment and the decision of the Joint Representatives to refrain at this stage from calling the debentures for immediate repayment so long as there is a chance of approving the Arrangement formulated between the Joint Representatives and the Company. Nonetheless, the Joint Representatives requested from the trustees that if and to the extent the approval process of the Arrangement is discontinued or not accepted and/or the approval required by law to execute the Arrangement is rejected, the trustees shall use their authorities under the trust certificates and shall call the entire balance of all the debenture series for immediate repayment. In a reply letter, the trustees confirmed before the Joint Representatives that subject to no change taking place in the circumstances, the trustees will act in accordance with the requests of the Joint Representatives as described above.

As at September 30, 2009, the debenture holders had grounds for demanding immediate repayment of the debentures. In light of that stated, in the financial statements as at September 30, 2009, the Company's liabilities in respect of all the debentures were reclassified as current liabilities.

In addition, the financial crisis has caused some of the Group companies to violate financial covenants with respect to some of the liabilities (as described in Note 7) as well as to the need to make a material change in the loan terms, among other things, by means of an active request by the Group to the financing parties and lenders, in order to conform the loans and the financing conditions of the Group's projects in and outside of Israel to the present economic environment. During the past several months and up to the date of the financial statements, the Group succeeded in postponing the repayment of loans (mainly in the United States), in the total net amount of about \$241 million. As at the signing date of the financial statements, the Group is continuing to act to postpone the repayment date of additional loans and to make additional changes in the conditions of the financing provided to the Group.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

B. Impact of the Global Financial Crisis on the Group's Activities (Cont.)

The crisis into which the Company has fallen has an impact on some of the Group's investee companies. The activities of some of the companies depend, to some extent or another, on the Company's financial support and, therefore, the Company's situation may have an unfavorable impact, sometimes even a significant unfavorable impact, on the continued activities of these companies in the future. Other Group companies have business interfaces with the Company, and the Company's current problematic situation could have an adverse effect on their businesses and the scope of their future activities.

As at the approval date of the financial statements, the Company is continuing its efforts to reach a debt arrangement with the debenture holders and to carry out the rest of Management's plans as described above, where as at the publication date of the financial statements, these proceedings are in various different stages.

In light of the existing possibility on the part of the holders of all the debenture series issued by the Company to call them for immediate repayment and due to the uncertainty regarding the reaching of a debt arrangement as stated above and its approval by the Court, there are significant doubts regarding the Company's continued existence as a "going concern". These financial statements do not include any adjustments with respect to the values of the Company's assets and liabilities and the classification thereof that may be necessary if the Company is unable to continue operating as a "going concern".

C. Principles of the Arrangement with the Holders of the Company's Debentures

Set forth below are the principles of the arrangement with the holders of the Company's debentures.

- (1) As part of the arrangement, the controlling shareholder will invest NIS 750 million in the Company on the dates and pursuant to the conditions detailed below:

Up to the execution date of the arrangement, as will be determined in the detailed arrangement as the execution date of the arrangement (hereinafter – "the Execution Date"), the process of issuance of rights to the Company's shareholders will be completed in order to raise capital in an amount of not less than NIS 400 million. The controlling shareholder will commit in advance to respond affirmatively to the rights' offer and to invest as part of issuance of the rights in accordance with his share in the Company's current share capital (74.83%), that is NIS 300 million. Issuance of the rights will be made based on a Company value of NIS 2 billion, which will constitute the value of the Company prior to execution of the arrangement, issuance of the rights, conversion of the debentures into Company shares and the shareholders' investment as detailed below (hereinafter – "the Base Company Value").

In addition to the amount of NIS 300 million to be invested by the controlling shareholder as part of issuance of the rights in the overall amount of NIS 400 million (as stated above), the controlling shareholder and/or a party on behalf of the Company will invest NIS 450 million, on the dates and conditions as set forth below:

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(1) (Cont.)

- (a) The controlling shareholder will invest in the Company an additional amount of NIS 100 million up to the end of the year commencing from the end of trading on the day to be determined as the last trading day of the Company's outstanding debentures for all the debenture series (hereinafter – "the Effective Date");
- (b) The controlling shareholder will invest in the Company an additional amount of NIS 100 million up to the end of two years from the Effective Date;
- (c) The controlling shareholder will invest in the Company an additional amount of NIS 100 million up to the end of three years from the Effective Date;
- (d) The controlling shareholder will invest in the Company an additional amount of NIS 100 million up to the end of four years from the Effective Date;
- (e) The controlling shareholder will invest in the Company an additional amount of NIS 50 million up to the end of four years from the Effective Date, on dates to be determined by him.

The financial investments (the above-mentioned represent the share of the controlling shareholder only) are to be made as part of a private issuance, unless the controlling shareholder gives notice of his agreement to make the investments in the framework of a rights' offering or other public tender offer and the Company's Board of Directors approves the rights' offering or the public tender offer in place of the private issuance.

The amounts referred to in this Section will be linked to half of the rate of increase in the Consumer Price Index.

- (2) On the Execution Date, the Company will pay to all debenture holders that hold debentures on the Effective Date the amount of NIS 550 million.
- (3) On the Execution Date, all outstanding debentures from all the debenture series will be cancelled/repaid/replaced/redeemed in accordance with the mechanism to be determined in the detailed arrangement.
- (4) On the Execution Date, the Company will issue to all holders of the debentures on the Effective Date, two new series of debentures, the terms of which are as follows:

Debentures (Series A) in the amount of NIS 1 billion par value (principal) the repayment date of which will be at the end of twenty-four (24) months from the Execution Date. The debentures (Series A) will be linked to the Consumer Price Index (principal and interest) where the base index will be the "known" index on the Effective Date and they will bear fixed annual interest from the Execution Date at the rate of 4.5% that will be paid together with the debenture principal on the redemption date of the debentures as stated above.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(4) (Cont.)

Debentures (Series B) in the amount of between NIS 3.4 billion and NIS 3.5 billion par value (principal) (see manner of determining the arrangement amount below) that will be repayable in 13 (thirteen) equal annual payments commencing from three years from the Execution Date. The debentures (Series B) will be linked to the Consumer Price Index that is "known" on the Effective Date and will bear effective annual interest at the average rate of 7% per year, where the rate will increase gradually from 6% per year as will be agreed as part of the detailed agreement. The interest in respect of the debentures (Series B) will be paid semi-annually where the first payment will fall 180 days after the Execution Date.

The final amount of the debentures (Series B) will be determined in the following manner: the amount of NIS 3.4 billion plus an amount equal to the amount raised from the public as part of the rights' offering (as referred to in Section (1) above). In any case, the principal of the arrangement shall not exceed NIS 3.5 billion.

The debentures (Series A) will be and the debentures (Series B) will be referred to below as – "the New Debentures".

- (5) For purposes of securing the Company's liabilities under the New Debentures, on the Execution Date, the Company will place a lien for the benefit of the trustees of the holders of the New Debentures, pro rata to the amount of the debt, with a first-priority fixed (individual) lien, unlimited as to amount, on the Company's shares of the public subsidiaries: Africa Israel Residences Ltd., Africa Israel Properties Ltd., Africa Israel Industries Ltd., Danya Cebus Ltd. and AFI Development PLC (hereinafter together – "the Public Subsidiaries") and its rights by virtue of the shareholder's loans it made to these companies, with a first priority, and the Company's shares in the private subsidiaries: AI (USA) Corp., Africa Israel Hotels Ltd., and Derech Eretz Highways (1997) Ltd. (hereinafter together – "the Private Subsidiaries"), with a second priority, pursuant to that agreed in the detailed arrangement, where they are free of any third-party right, including free of any lien, and where their market value (as this term is defined below) equal on the Execution Date 50% of the principal of the debentures (Series B) on the Execution Date, all as will be agreed in the detailed arrangement (hereinafter – "the Pledged Assets"). It is clarified that the Company's right to receive a dividend will not be included as part of the said liens.

The above-mentioned liens will be removed based on a decision of the debenture holders by means of a regular majority or pursuant to the terms set forth below.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(5) (Cont.)

“Market Value” – in the arrangement document means the average closing price of the shares of the Public Subsidiaries on the stock exchange on which they are traded during the 60 trading days preceding the Effective Date; and with respect to the Private Subsidiaries – in accordance with the Company's share in the shareholders' equity of these companies, based on their audited or reviewed financial statements that were most recently approved prior to the Effective Date.

The Company will be permitted to replace the Pledged Assets or any part thereof with shares of subsidiaries and/or marketable securities, provided the shares and/or securities to be pledged to the benefit of the debenture holders (in place of the Pledged Assets) will be of the same Market Value on the exchange date, will have the same realization terms and will be of the same class of shares it wishes to release from the lien (that is – against release of marketable shares, the Company will place a lien in favor of the trustee on other marketable securities having a market value that is equal to the market value of the shares released). The detailed arrangement will include a detailed mechanism in connection with the manner of replacement and the approval thereof.

“Marketable Securities” – for purposes of this Section the meaning is securities traded on the stock exchange the name of which is included in a list attached to the detailed arrangement.

The detailed arrangement will include a payment obligation for the New Debentures (Series B) from the full net proceeds received from sale of the Pledged Assets.

The detailed arrangement will include provisions regarding compensation for early repayment of the New Debentures, as follows:

- (a) To the extent early repayment of the debentures (Series A) is involved and/or as a result of the early repayment requirement binding the Company as a result of sale of Pledged Assets and/or from any other instruction attaching by virtue of the detailed arrangement, the early repayment shall be made with no early repayment commission based on the par value (principal, interest and linkage differences) of the debt paid on the early repayment date.
- (b) To the extent the Company is interested in making early repayment, in whole or in part, not from sale of the Pledged Assets, at its choice, the Company will pay the holders of the New Debentures, in a case of voluntary early repayment as stated the higher of the following:

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(5) (Cont.)

(b) (Cont.)

- An amount equal to the balance of the anticipated cash flows from the New Debentures (principal linked to the CPI + interest linked to the CPI in respect thereof) up to the original repayment date of the New Debentures, where it is discounted based on the yield on government debentures plus 1%. Discounting of the debentures will be calculated commencing from the original repayment date of every payment of principal and/or interest and up to the early repayment date.

“Yield on Government Debentures” – for purposes of this Section, the meaning is the average yield to maturity of linked government debentures of the Galilee type, in the 30 trading days preceding the early repayment date, having an average life closely approximating the average life of the New Debentures on the early repayment date.

- An amount equal to the unpaid balance of the principal and interest of the New Debentures up to the early repayment date (the par value).

After full and final payment of the debentures (Series A) the Company will be permitted to request removal of the lien and release of the asset from among the Pledged Assets, at its choice, pursuant to that stated in this Section below, upon fulfillment of the following cumulative conditions on the removal date of the lien:

- (a) During 4 consecutive quarters, the Company is in compliance with at least the financial covenants (as defined in Section (9) below);
- (b) The Company's CEO and CFO will declare that in their estimation the Company will also comply with the financial covenants at the end of the current calendar quarter in which the removal of the lien is expected to take place;
- (c) The ratio between: (a) the market value of the Pledged Assets (as it is calculated in accordance with this Section (a) above where for this purpose the Effective Date is the removal date of the lien and the length of the period will be three months); and (b) the unpaid balance of the debentures (Series B) on the removal date of the lien (hereinafter – “the Ratio of the Value of the Collaterals to the Debenture Balance”) shall be at least 60%.

Subject to that stated above, removal of the lien from any of the assets, at the Company's choice, will be made in such a manner that thereafter the Ratio of the Value of the Collaterals to the Debenture Balance will be at least 55%.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(5) (Cont.)

The Company will undertake not to place a lien on any of its existing or future assets to any third party without the consent of the holders of the New Debentures that is obtained by means of a regular majority. Nothing in that stated above detracts from the Company's right to place a lien on an asset acquired with financing provided by a third party in favor of the third-party lender, provided the lien secures solely the amount of the financing provided by the third party for acquisition of that asset, and nothing in that stated above detracts from the Company's right to place a lien on an asset for the benefit of financing that served for payment of liabilities to the debenture holders and the banks (hereinafter together – "the Financial Creditors"). The detailed arrangement will include provisions in connection with pledging assets for the benefit of financing that served for payment of liabilities to the Financial Creditors.

(6) On the Execution Date, the Company will issue to the debenture holders holding debentures on the Effective Date, new shares based on the Base Company Value plus the proceeds to the Company from issuance of the rights, against conversion/cancellation/repayment/replacement/redemption (as will be agreed in the detailed agreement) of NIS 1.4 billion debentures.

(7) On the Execution Date, the Company will transfer to the debenture holders holding debentures on the Effective Date some of the Company's shares in the subsidiaries, the shares of which are traded on the stock exchange in Israel or in London, in the composition that will be agreed to with the representatives as part of the detailed agreement (hereinafter in the Section – "the Shares of the Subsidiaries" or "the Subsidiaries" as applicable) at a value of NIS 1.2 billion.

"Value" – for purposes of this Section will be determined on the basis of the average between the market value (as this term is defined below) and book value known on the Effective Date of each of the Subsidiaries.

"Market Value" – for purposes of this Section means the average closing price of each of the Shares of the Subsidiaries on the stock exchange on which they are traded, in the six-month period preceding the Effective Date.

"Book Value" – for purposes of this Section means the shareholders' equity of each of the Subsidiaries in accordance with the latest financial statements (audited or reviewed) of each of them immediately preceding the Effective Date.

The Company will have the possibility of giving notice of a change in the arrangement such that it will pay on the Execution Date, to the debenture holders holding debentures on the Effective Date, the amount of NIS 1.2 billion in cash instead of transfer of the Shares of the Subsidiaries as detailed above, provided the Company notifies the representatives of its choice with respect to the making of this payment up to January 1, 2010, and in the case of a partial payment in cash, the composition of the shares to be transferred will be agreed to by the Joint Representatives.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

- (8) The amounts set forth in Sections (2), (4), (6) and (7) above will be updated based on the change in the par value of the Company's debts to the debenture holders on October 29, 2009 compared with the par value of the Company's debts to the debenture holders on the Effective Date. The manner of allocation of the updated amount between the arrangement's components detailed in the above-mentioned Sections will be agreed to in the detailed arrangement.
- (9) The arrangement will apply to the Company's debt to all the financial creditors as it will be on the submission date of the request to the Court. Arrangement of the Company's debt to the banks will be: (a) on the basis of the same principles appearing in the arrangement for the debenture holders, or (b) a different arrangement that will be agreed to by the Joint Representatives and will be approved by the meetings convened in accordance with the Court's order as part of approval of the detailed arrangement.

Subject to all law, the arrangement will apply to all the debenture holders, without differentiation between the different debenture series. If and to the extent the Court decides not to apply the arrangement to all the debentures the debenture holders and the Joint Representatives will be permitted to reconsider their consent to the arrangement, to the extent it was already given, and to act in accordance with all the rights conferred on the debenture holders in accordance with law.

In the framework of the detailed arrangement, the Company will undertake to comply with financial covenants whereby the ratio of the Company's net financial debt to its net debt plus equity (hereinafter – "CAP") will exceed a certain percentage that will be determined by consent between the Company and the Joint Representatives in reliance on a detailed proforma report (after the arrangement), which will be prepared by the Company, and audited and approved by the Financial Advisor of the Joint Representatives, and that will be based on the Company's financial position on the Execution Date (hereinafter – "the Financial Covenants"). Non-compliance with the Financial Covenants will constitute grounds for calling the Company's debt under the New Debentures for immediate repayment, this being in addition to other customary grounds for demanding its immediate repayment. The detailed arrangement will include additional provisions regarding the Company's obligation to comply with the Financial Covenants.

The Company may not expand either series of the New Debentures without approval from the meetings of the holders of both series of the New Debentures, obtained by means of a regular majority.

New Debentures acquired by a Company subsidiary (directly or indirectly) and/or by the controlling shareholder will be subordinate, for all intents and purposes, to the other outstanding New Debentures, so long as they are held by any of these parties. In addition, a Company subsidiary and/or by the controlling shareholder will not be permitted to participate in meetings of holders of the New Debentures – not for purposes of a legal quorum nor for purposes of voting.

The Company's obligations will be included as part of the trust certificates of the New Debenture series.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

- (10) The Company will not be permitted to make a dividend "distribution", within the meaning thereof in the Companies Law, if it is not in compliance with the Financial Covenants or where making of the "distribution" constitutes or causes a violation of the Financial Covenants.

In addition and without detracting from that stated above, from the date of the document of principles and so long as the New Debentures (Series A) have not been repaid, the Company will not be permitted to make a dividend "distribution", within the meaning thereof in the Companies Law, except with the approval of the holders of the New Debentures, in a decision made with a regular majority at a meeting of the debenture holders. The restriction on making a "distribution" will not apply after the controlling shareholder fulfills his obligation to invest NIS 300 million as part of issuance of the rights prior to the Execution Date, as conditioned in Section (1) above, and an additional amount of NIS 200 million, as conditioned in subsections (a) and (b) of Section (1) (hereinafter – "the NIS 200 million Liability of the Controlling Shareholder").

In any case where the controlling shareholder violates his obligation to make one or more of the payments he undertook to make during the 4 years following the Execution Date (amounting to a total of NIS 450 million) (hereinafter – "the Controlling Shareholder's Obligation to Invest"), all the monies the controlling shareholder is entitled to receive in respect of a "distribution" made by the Company will be used for payments on account of the Controlling Shareholder's Obligation to Invest the payment date of which has not yet arrived. The arrangement in accordance with this Section will continue to apply up to payment of the full amount of the Controlling Shareholder's Obligation to Invest or up to the end of four (4) years from the Effective Date – whichever occurs first.

- (11) Arrangement with the controlling shareholder –

- (a) After the Effective Date the controlling shareholder will be permitted to sell his shares in the Company, provided that after execution of the sale the controlling shareholder holds at least 45% of the Company's issued and paid-up share capital and control (more than 50% of the issued and paid-up share capital) of Memorand Ltd. (a company wholly owned by the controlling shareholder).
- (b) After execution by the controlling shareholder of the NIS 200 million Liability of the Controlling Shareholder, the controlling shareholder will be permitted to sell his shares in the Company, provided that after execution of the sale the controlling shareholder holds at least 33% of the Company's issued and paid-up share capital and control of Memorand Ltd.
- (c) If the controlling shareholder exercises his entitlement to sell the shares pursuant to the condition in Section (11)(b) above (whether he sold all the shares he is permitted to sell in accordance with the said Section or a portion thereof) (hereinafter – "the Sale Date"), Section (11)(g) below will be considered null and void and the provisions of Section (11)(d) below will apply.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(11)(Cont.)

- (d) Commencing from the Sale Date (as a result of which the controlling shareholder holds less than 45% of the Company's issued and paid-up share capital), if the controlling shareholder violates the Controlling Shareholder's Obligation to Invest (whether a total or partial violation of the said obligation), the Company or the trustee will be permitted to take all legal measures available to them against the controlling shareholder and to request against him all relief to which they are entitled pursuant to law, including under the Contracts Law (Remedies for Breach of Contract), 1970, this being in addition to and without detracting from the right of the holders of the New Debentures to receive the shares, as detailed in Section (11)(f), below, provided this will not constitute double compensation.
- (e) On the date the controlling shareholder completely and entirely fulfills the Controlling Shareholder's Obligation to Invest or at the end of four (4) years from the Execution Date (whichever is earlier), all the restrictions on his sale of the shares as provided in this Section (11) will be cancelled.
- (f) On the Execution Date, the Company will issue fully paid-up ordinary shares to the trustee out of the Company's capital reserves and/or surplus at a rate to be determined in the detailed arrangement that will be calculated based on an investment in the Company's capital in the amount of NIS 450 million (in accordance with the obligation in subsection (b) of Section (1) above) and pursuant to the Base Company Value (as defined above).

The above-mentioned shares will be registered in the name of the trustee and will be held by the trustee in trust for the controlling shareholder and for the holders of the New Debentures.

The trustee will hold the above-mentioned shares based on a detailed trust agreement that will be agreed to with the Joint Representatives and that, among other things, will provide that so long as the controlling shareholder fulfills the obligation to invest pursuant to Section (1) above, the trustee will not be permitted to vote, receive dividends or receive other rights in respect of the shares.

Every investment installment in accordance with subsection (b) of Section (1) above is to be made by means of payment by the controlling shareholder directly to the Company that will be recorded by the Company as premium on account of the above-mentioned shares. Upon payment of the full amount of each installment, the trustee will transfer to the controlling shareholder the proportionate amount of the above-mentioned shares.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(11)(Cont.)

(f) (Cont.)

In a case of a violation by the controlling shareholder of the obligation to invest of any of the investment installments as stated in Section (1) above, the trustee will transfer the proportionate amount of the above-mentioned shares to the holders of the New Debentures that hold them on "the Entitlement Date" (as this term is defined below). It is clarified that the provisions of Section (10) above will not prevent issuance of the shares to the trustee in accordance with the provisions of this Section (hereinafter – "the Agreed Remedy").

"The Entitlement Date" – means the end of the trading day in the New Debentures (both series, as applicable) of the last day on which the controlling shareholder was to invest that installment.

It is clarified that the intention of the parties is that so long as the shares are held by the trustee they will be dormant shares, which do not provide their holders, including the controlling shareholder, holders of the New Debentures and trustee, capital rights, voting rights and rights in the Company (including the right to receive dividends), so long as they are held by the trustee, and the possibility will not be prevented to make use of them as part of an issuance of rights. To the extent there is a legal restriction with respect to application of that stated above, the parties will make efforts to formulate an alternative mechanism that will respond to their intentions and that will ensure that up to the Entitlement Date these shares will not cause a dilution of the holdings of the Company's shareholders.

(g) The controlling shareholder hereby undertakes to make all the payments pursuant to Section (1) above, completely, in full and on the dates set forth above, provided the Agreed Remedy will constitute the sole remedy against the controlling shareholder in a case of violation of his obligations as stated, subject to that set forth in Section (11)(d) above.

(h) It is clarified that subject to all law a violation of the controlling shareholder's commitment not to sell Company shares in excess of the rates set forth in this Section (11) will constitute grounds for calling the Company's debt to the holders of the New Debentures for immediate repayment. Detailed provisions in connection with this condition will be provided as part of the trust certificates covering the New Debentures.

(12) During five (5) years from the Execution Date, extraordinary transactions with a controlling shareholder, within the meaning thereof in the Companies Law, are subject to approval of the General Meeting of the holders of the New Debentures by means of a regular majority.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(13) During five (5) years from the Execution Date, the trustee for the holders of the New Debentures will be permitted to decide with respect to appointment of an independent director (as this term is defined in Section 219 of the Companies Law) to the Company's Board of Directors and the identity thereof (hereinafter – "the Independent Director"). The Independent Director will be appointed as a member of the Board of Directors in addition to the Company's two external directors that the Company is required to appoint in accordance with law. The Company undertakes that subject to the Independent Director complying with the competence conditions provided in the Companies Law, it will not object to the identity of the director, except for reasonable objections.

In addition and without detracting from that stated above, in any case where the number of Company directors is ten (10) or more, the Company shall appoint an additional external director to the Company's Board of Directors, such that after the appointment, as stated, the Company's Board of Directors will have at least three (3) external directors and one (1) Independent Director who will be appointed by the trustee for the holders of the New Debentures (as detailed above). The provisions of this Section will apply for five (5) years from the Execution Date.

The Company undertakes that during five (5) years from the Execution Date, the legal quorum at meetings of the Board of Directors will be with the participation of at least two of the external directors and the Independent Director and at a postponed meeting at least one external director, and in a case where the Company's Board of Directors consists of ten (10) directors or more, the legal quorum will be with the participation of at least two external directors and at a postponed meeting at least one external director.

(14) Manner of completing the arrangement

The Company undertakes that immediately after the date of the memorandum of principles it will submit a request to the Court to convene a meeting of the debenture holders and a meeting of the shareholders to approve a detailed arrangement to be based on the principles in this arrangement, pursuant to Section 350 of the Companies Law. The request to the Court will be made together with the Joint Representatives and their attorneys and will be drafted with their consent and will also include, to the extent necessary, a request to freeze proceedings against the Company up to approval of the arrangement.

The arrangement that will be brought for approval of the meetings to be convened based on an order of the Court will be a detailed arrangement, which will be drafted based on the memorandum of principles, its content will be agreed to between the Company and the Joint Representatives and their attorneys, and will receive all the approvals required by law, including approval of the of the Court having jurisdiction.

As part of the arrangement's processes, all the matters requiring arrangement with the various authorities will be arranged, including the Securities Authority and the Stock Exchange, in order to convene the creditors' meeting.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(14)(Cont.)

Subject to all laws and with the Court's approval, one meeting of the debenture holders will be convened that will include all the debenture holders for approval of the arrangement by the majority required in accordance with Section 350 of the Companies Law.

Subject to all laws and with the Court's approval, the Company will convene a shareholders' meeting for approval of the arrangement in accordance with Section 350 of the Companies Law and pursuant to law.

If and when the detailed arrangement is approved by the meetings in accordance with the Court's determination the arrangement will be presented for the Court's approval. If and to the extent the Court approves the arrangement, the arrangement will be considered as binding vis-à-vis the Company, its shareholders and the debenture holders and will be completed on the Execution Date.

In coordination with the Stock Exchange, assuming the proposed arrangement is approved by the Court, an Execution Date will be set for cancellation/payment/replacement/redemption/conversion of the debentures into shares, cancellation/payment/replacement/redemption/conversion of the debentures into shares of the public subsidiaries and issuance of the New Debentures in exchange for cancellation/payment/replacement/redemption/conversion of the existing debentures – all as will be provided in the detailed arrangement. The Execution Date will be a proximate date (as close as possible) that is allowed by the Articles of Association of the Stock Exchange and the guidelines thereof after receipt of the Court's approval for the arrangement.

(15) The Company, together with the Joint Representatives, will submit a request to the Taxes Authority for a tax arrangement covering all components of the arrangement.

(16) In the period between reaching agreement with respect to the principles set forth in the memorandum of principles the Effective Date, the Company shall conduct itself in accordance with and subject to that stated in the liability certificate signed by the Company in favor of the Joint Representatives, as stated in Note 1B.

The Company commits that so long as the liability certificate is effective, execute transactions that if the detailed arrangement had been in effect would constitute a violation of the detailed arrangement and/or of the memorandum of principles.

(17) Subject to approval of the arrangement and fulfillment of the Company's obligation in accordance therewith, the debenture holders will waive any demand, contention and/or claim against the Company, the controlling shareholder and Company officers, whether known to them or not, in connection with acquisition of the debentures and/or the holding thereof.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 1 – General (Cont.)

C. Principles of the Arrangement with the Holders of the Company's Debentures (Cont.)

(17)(Cont.)

In addition, subject to approval of the arrangement, the Company, its shareholders, the controlling shareholder, Company officers and holders of the debentures will grant a complete and unequivocal exemption against claims to the representatives of the debenture holders and to the trustees of the debenture series in connection with their actions as part of their positions as stated.

(18) In the memorandum of principles it is stated that agreement of the Joint Representatives to the arrangement in-principle is based on the data, assumptions and assessments provided to the Joint Representatives by the Company. Agreement of the Joint Representatives to the arrangement may change or be cancelled if other and/or additional data different than that presented to the representatives up to now becomes clear to it or if up to the final approval date of the arrangement by the Court, significant assets of the Company are put up for sale (including holdings in subsidiaries) or if purchase offers are received for the all or part of the Company's assets, or purchase offers are received for the entire Company or for making an investment therein, that were not known to the Joint Representatives at the time they gave their consent to the memorandum of principles.

(19) Nothing in giving of the consent of the Joint Representatives to the arrangement principles binds the debenture holders to accept the detailed arrangement when it is presented for their approval at meetings of the Company's creditors. The Joint Representatives undertake that subject to that stated in Section (18) above and subject to all law, the parties represented by the Joint Representatives undertake (subject to receipt of all the approvals required by their competent authorities) to support the detailed arrangement that will be agreed to by the Joint Representatives. It is clarified that if approval of the competent authorities of the parties represented by the Joint Representatives is not received, this will not constitute a breach of this memorandum of principles.

Note 2 – Basis of Preparation of the Financial Statements

A. Declaration of compliance with International Financial Reporting Standards (IFRS)

The condensed consolidated interim financial statements were prepared in accordance with IAS 34, "Financial Reporting for Interim Periods" and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2008. In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Company's Board of Directors on November 29, 2009.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 2 – Basis of Preparation of the Financial Statements (Cont.)

B. Use of estimates and judgment

In preparation of the financial statements in accordance with IFRS, Company management is required to use judgment when making estimates, assessments and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. It is clarified that the actual results are likely to be different from these estimates.

Management's judgment, at the time of implementing the Group's accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in the annual financial statements.

In addition, pursuant to IAS 40 "Investment Property", as stated in Note 3A(3), Management made use of estimates in order to determine the fair value of investment property under construction.

For purposes of determining the fair value of these properties, Management made use of the "extraction" method. According to this method, the basis for the value is an estimate of the property in a state of completion and ready to receive tenants. This estimate is made using either the "discounting of income" or the "comparison" methods, as is customary when assessing rental properties. From the value of the property in a state of completion and ready to receive tenants, the balance of the required construction and financing costs up to completion of the project plus an anticipated developer's profit are deducted.

C. Reclassification

The Company reclassified assets and liabilities in the balance sheets (i.e., statements of financial position) as at September 30, 2008 and December 31, 2008, as well as components of the income and expense appearing in the statement of income for the nine-month and three-month periods ended September 30, 2008, and the twelve-month period ended on December 31, 2008, in amounts that are not material.

Note 3 – Significant Accounting Policies

Except as detailed in Section A below, the Group's accounting policies in these condensed interim consolidated financial statements are the same as the policies applied in the annual financial statements.

Set forth below is a description of the substance of the changes made in the accounting policies in these condensed interim consolidated financial statements along with the impact thereof:

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 3 – Significant Accounting Policies (Cont.)

A. Initial implementation of new standards

(1) Presentation of financial statements

As from January 1, 2009 the Group applies revised IAS 1, “Presentation of Financial Statements” (hereinafter – “the Standard”). The Standard allows the presentation of one statement of comprehensive income (a combined statement of income and of other comprehensive income) or two statements – a statement of income and a separate statement of comprehensive income. The Group has chosen to present income and expense items and components of other comprehensive income in two separate statements – a statement of income and thereafter a statement of comprehensive income. In addition, the Group presents a statement of changes in equity immediately after the statement of comprehensive income. The statement includes changes in equity deriving from transactions with owners of the parent company in their capacity as owners (such as, dividends, transactions with controlling interests, issuances of shares and/or options, etc.). The Standard is applied on a retrospective basis.

(2) Capitalization of borrowing costs

As from January 1, 2009, the Group implements revised IAS 23, “Borrowing Costs” (hereinafter – “the Standard”). The Standard is implemented with respect to qualifying assets for which the commencement date of capitalization is on or after January 1, 2009.

The first-time application of the Standard had no impact on the financial statements.

(3) Investment property

As from January 1, 2009, the Group implements revised IAS 40, “Investment Property” (hereinafter – “the Amendment”). The Amendment, which was enacted as part of the 2008 “Improvements to IFRS” project, provides that investment property in the construction and/or development period is to be measured pursuant to the provisions of IAS 40 and not in accordance with the provisions of IAS 16 regarding “Property, Plant and Equipment”. Adoption of the Amendment was made on a prospective basis.

The Group measures its investment property based on the fair value model and, therefore, it measures its investment property under construction as follows:

- (1) Based on fair value, where it is possible to reliably estimate the fair value of the investment property under construction; and
- (2) Where it is not possible to reliably measure the fair value, at cost in the construction period up to the earlier of the completion date of the construction or the date on which its fair value can be reliably measured.

The Group recognizes the difference between the fair value and the book value as at January 1, 2009 of the investment property under construction in the statement of income.

The fair value of the investment property under construction is determined based on valuations made by external independent appraisers having appropriate professional qualifications with respect to the location and type of the asset appraised.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 3 – Significant Accounting Policies (Cont.)

A. Initial implementation of new standards (Cont.)

(3) Investment property (Cont.)

As a result of application of the Amendment's provisions commencing from the current period, investment property under construction that was treated as property, plant and equipment in prior periods and measured at cost is now presented at fair value. Accordingly, the Group recognized income in the statement of income for the three-month period ended March 31, 2009, in the amount of about NIS 1,899 million, in the category "increase in fair value of investment property under construction, net". In addition, a reserve was recorded, in the amount of NIS 445 million, and the income of investee companies accounted for based on the equity method of accounting in respect of the first-time application of the Standard, in the amount of NIS 164 million. The net income after taxes in respect of revaluation of investment property under construction attributable to the Company's shareholders amounted to NIS 1,053 million.

Pursuant to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 1970, the Company has attached to the financial statements as at September 30, 2009 valuations that are very material to the Company. For this purpose, the Company made a quantitative test whereby a property is considered very material if its fair value exceeds 10% of the total assets in the consolidated balance sheet. Regarding properties the revaluation of which was recorded in the statement of income, the extent of the materiality was examined based on the revaluation recorded in relation to the Company's income for the period less the income from the first-time application of IAS 40 as described above.

(4) Employee Benefits

As from January 1, 2009, the Group implements the amendment made to IAS 19, "Employee Benefits" (hereinafter – "the Amendment") in the framework of the 2008 "Improvements to IFRS" project, pursuant to which employee benefits are to be classified as short-term or as other long-term benefits according to the date on which the benefit is payable. According to that stated, certain benefits in immaterial amounts were classified as short-term benefits.

The first-time application of the Standard did not have a significant impact on the Company's financial statements.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 3 – Significant Accounting Policies (Cont.)

A. Initial implementation of new standards (Cont.)

(5) IFRIC 15 “Agreements for Construction of Real Property”

The Interpretation provides the accounting treatment of accompanying revenues and expenses of entities constructing real property, independently or through subcontractors, and of provision of goods or services included as part of agreements for construction of real property.

The Interpretation deals with determination of whether an agreement for construction of real property is covered by IAS 11 “Construction Contracts” or IAS 18 “Revenues”. Revenues from agreements, which pursuant to the Interpretation are covered by IAS 11, are to be recognized using the “percentage of completion” method. Revenues from agreements, which pursuant to the Interpretation constitute agreements for provision of goods, are to be recognized on the date of transfer of the risks and rewards to the customer, while revenues from agreements for provision of services are to be recognized based on the stage of completion of the transaction as at the balance sheet date.

The provisions of the Interpretation are to be applied retroactively with respect to annual reporting periods commencing on January 1, 2009.

The said Interpretation is affected the Group in connection with the manner of recording combination transactions covering residential units in the financial statements. Regarding the impact of the retroactive application – see Note 4.

B. New accounting standards and interpretations not yet adopted

- * In the framework of the 2009 “Improvements to IFRS” project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments will apply to periods beginning on or after January 1, 2010, with the possibility of early adoption, subject to the specific conditions for each amendment.

Presented below is detail of the amendments that may be relevant to the Group and are expected to have an effect on the financial statements:

- Amendment to IAS 17, “Leases – Classification of Leases of Land and Buildings” (hereinafter – “the Amendment”). In accordance with the Amendment, the requirement no longer exists to classify a lease of land as an operating lease in every case that the ownership is not expected to pass to the lessee at the end of the lease period. In accordance with the amended standard, the requirement is to examine the land lease in accordance with the regular criteria for classifying a lease as a financing lease or as an operating lease.

In addition, it is provided that in a lease of land and buildings, the land component and buildings component are to be examined separately for purposes of classification of the leased items, based on the standard’s criteria, where a significant consideration regarding classification of the land is the fact that land normally has an indefinite useful life.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 3 – Significant Accounting Policies (Cont.)

B. New accounting standards and interpretations not yet adopted (Cont.)

- Amendment to IAS 17 (Cont.)

The Amendment applies to financial statements for annual periods beginning on or after January 1, 2010. Early application is permitted with disclosure. The Amendment is to be implemented retrospectively, that is, the classification of land leases is to be examined on the basis of the information that was available on the date of the lease agreement, and if there was a change in the lease's classification, the provisions of IAS 17 are to be implemented retrospectively as from the date of the lease agreement. Nonetheless, if the entity does not have the information necessary to apply the Amendment retrospectively, it is to use the information available on the adoption date of the Amendment and recognize an asset and liability related to the land lease that was classified as a result of the Amendment as a financing lease based on its fair value as at that date. Any difference between the fair value of the asset and the fair value of the liability is to be recognized in retained earnings.

The Group is examining the impact of the Amendment on its financial statements.

- Amendment to IAS 36, "Impairment of Assets – Allocation of Goodwill to Cash Generating Units" (hereinafter – "the Amendment"). In accordance with the Amendment, for purposes of impairment testing, the largest cash-generating unit to which goodwill is to be allocated should not exceed the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Section 12 of IFRS 8. The Amendment applies to annual periods beginning on or after January 1, 2010. Early adoption is permitted with disclosure.

In the Group's estimation, the Amendment is not expected to have an impact on its financial statements.

- Amendment to IAS 39, "Financial Instruments: Recognition and Measurement, Removal from Application of Business Combination Contracts" (hereinafter – "the Amendment"). The Amendment clarifies that only forward contracts between the buyer and the seller in respect of sale or acquisition of a controlled entity, as part of a business combination on a future acquisition date, are not included in IAS 39, this being where the period of the forward contract does not exceed the normal period required for obtaining the approval necessary for the transaction. The Amendment will apply prospectively to all contracts that have not yet expired for annual periods beginning on January 1, 2010. Early application is possible along with disclosure.

In the Group's estimation, the Amendment is not expected to have an impact on its financial statements.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 3 – Significant Accounting Policies (Cont.)

B. New accounting standards and interpretations not yet adopted (Cont.)

- * In November 2009, the International Accounting Standards Board (IASB) published International Financial Reporting Standard IFRS 9 – “Financial Instruments” (hereinafter – “the Standard”). This Standard is the first stage in the project for complete replacement of International Accounting Standard IAS 39 “Financial Instruments: Recognition and Measurement” (hereinafter – “IAS 39”), where it replaces the requirements appearing in IAS 39 for classification and measurement of financial assets. Pursuant to the Standard, there are two main categories with respect to measurement of financial assets: depreciated cost and fair value, where the classification basis for debt instruments is based on the entity’s business model for managing financial assets as well as on the characteristics of the anticipated cash flows from the financial asset. According to the Standard, an investment in a debt instrument is to be measured at depreciated cost if the entity’s business model is to hold assets in order to collect their anticipated cash flows and its contractual conditions create a right to cash flows on specific dates that constitute solely payments of principal and interest. All other financial assets are to be measured at fair value. In addition, embedded derivatives are no longer separated from hybrid contracts that include a host contract that is a financial asset. Instead, the entire hybrid contract is to be examined for purposes of classification in accordance with the criteria set forth above. In addition, an investment in equity instruments is to be measured based on fair value, where the changes in the fair value are recorded on the statement of income. Nonetheless, at the time of the initial recognition of an equity instrument not held for trade, the Standard permits choosing to present changes in the fair value of the equity instrument (except for dividends) as part of the “other comprehensive income” where the amounts included in the other comprehensive income will never be classified to the statement of income.

The Standard excludes financial liabilities from its coverage.

The Standard applies to annual periods commencing on January 1, 2013 or thereafter. Early application is possible, subject to provision of disclosure and concurrent adoption of the amendments to other IFRSs as detailed in the appendix to the Standard. The Standard is to be applied retroactively, except for certain relief provisions in accordance with the transitional rules set forth in the Standard. In particular, if an entity chooses to apply the Standard prior to January 1, 2012, it is not required to restate the comparative figures.

The Company is examining the impact of the Standard on its financial statements.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 4 – Retroactive Application and Restatement

- A. Commencing from January 1, 2009, the Group commenced implementation of the Clarification IFRIC 15 “Agreements for Construction of Real Property”. Pursuant to the Interpretation, it was determined that residential combination transactions are covered by IAS 11 and revenues in respect thereof are to be recognized in accordance with the percentage of completion method (see Note 3A(5)). Application of the Clarification was made retroactively.

Set forth below is data regarding the impact of the retroactive application on the relevant categories:

	For the		
	Nine Months	Three Months	Year
	Ended	Ended	Ended
	September 30,	September 30,	December 31,
	2008	2008	2008
	NIS ‘000	NIS ‘000	NIS ‘000
	Unaudited	Unaudited	Audited
Income from construction and real estate transactions as previously presented	2,071,660	744,853	2,782,485
Effect of retroactive application	<u>694</u>	<u>239</u>	<u>1,423</u>
Income from construction and real estate transactions after retroactive application	<u>2,072,354</u>	<u>745,092</u>	<u>2,783,908</u>
Costs of construction and real estate transactions as previously presented	1,988,055	702,548	2,628,989
Effect of retroactive application	<u>694</u>	<u>239</u>	<u>1,423</u>
Costs of construction and real estate transactions after retroactive application	<u>1,988,749</u>	<u>702,787</u>	<u>2,630,412</u>
			As at
		September 30,	December 31,
		2008	2008
		NIS ‘000	NIS ‘000
		Unaudited	Audited
Short-term credit from banks and others (including liability to sellers of real estate) as previously presented		6,213,975	8,438,736
Effect of retroactive application		<u>(694)</u>	<u>(1,423)</u>
Short-term credit from banks and others after retroactive application		<u>6,213,281</u>	<u>8,437,313</u>
Inventory of buildings held for sale as previously presented		2,706,652	3,114,382
Effect of retroactive application		<u>(694)</u>	<u>(1,423)</u>
Inventory of buildings held for sale after retroactive application		<u>2,705,958</u>	<u>3,112,959</u>

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 4 – Retroactive Application and Restatement (Cont.)

- B.** (1) In its financial statements as at December 31, 2008, the Company changed its accounting policy compared with its interim financial statements for the three quarters it published in 2008 in accordance with IFRS, in connection with presentation of receipts from interest and receipts from dividends in the statements of cash flows. In the quarterly financial statements, the receipts from interest and dividends were presented as part of the Company's current operating activities, whereas in the financial statements as at December 31, 2008 the receipts from interest and dividends are presented as part of the investment activities. This change in policy was made as a result of discussions the Company held on the subject with the Securities Authority. The change constitutes a transition to a more relevant accounting policy, taking into account the fact that the Company's accounting policy is to present the interest and dividend payments as part of financing activities. Pursuant to the provisions of international standard IAS 8, the aforesaid change in accounting policy was made by means of retroactive application.
- (2) The condensed consolidated statements of cash flows for the nine and three month periods ended September 30, 2008, were restated due to an error made therein with respect to presentation of the cash flows used in current operating activities and the cash flows provided by (used in) financing activities as a result of an increase in the inventory of buildings for sale against a liability to sellers of real estate that was recorded as cash activities.

Set forth below is data regarding the impact of the retroactive application on the Company's statement of cash flows for the nine-month and three-month periods ended September 30, 2008:

	For the Nine Months Ended September 30, 2008	For the Three Months Ended September 30, 2008
	NIS '000	NIS '000
	Unaudited	Unaudited
Cash flows used in operating activities as previously presented	(455,560)	(748,243)
Effect of the change in accounting policy	(123,704)	(44,728)
Effect of the restatement	<u>46,661</u>	<u>45,946</u>
Cash flows used in operating activities as reported in these statements	<u>(532,603)</u>	<u>(747,025)</u>
Cash flows used in investing activities as previously presented	(1,729,018)	(375,006)
Effect of the change in accounting policy	<u>123,704</u>	<u>44,728</u>
Cash flows used in investing activities as reported in these statements	<u>(1,605,314)</u>	<u>(330,278)</u>
Cash flows provided by (used in) financing activities as previously presented	1,199,658	(1,423,884)
Effect of the change in accounting policy	<u>(46,661)</u>	<u>(45,946)</u>
Cash flows provided by (used in) financing as reported in these statements	<u>1,152,997</u>	<u>(1,469,830)</u>

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report

- A. In January 2009, Africa Israel Properties Ltd. (a subsidiary, hereinafter – “Africa Properties”) signed a memorandum of understanding (hereinafter – “the Agreement”) with a company controlled by foreign investors, for sale of 51% of the holdings of Africa Properties in One-Half Jubilee in such a manner that upon completion of the transaction the Company will hold 49% of the rights in One-Half Jubilee and the purchaser will hold 51% of the rights therein.

One-Half Jubilee owns the rights in two projects: a project known as “The Jubilee Tower” in Tel-Aviv, in which, among others, the “Government Complex” is a tenant, and the student dormitories project on Mt. Zofim in Jerusalem.

In June 2009 the above-mentioned transaction was closed.

Pursuant to the Agreement, Africa Properties will sell to the purchaser 51% of One-Half Jubilee’s issued share capital and will assign to the purchaser its right vis-à-vis One-Half Jubilee to repayment of 51% of the shareholders’ loans provided to One-Half Jubilee by Africa Properties (hereinafter together – “the Rights Being Sold”), in exchange for an aggregate consideration of NIS 135 million. The value of the projects was appraised for purposes of execution of the transaction at NIS 1.05 billion. The value of the One-Half Jubilee’s rights is net of bank credit, totaling about NIS 760 million, which was provided for financing of the projects, and other liabilities.

As part of the Agreement it was provided that Africa Properties is to provide One-Half Jubilee engineering, marketing and financial management services, in exchange for the payment of management fees to Africa Properties. The Agreement also contains customary provisions regarding the partnership relations in One-Half Jubilee. Acquisition of the Rights Being Sold is made “as is” where the purchaser and Africa Properties will act together to finance Africa Properties’ additional investments, such as in expansion of the parking facility in The Jubilee Tower.

In the financial statements as at September 30, 2009, the investment in One-Half Jubilee is presented based on the equity method of accounting.

As a result of closing of the transaction, in the period of the report the Company recorded a pre-tax capital loss of about NIS 4.6 million.

Regarding Company data included as at September 30, 2009 and as at December 31, 2008 and for the periods ended on those dates – see Note 12.

- B. In January 2009, the Company signed a memorandum of understanding with international investors for sale of all its rights in the Gottex Group to the two other shareholders holding the Group (hereinafter – “the Purchaser”). The Gottex Group owns the following companies: Gottex Models Ltd., Christina America Inc., Gottex Trademarks and Gottex Fashions Ltd. Upon and subject to closing of the transaction, the Company will cease to hold any shares in the Gottex Group and the Purchaser will hold 100% of the rights therein.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

B. (Cont.)

Pursuant the memorandum of understanding, the Company will sell to the Purchaser and/or companies it controls, 50% of the issued share capital and rights in the Gottex Group and will assign to the Purchaser its right vis-à-vis the Gottex Group to repayment of the shareholders' loans provided to the Gottex Group by the Company, in consideration for release of the Company, as from the closing date, from all its liabilities and guarantees in connection with the Gottex Group, except for a guarantee in the total amount equal to \$18 million, of which about \$13 million will be released up to July 2010 and the balance up to July 2011, and in consideration of the following amounts:

- a) About NIS 166 million constituting immediate consideration.
- b) Conditional consideration in the amount of up to \$7.5 million that will be paid based on the business results of sale of the trademarks "Zara" and "Pull and Bear" in Israel during a four-year period commencing on November 1, 2008.

Collaterals were deposited with the Company in order to secure the purchasers' obligation to release the Company from the above-mentioned guarantees.

The Company undertook that upon the closing of the transaction the Africa Group will refrain from competing, directly or indirectly, with the activities of the Gottex Group for the periods provided in the memorandum of understanding.

In August 2009, the sale transaction was closed.

The total amount of about NIS 71 million was paid as an advance deposit prior to the closing date of the transaction. On the closing date of the transaction, the amount of NIS 50 million was paid, and the balance of the immediate consideration (about NIS 45 million) is to be paid at later dates as agreed between the parties. Subsequent to the balance sheet date, NIS 26 million was received in respect of the balance of the immediate consideration.

If the payments and/or the release date of the guarantees mentioned above are accelerated, the purchaser will be entitled to a reduction of the immediate consideration in a total cumulative amount not in excess of about NIS 5.5 million.

In addition, it was agreed that the Company will also remain a guarantor for the liabilities of one of the companies in the Gottex Group to a foreign bank, in the amount of up to Can\$2.5 million, for a period of up to 60 days from the closing date of the transaction. On September 21, 2009, the Company was released from this guarantee.

Due to closing of the transaction, the Company is expected to record a pre-tax capital gain in its financial statements for the third quarter in respect of the transaction, in the amount of about NIS 55 million. In addition, a deferred gain, in the amount of about NIS 38 million was realized, which will be recognized over a period of 3–5 years.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

- C. In April 2009, Africa Properties together with its 100% owned subsidiary signed a memorandum of understanding (hereinafter – “the Agreement”) with Melisron Ltd. (hereinafter – “Melisron”) for sale of all of the holdings of Africa Properties (73.4%) in Merkarka’ay Mercaz Ltd. (hereinafter – “Merkarka’ay Mercaz”), which owns the rights in the Ramit Aviv Shopping Mall site in Tel-Aviv, and sale of all of the subsidiary’s rights in the Savyonim Shopping Mall in Yehud.

In June 2009, the above-mentioned two transactions were closed. Set forth below are details in connection with the said transactions:

- 1) The consideration for the shares of Merkarka’ay Mercaz was set based on 73.4% of the shareholders’ equity of Merkarka’ay Mercaz, as determined in accordance with generally accepted accounting principles, as at the closing date. In calculation of the shareholders’ equity, the value of the Ramit Aviv Shopping Mall site in Tel-Aviv was taken into account at the amount of NIS 1,530 million and dividends were deducted from this amount that were distributed up to the closing date (as stated below). To the above-mentioned amount, the sum of NIS 14 million will be added.

For purposes of closing the transaction for sale of the shares of Merkarka’ay Mercaz, on June 30, 2009, a number of transactions were executed, as follows:

Melisron and Migdal Real Estate Holdings Ltd. (hereinafter – “Migdal”), which holds 26.6% of the shares of Merkarka’ay Mercaz, provided financing to Merkarka’ay Mercaz, in the aggregate amount of NIS 585 million, based on their share in the this company after closing of the transaction.

Concurrently, on the same date, Merkarka’ay Mercaz distributed a dividend to the existing shareholders – Africa Properties and Migdal – in the amount of NIS 676 million. The share of Africa Properties in this dividend was about NIS 496 million.

After execution of the above-mentioned transactions, on June 30, 2009, the consideration was transferred from Melisron to Africa Properties for the shares of Merkarka’ay Mercaz.

As a result of closing the transaction for sale of the shares Merkarka’ay Mercaz, in the period of the report the Company recorded a pre-tax capital gain in the amount of about NIS 10.3 million.

- 2) The consideration for the rights of the subsidiary in Savyonim Shopping Mall was set at NIS 193 million, plus Value Added Tax. As a result of sale of the Savyonim Shopping Mall, in the period of the report, the subsidiary recorded a pre-tax gain of NIS 14 million.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

C. (Cont.)

3) Set forth below is data with respect to the net assets of Merkarka'ay Mercaz and One-Half Jubilee, which exited the consolidation as at June 30, 2009, as a result of the transactions described above:

	One-Half Jubilee Ltd.	Merkarka'ay Mercaz Ltd.	Total
	Thousands of NIS		
Net assets sold	231,955	251,033	482,988
Less – minority interest	–	(66,834)	(66,834)
Realization of revaluation reserve in respect of acquisition in stages	(10,109)	–	(10,109)
Minority interest in realization of revaluation reserve	(4,784)	–	(4,784)
Recording of investment and loans to associated company	(178,242)	–	(178,242)
	38,820	184,199	223,019
Capital gain (loss) on the sale	<u>(4,578)</u>	<u>10,341</u>	<u>5,763</u>
Total consideration for the shares	<u>34,242</u>	<u>194,540</u>	<u>228,782</u>

D. In April 2009, Africa Properties signed a memorandum of principles (hereinafter – “the Agreement”) with a company controlled by foreign investors (hereinafter – “the Purchaser”) for sale of 95% of its rights in a property known as “Africa Israel Tower” on Ahad Ha’am St. in Tel-Aviv (hereinafter – “the Property”) and 50% of the unutilized building rights in the Property, for a consideration of NIS 166,530 thousand, plus Value Added Tax as per law (hereinafter – “the Consideration”).

In August 2009 the transaction was closed.

Pursuant to the Agreement, Africa Properties sold to the Purchaser 95% of its rights in the Property’s built-up areas, and retained ownership in the remaining 5%. Africa Properties provided the Purchaser an option, exercisable within two years from the signing date of the Agreement, to acquire from Africa Properties the remaining 5% as stated above, in exchange for a consideration of NIS 7,700 thousand, plus VAT as per law. In a case where the Purchaser does not exercise the option, Africa Properties will have the right to compel the Purchaser, within a period of 12 months beginning at the end of the above-mentioned two-year period, to acquire from Africa Properties the remaining 5% as stated above, in exchange for the aforesaid amount.

Pursuant to the Agreement, Africa Properties sold to the Purchaser 50% of the balance of the unutilized building rights in the Property, and will retain ownership in the remaining 50%. The building rights will be utilized by the parties under the conditions and in the manner as they will agree between them, as partners, and they will share equally in all the expenses and payments involved in utilization of the building rights. Any transfer and/or sale of the share of either of the parties in the building rights will be subject to a right of first refusal of the other party as well as the right of the other party to join the sale.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

D. (Cont.)

Africa Properties provided the Purchaser an option, exercisable during a two-year period from its delivery date, to acquire the remaining 50% of the above-mentioned building rights, in exchange for a consideration in the amount of NIS 20 million, plus VAT.

Up to September 30, 2009, the entire amount of the consideration was received, except for the amount of NIS 20 million, which is expected to be received by the end of 2009.

The Company did not realize a significant gain or loss with respect to the transaction described above.

- E. Further to that described in Note 7B(1)(f) to the Annual Financial Statements, in connection with an undertaking from December 2007 of foreign subsidiaries for sale of their rights in real property assets in Miami in exchange for a total consideration of about \$88.7 million, during January 2009, a notice was received on behalf of the purchaser whereby circumstances occurred, among other things, as those defined by it as “an act of G-d”, which confer upon it the right to retract its obligation to complete the transaction and to cancel the transaction, as well as to return of the deposit amounts it provided in connection with the above-mentioned transaction.

In August 2009, a compromise agreement was signed between the seller and the purchaser including, among other things, the following agreements:

- The transaction price was reduced to about \$39 million.
- The purchaser made an additional deposit with the sellers of about \$1 million (hereinafter – “the Additional Deposit”), which will also be recorded on the closing date of the transaction on account of the transaction consideration. The amount of the Additional Deposit will not be returned to the purchaser unless the sellers breach their obligation to transfer ownership of the property sold.
- It was agreed that closing of the transaction will take place on September 14, 2009. Nonetheless, the purchaser is entitled to give notice of postponement of the closing date of the transaction to October 14, 2009 subject to deposit of a further sum of \$1 million as a deposit in the hands of the seller (this amount as well will not be returned to the purchaser unless the sellers breach their obligation to transfer ownership of the property sold), along with payment of a reimbursement of the property’s financing and operating expenses in respect of the postponement period.
- On the closing date of the transaction, the purchaser will pay the amount of about \$16.5 million (or \$15.5 million if the purchaser’s right to postpone the closing date of the transaction was exercised). The purchaser was given an option to receive from the sellers a loan in the amount of about \$3.5 million for payment of the balance of the consideration. The sellers’ loan plus interest agreed to in respect thereof are to be repaid mostly (about \$2.75 million) at the end of 12 months from the closing date of the transaction and the balance thereof at the end of 24 months from the closing date of the transaction. In order to secure the loan, the purchaser will place a lien in favor of the sellers on its rights in two lots out of the property being sold.
- It was agreed that on the closing date of the transaction, the purchaser’s claim will be rejected and cancelled.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

E. (Cont.)

The said transaction was closed during September 2009 and as part of the closing the purchaser exercised the right it was granted as detailed above. As a result of the closing, the Company recorded a capital gain in its financial statements in the amount of about \$7 million.

F. In August 2009, AFI Development Plc (a subsidiary, hereinafter – “AFI Development”) sold its rights in the “Kosineskia” real estate site in Moscow to a foreign company. The consideration for the rights in the property sold was set at \$195 million.

The amount of \$60 million was received by the subsidiary on account of the consideration. It was further agreed that the balance of the consideration, in the amount of \$135 million is to be paid to the subsidiary in monthly installments during a period of a year. The purchaser may accelerate the payments compared with the timetables set in the agreement and if it does so it will be entitled to a discount at a variable rate of up to 7.7% (the rate of the discount will be reduced to the extent the scope of acceleration of the payments is reduced, where the maximum discount will be granted where the purchaser pays the entire consideration within 30 days).

If and when the transaction is closed, and taking into account the fact that against the property being sold there is no debt, the proceeds from the sale are expected to be received in full by the subsidiary as free cash flows. It is further noted that in light of the fact that the value of the property being sold in the subsidiary’s books was about \$150.8 million, the subsidiary recorded a gain in its financial statements as at September 30, 2009 of about \$44.2 million, due to adjustment of the book value of the property being sold to the value reflected by the transaction.

G. In September 2009, One-Half Jubilee signed an agreement for sale of five floors in the Hakiryia Tower in Tel-Aviv (about 9,500 square meters), in exchange for about NIS 92 million, which is to be paid no later than 60 days from the signing date of the aforementioned agreement. Up to the balance sheet date, the possessory interest in the property had not been transferred to the purchaser. The Company is not expected to realize a significant gain on the said sale. In November 2009 the transaction was closed.

H. Regarding an agreement for sale of rights in the “The Clock Tower” project and a memorandum of principles for sale of 49% of the rights in the “The Times Building” project in New York, as described in Note 7B(1)(g) to the Annual Financial Statements, due to the worsening of the crisis in the New York real estate market and a decline in the value of the projects, the transaction for sale of “The Clock Tower” was not closed and the negotiations for sale of the “The Times Building” did not ripen into an agreement.

I. In September 2009, the Company (through an investee company) signed an agreement with Alon whereby the Company will sell and transfer the entire amount of its holdings in Alon against receipt of securities of public companies in the Alon Group, in Israel and in the United States, a transaction where it is expected that as a practical result thereof the Company Group will no longer be considered a single borrower group together with the Alon Group.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

I. (Cont.)

Set forth below are the highlights of the transaction:

1. The Company will sell and transfer to Alon 2,200,428 shares of Alon it owns, constituting 26.14% of Alon's issued share capital (hereinafter – "the Shares Being Sold").
2. In exchange for the Shares Being Sold, Alon will transfer and/or allot securities to the Company as follows:

2,579,774 shares of Alon USA Energy Inc. (hereinafter – "Alon USA") that are registered for trading constituting, as at the date of the agreement, about 5.51% of the issued share capital of Alon USA; as well as the right to receive additional shares of Alon USA, on demand one time only, on one of a number of dates provided, commencing from January 2010 and up to July 2011, in an amount estimated at between 3,287,000 and 3,674,000 shares of Alon USA (in accordance with the formula provided whereby the later the exercise date of the right the larger the number of shares the Company is entitled to receive) (hereinafter – "the Additional Alon USA Shares"). The Additional Alon USA Shares constitute, as at the date of the agreement, about 6.6% to 7.27% of the issued share capital of Alon USA (after the issuance).

Alon undertook to act to register the Alon USA shares transferred to the Company for trading. To secure Alon's commitment to transfer the Additional Alon USA Shares, Alon will record a lien to the subsidiary's benefit on a number of Alon USA shares it holds in the same amount as the estimated amount of the Additional Alon USA Shares;

An option for acquisition of 982,863 shares (subject to customary adjustments) of Dor Alon Energy Israel (1988) Ltd. (hereinafter – "Dor Alon"), owned by Alon, constituting as at the signing date of the agreement about 7% of the issued share capital of Dor Alon (hereinafter – "the Dor Alon Option"). The Dor Alon Option may be exercised (once only), during a period of 36 months from the signing date of the agreement (subject to events provided that may shorten the period, hereinafter – "the Acceleration Events"). The Dor Alon Option is exercisable in exchange for a payment to Alon of an amount equal to NIS 55 per share of Dor Alon (linked to the CPI and subject to customary adjustments) (hereinafter – "the Exercise Price"). Notwithstanding that stated above, in a case of exercise of the Dor Alon Option due to the Acceleration Events, the Exercise Price will be the lower of the price referred to above or the price of a Dor Alon share on the stock market on the conversion date.

3. In the framework of the agreement, the parties provided additional consents, including: cancellation of the existing shareholders' agreement between the Company and the other shareholders in Alon; Alon's commitment to release the Company and any other company in the Company Group from guarantees given to secure Alon's liabilities, if any; Alon's commitment whereby so long as the Company holds at least 5% of the issued share capital of Alon USA will use its voting power in Alon USA to appoint a director in Alon USA that the Company recommends; provision of a right of first refusal to Alon in connection with any separate sale (or group of sales within a period of 14 days) of shares of Alon USA in excess of 4% of the issued share capital of Alon USA.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

I. (Cont.)

On September 17, 2009, after receipt of the approvals required by law, the transaction was closed and the Company recorded a pre-tax gain in respect of the transaction, in the amount of about NIS 11 million.

In the Company's estimation, as a result of closing of the transaction and cancellation of the agreement between the Company and the other shareholders in Alon, the Company Group and the Alon Group, are no longer considered a single borrower group for purposes of the provisions of the Proper Banking Law regarding that stated in Note 23C(13) to the Annual Financial Statements.

- J. Further to that stated in Note 7F to the Annual Financial Statements in connection with Highway 431, in February 2009 Danya Cebus Ltd. (a subsidiary, hereinafter – “Danya Cebus”) opened the entire highway to traffic and received the balance of the grant pursuant to the concession agreement (less certain completions in insignificant amounts). In addition, the concessionaire is entitled to receive the “fixed and variable payment” during the operation and maintenance period of Highway 431 in accordance with the concession agreement.

As at the date of the report, the gross loss recorded by the Company in respect of the project is about NIS 220 million. The loss stems from an increase in the execution costs of the contracting work on the Highway 431 project. In addition, current costs have been accumulated on the project in the amount of about NIS 25 million, mainly resulting from an increase in overhead expenses.

In April 2009, after fulfillment of all the preconditions provided in the concession agreement, a long-term loan was provided to the concessionaire in the amount of about NIS 1.32 billion bearing linked annual interest of 4.27%. At the same time, a bridge loan was also provided for debt principal in the amount of NIS 63 million (the balance of the loan as at September 30, 2009 is about NIS 48 million. Subsequent to the balance sheet date, the loan was repaid in full after receipt of the first fixed payment from the State) and the concessionaire invested the balance of the shareholders' equity in accordance with the financing agreements. In addition, in accordance with the financing agreements, Danya Cebus provided a short-term deposit, in the amount of about NIS 15 million (during the last quarter the short-term deposit was fully repaid), and long-term deposits, in the amount of about NIS 63 million, as a debt service fund, plus additional long-term deposits, in the amount of about NIS 11 million.

- K. Further to that stated in Note 7E(10) to the Annual Financial Statements, in July 2009, Derech Eretz Highways (1997) Ltd. (an associated company, hereinafter – “Derech Eretz”) was provided a notice from the Appointed Authority with respect to substantial completion of Section 18. The completion certificate and approval for operation of the Highway were received by the company on July 20, 2009, the date on which Section 18 was opened for traffic. The income stabilization mechanism entered into effect on this date. At the same time, Derech Eretz committed to complete execution of the construction work and the secondary matters as detailed in the completion certificate within 3 months of the issuance date of the completion certificate. Derech Eretz is endeavoring together with the State to complete the open items.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

K. (Cont.)

Up to March 24, 2010, the construction partnership, JV18 (an investee company of Danya Cebus), is entitled to a bonus for finishing ahead of the timetable, in the amount of 75% of the excess of the revenues over the operating expenses of Section 18 during the months preceding the original deadline as provided in the construction agreement. JV18 recognized the revenues from the construction grant, in the amount of about NIS 16.5 million, based on an estimate received from the Management of Derech Eretz, which was based on estimates of an independent outside expert.

L. Further to that stated in Note 7E(11) to the Annual Financial Statements, during the period of the report the State instructed Derech Eretz, in accordance with the concession contract, to continue to operate and maintain Sections 19 and 20 of the Highway for an additional period ending November 30, 2009.

M. Derech Eretz Construction Joint Venture (a partnership held by Danya Cebus at the rate of 33.3%, hereinafter –“CJV”) is negotiating with Derech Eretz in connection with execution of certain expansions in the main section of Cross Israel Highway (the Shoreq Interchange to the Irone Interchange) in the aggregate amount of about NIS 120 million. CJV has commenced performance of the preliminary work for execution of the expansion work, and in this regard an agreement was signed between Derech Eretz and CJV for performance of certain work only.

In addition, Danya Cebus agreed to perform certain work as part of these expansions, as a subcontractor of CJV, in the aggregate amount of about NIS 27 million.

Further to the request of Derech Eretz to spread out the payments due to CJV for performance of the expansion work, CJV intends to sign a loan agreement with the shareholders of Derech Eretz, including the Company, for financing the expansion work, in the aggregate amount of up to NIS 40 million. Pursuant to the agreement, if Derech Eretz notifies that it is not able to make a certain payment, the shareholders will provide CJV with a loan in respect of the expansion work, in an amount constituting 93% of the delayed payment, as stated, plus Value Added Tax. This loan will be repaid by CJV only after and subject to actual receipt of the payment from Derech Eretz in respect of the expansion work. Every loan as stated will bear interest at the same rate as the interest charged to Derech Eretz on the delayed payment. The agreement was approved in accordance with the provisions of Section 275 of the Companies Law.

Up to September 30, 2009, the Company provided to CJV a loan, as stated, in the amount of about NIS 12.1 million.

N. In September 2009, expansion of the Cross Israel Highway in the section between the Eyal Interchange and the Nachshonim Interchange was completed, which included the addition of another lane in each direction. The lanes added were opened to traffic on the completion date.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

- O. Further to that stated in Note 7H to the Annual Financial Statements in connection with the Light Train project in Tel-Aviv, MTS (the concessionaire in the project which is held by the Company at the rate of 20%) and the financing parties requested from the State to extend for the second time the date set for the financial close by an additional several months and the State approved postponement of the financial close until January 31, 2009, while increasing the tender guarantee by about NIS 20 million to about NIS 120 million, provided that parties reach agreement with respect to principle commercial issues by November 30, 2008.

As indicated to the Company, MTS and the State have not yet reached agreement regarding the principle commercial issues relating to the concession agreement and a financing consortium for the project has not yet been finally organized.

In September 2009, the State (through the Appointed Authority for the Red Line of the Light Train) requested from the Company its reference to steps the Company is intending to take for purposes of the financial close of the Light Train project, taking into account the Company's notification of its decision to begin a process of examination and restructuring of its liabilities to all the holders of the Company's debentures (for details see Note 1B). In its answer to the said request, the Company noted it is bound by the provisions of the concession agreement, including completion of the financial close.

In November 2009, the State notified MTS that it is examining the plans in connection with the Light Train project, and in this regard it is considering terminating the concession agreement. The State also notified MTS that it intends to reach a decision regarding the future of the project, as stated, by the middle of December 2009, after holding a hearing with respect to the matter. MTS responded to the State that the said hearing process is not legitimate, and requested that instead the State should commit to hold a number of meetings on a fixed schedule, in order to complete the financial close for the project. In addition, MTS noted in its answer that it remains committed to the financial close as stated. The State replied to the said answer of MTS and repeated its position that a hearing with respect to the matter should be held and, in addition, the State request that MTS provide it the relevant material in order to demonstrate that MTS is able to complete the financial close as stated in the near future. The hearing was held on November 26, 2009. Upon completion of the hearing, the State gave notice that it will hold an internal consultation and, thereafter, will provide its answer to the concessionaire.

Up to September 30, 2009, MTS invested about NIS 270 million in the project and MTS received grants from the State in the amount of about NIS 92 million. The Company provided guarantees for the benefit of MTS in the amount of about NIS 24 million to the State and in the amount of about €9 million to the bank. If the concession agreement is terminated, as stated above, the State has the right to demand realization of the guarantees and/or repayment of the amounts.

If the project's financial close is not held the entire project may be cancelled, which will have an adverse effect on the Group. In addition, if the project's financial close is not held, the Company will indemnify Danya Cebus for the project's preliminary planning expenses.

In the Company's estimation, in light of that stated above, the Company may encounter difficulties with respect to the project's financial close and, as a result, may affect its realization.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 5 – Significant Events during the Period of the Report (Cont.)

- P. In connection with the prison project, as described in Note 7G to the Annual Financial Statements, in 2005, a petition was filed with the Supreme Court sitting as the High Court of Justice against the legality of the law permitting operation of a prison by means of private management (hereinafter – “the Petition”). In March 2009, the High Court of Justice issued an Interim Order whereby A.L.A. Management and Operation (2005) Ltd. (a private company owned jointly by the Company and Minerav Engineering and Construction Ltd., hereinafter – “the Concessionaire”) and the State of Israel (hereinafter – “the Customer”) must refrain from operation of the prison. The Order will be valid until another decision is rendered by the Court.

In July 2009, a memorandum of understanding was signed between the Concessionaire and the Customer in connection with preparations for operation the prison, as a result of the Interim Order preventing, at this stage, its operation by the Concessionaire.

In the memorandum of understanding, the Concessionaire committed to take a number of actions relating to the readiness of the prison to receive prisoners, while making adjustments to the operational readiness conditions, with consent, in light of the consequences of the Interim Order and with the goal of preserving the project infrastructure, on the one hand, and reducing the expenses and damages, on the other.

Pursuant to the memorandum of understanding and the Concessionaire’s obligations, on September 1, 2009, the Concessionaire was in compliance with the adjustment requirements defined in the memorandum of understanding for operational readiness.

On the other hand, the Customer committed that if the Petition is rejected it will see to indemnification of the Concessionaire for all its operational and financing expenses, commencing from July 15, 2009, while if the Petition is accepted, the Customer will indemnify the Concessionaire for these expenses commencing from April 5, 2009.

In November 2009, the High Court of Justice rendered a decision whereby based on Amendment No. 28 to the Prisons Law, by virtue of which a prison may be privately operated, is not legal and, therefore, it is null and void. In light of the decision, it is not possible to continue execution of the project as stated.

Up to now, the Concessionaire has invested in construction of the project and preparation for its operation the amount of about NIS 250 million (the Company’s share in the project is 50%). The Concessionaire and its advisors are still studying the Court’s decision and its ramifications along with the Concessionaire’s rights under the concession agreement in this regard. Nonetheless, at this early stage, in the Concessionaire’s understanding, pursuant to preliminary legal advice it received, the concession agreement signed with the State of Israel assures indemnification of the Concessionaire in respect of its expenses and damages.

- Q. In February 2009, the Company’s Board of Directors approved the Company’s undertaking in 10 sale agreements for sale of 10 undeveloped lots in Savyon (hereinafter – “the Lots”). The consideration for the Lots will be paid by the purchasers in cash and/or in various debentures of the Company, which are registered for trading on the stock exchange, where the debentures will be “acquired” based on a key of 65 agurot for every NIS 1 par value of debentures.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 5 – Significant Events during the Period of the Report (Cont.)

Q. (Cont.)

The subject matter of the transaction is 6 Lots on an area measuring 1 dunam and 4 Lots on an area measuring ½ dunam. The aggregate consideration for all the Lots was set at NIS 12.42 million in cash and NIS 33.2 million par value debentures based on the following detail:

NIS 3,249,996 par value debentures (Series L).
NIS 18,796,016 par value debentures (Series N and P).
NIS 4,413,996 par value debentures (Series O).
NIS 4,169,996 par value debentures (Series U).
NIS 2,569,996 par value debentures (Series V).

Upon completion of the transaction as stated, the Company recorded in respect thereof a total pre-tax accounting gain, in the amount of about NIS 27.62 million (of which a pre-tax gain of NIS 11.6 million with respect to acquisition of the debentures).

R. On September 24, 2009, the General Meeting of Africa Properties approved an extraordinary private offer of shares of Africa Properties in an overall scope of about NIS 194.3 million to institutional entities, private entities (hereinafter – “the Regular Offerees”) and to the Company (hereinafter – “the Private Offeree”), after receiving approval of the Audit Committed and Board of Directors of Africa Properties for the format of the private offer, and after receiving approval of the Board of Directors of Africa Properties for the results of the tender held in order to fix the share price in the private offer (hereinafter – “the Tender”).

As part of the private offer as stated, Africa Properties issued a total of 4,379,560 shares, of which 1,412,804 shares were issued to the Regular Offerees and 2,966,756 shares were issued to the Private Offeree.

The total proceeds to Africa Properties in the private offer amounted to about NIS 194.3 million, where about NIS 62 million was received from the Regular Offerees in cash and NIS 132.3 million was paid by the Company by means of conversion of existing loans and a capital note of the Company Group to Africa Properties, with no cash payment.

To the best of the Company’s knowledge, pursuant to the provisions of the Securities Law and in accordance with the Securities Regulations (Details Regarding Sections 15A through 15C to the Law), 2000, restrictions apply to the Regular Offerees and to the Company regarding execution of transactions in the shares issued as part of the private offering as stated.

Africa Properties paid Africa Issuances Ltd. (a subsidiary), which administrated the Tender, 2% of the proceeds received from the Regular Offerees (about NIS 1.2 million).

As a result of completion of the private offer as stated, the rate of the Company’s holdings in Africa Properties is about 67.85% of the issued share capital and voting rights in Africa Properties.

S. On July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147), 2005, was passed by the Israel Knesset (parliament), which provided, among other things, a gradual reduction in the Companies Tax rate to 25% in 2010 and thereafter.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 5 – Significant Events during the Period of the Report (Cont.)

S. (Cont.)

On July 14, 2009, the Law for Economic Efficiency (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010), 2009, was passed by the Israel Knesset, which provided, among other things, an additional gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rates applicable in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and in the 2016 tax year and thereafter the applicable Companies Tax rate will be 18%.

As a result of the changes in the tax rates, the Company (consolidated) recorded a tax benefit for the nine-month and three-month periods ended September 30, 2009, in the aggregate amount of about NIS 26 million.

Note 6 – Legal Claims

On June 9, 2009, copies of a class action claim and a request for certification of the filing of the class action claim (hereinafter – “the Claim”) were served on the Offices of Danya Cebus on behalf of a shareholder of Danya Cebus (hereinafter – “the Plaintiff”) against Danya Cebus, the Company, the former CEO of Danya Cebus and directors of Danya Cebus (some of them still serving on the Board of Directors at the present time and some no longer serving). The Claim’s cause of action, based on that stated therein, is damages allegedly caused to the Plaintiff, who acquired his shares in Danya Cebus on July 16, 2007, as a result of a violation of the Securities Law and the Regulations promulgated thereunder. This, according to the Plaintiff, is due to a late publication of an Immediate Report regarding an income caveat deriving from expected losses on the “Highway 431” project, which was published by Danya Cebus on March 3, 2008. Pursuant to that contended in the Claim, the Plaintiff’s damages are estimated at about NIS 2,166, whereas the amount of the Claim with respect to all the members of the group cannot be estimated at this point. In the estimation of Danya Cebus, in light of the findings of the examinations conducted regarding the matter even prior to the filing of the Claim, and based on an initial opinion of its legal advisors, it has good defenses against the Claim. Nonetheless, due to the early stage of the legal proceeding, and the legal clarification along with the accompanying facts, it is not possible at this juncture to assess the Claim’s chances of success.

Note 7 – Loans and Credit

A. As at September 30, 2009, the holders of the debentures had grounds for demanding immediate repayment of the debentures. In light of that stated, in the financial statements as at September 30, 2009, the Company’s liabilities with respect to the debentures were reclassified as part of the “current liabilities”. See also Note 1B.

B. Financial Covenants

1) As stated in Note 23C(1) to the Annual Financial Statements, the Company has undertaken to comply with certain financial covenants including, among others, ratio of the EBITDA to the interest expenses and the ratio of the net debt to equity.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 7 – Loans and Credit (Cont.)

B. Financial Covenants (Cont.)

1) (Cont.)

The Company did not comply with the financial covenants set. On September 1, 2009, the Company reached agreement with the lending party regarding receipt of a waiver with respect to non-compliance with the financial covenants as well as regarding an 18-month postponement of measurement of compliance with the financial covenants.

Regarding the Company's undertakings to a bank to comply with a "ratio of economic shareholders' equity to economic total assets" as described in that note, in light of the losses incurred by the Company and the impact thereof on its shareholders' equity, the Company is not certain that it is in compliance with the covenant determined.

As at the date of the financial statements, the Company has short-term credit, in the amount of about NIS 221 million, taken out from the bank.

- 2) An associated company in the United States is in violation of loan terms due to a failure to comply with the sales ratio determined. On September 1, 2009, the subsidiary and the lending party signed an amending agreement to the financing agreement providing, among other things, that the set payment dates will be postponed by 45 days each (except for the final repayment date of the loans that remains fixed at April 1, 2010), and the payment dates of proportionate amounts of the interest payments will also be postponed (where the balance of the interest will be added to the principal and will bear interest). It was further provided that the payment guarantees, among other things, of the Company will be gradually reduced upon the gradual repayment of the loan. Furthermore, to the extent AFI USA does not comply with its liabilities pursuant to the interest guarantee that is limited to about \$2.3 million, which was provided to the said lending party in connection with the Apthorp project, such failure will be considered a "breach event" for this project as well. It was further agreed that the associated company will deposit the amount of \$1 million to secure completion costs of the project up to September 15, 2009. As at the signing date of the financial statements the amount had not been deposited and the associated company is making efforts to postpone the said deposit date.

- 3) Further to that stated in Note 23C(11) to the Annual Financial Statements, as at September 30, 2009, Africa U.S. (a wholly owned foreign company) was not in compliance with financial covenants determined in the lending agreements signed with the lenders in connection with the "The Times Building" project with respect to minimum shareholders' equity and regarding the minimum liquidity ratio of Africa U.S. in such a manner that the lenders have the right to demand immediate repayment of all the loans, at different levels, provided for acquisition and renovation of the property.

Regarding part of the said loans, in the aggregate amount of \$475 million, the lenders agreed for the benefit of Africa U.S. to waive their right to call these loans for immediate repayment due to non-compliance with the minimum shareholders' equity and liquidity conditions, for a period of 9 months up to January 1, 2010 (hereinafter – "the Waiver"), subject to the other lenders holding the balance of the loans, in the amount of \$236 million, not exercising their right to demand immediate repayment of their loans.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 7 – Loans and Credit (Cont.)

B. Financial Covenants (Cont.)

3) (Cont.)

Despite that stated above, the lenders will be permitted to retract the Waiver if Africa U.S. does not provide them with a reorganization plan with respect to the loans, to their satisfaction, by April 30, 2009 (subject to the lender's right to extend the submission date of the reorganization plan by an additional 30 days at their discretion). The submission date of the reorganization plan was extended to August 5, 2009. On July 16, 2009, one of the holders of the mezzanine loan requested from a New York court that the senior lender, the holder of the mortgage, will not exercise its rights due to the violation event and also requested that the excess cash in the project be divided between the various lenders as if the project were not in violation.

The Court rejected the request of the holder of the mezzanine loan, while the holder gave notice of its intention to appeal this decision to the appellate level court.

In light of that stated above, the debt holders and Africa U.S. agreed that they will not take steps in connection with the violation event until the court issues the written decision.

Pursuant to that stated above, as at the signing date of this report, the various lenders are prevented from taking any steps in connection with the violation event. Nonetheless it is noted that as part of the understandings, each side reserved for itself the right to revoke its agreement to that stated above at any given moment.

As at the date of this report, Africa U.S. is continuing to hold conversations with the various lenders in the project – (that is, the holders of the mortgage in the amount of about \$475 million (including the senior lender whose loan totals about \$325 million)) and the mezzanine loan lenders (that is, all the other lenders in the project) – regarding reorganization of the debt structure in connection with the Times building. As part of this quasi-reorganization of the debt, the Company is interested in extending the date for payment of the loan from the mortgage holder and to purchase, in cash or through conversion into capital, the loans of the mezzanine loan lenders in exchange for a reduced amount.

In light of that stated above, the balance of the loans as at September 30, 2009, in the amount of about \$711 million, was reclassified in the Company's interim financial statements in the "current liabilities" category.

- 4) As at September 30, 2009, Tadiran Telecom is not in compliance with the financial covenants set for it (see also Note 23C(5) to the Annual Financial Statements). Tadiran Telecom's Management estimates that the said non-compliance will not have a significant adverse impact on its financial position.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 7 – Loans and Credit (Cont.)

B. Financial Covenants (Cont.)

4) (Cont.)

In addition, a subsidiary of Tadiran Telecom is not in compliance with some of the financial covenants in connection with credit received from a U.S. bank. The subsidiary's Management is carrying on negotiations with the bank regarding continuation of provision of the credit and in its estimation as a result of the non-compliance with the financial covenants there is a concern that the subsidiary will be required to repay to the bank during the next five months the amount of about \$0.5 million. This demand could have an unfavorable impact on Tadiran Telecom's financial position.

- 5) An associated company in Europe is continuing not to comply with the ratio set as between the unpaid loan balance and the fair value of the project, as described in Note 23C(6) to the Annual Financial Statements.

Further to that stated above, the possibility exists that the bank will demand reduction of the loan amount in the amount of about €6 million in order to meet the required ratio. As at the signing date of the financial statements, a demand, as stated, had not yet been received.

- 6) An associated hotel partnership is continuing not to comply with the financial covenants set as described in Note 24C(4) to the Annual Financial Statements.

The rest of the Group companies are in compliance on dates set for examination of the financial covenants with the demands provided (see also Note 23C to the Annual Financial Statements).

- C.** In September 2009, Africa Residences signed an agreement with a foreign bank for purposes of provision of credit and services to Africa Residences by the foreign bank and/or with its guarantee, in respect of bank accompaniment for 3 projects, as well as in connection with provision of bank credit to Africa Residences that is not designated for a particular use. Under the agreement, Africa Residences committed to comply with financial covenants, including, among others: (1) compliance with a net financial debt to net equity ratio; (2) a commitment that the total tangible shareholders' equity of Africa Residences will not drop below a certain amount; (3) a commitment that after distribution of a dividend to the shareholders, the tangible shareholders' equity will not fall below a certain amount. Limitations were also provided with respect to net losses (within the meaning thereof in the statement of income of Africa Residences), as defined in the agreement. If Africa Residences does not comply with the said financial covenants, the bank will be permitted to call the credit and banking services provided to Africa Residences by it and/or with its guarantee for immediate repayment.

As at the date of the financial statements, Africa Residences is in compliance with the financial covenants.

- D.** In May 2009, the Company's debentures (series I, J and K) were registered for trading on the Tel-Aviv Stock Exchange, pursuant to the Shelf Tender Report based on the Shelf Prospectus dated May 30, 2007.

Africa Israel Investments Ltd.
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Note 7 – Loans and Credit (Cont.)

- E.** As part of its debt agreements, Derech Eretz committed to provide reserves for various purposes including payment of the debt and the anticipated expansions. Derech Eretz submitted a request to the lenders' representatives of the project's senior debt, whereby the date for fulfillment of the maintenance and operation reserve, the amount of which is about NIS 51 million, linked to the CPI of September 1999 (hereinafter – "the Reserve"), will be on the first date on which a dividend is distributed or the shareholders' loans are repaid (hereinafter – "the Distribution").

Derech Eretz must address the issue of the fulfillment date for the Reserve, since due to postponement of the financial close in October 1999 by several months and non-adjustment of the agreement clauses dealing with the fulfillment dates for the Reserve, apparently the company was required to complete the Reserve on a date that was 6 months prior to the distribution date provided in the loan agreements, that is, June 30, 2009. In the opinion of Derech Eretz and its legal advisors, the original fulfillment dates for the Reserve must be the same as the distribution date, that is, December 31, 2009. This conclusion is, among other things, in light of an assessment of the opinion of the parties, the economic and commercial logic of the transaction, the purpose of the contract and the provisions of the financing agreement.

During August 2009, Derech Eretz received approval and consent of the lenders of the shekel portion of the senior debt for determination of the fulfillment date for the Reserve up to the earlier of the distribution date or December 31, 2012. Approval of the lenders of the dollar portion of the senior debt was received during September 2009.

- F.** Since the beginning of the year, Vash Telcanal Ltd. (an associated company, hereinafter – "Vash Telcanal") has been carrying on negotiations with Bank Mizrahi to update the financing agreement. As part of this update, the bank requested to reduce the amount of the credit in exchange for spreading out the balance thereof. In September 2009, Bank Mizrahi requested repayment of part of the credit, in the amount of NIS 45 million, this being prior to completion of the said negotiations. This repayment was made in September 2009, and for this purpose Vash Telcanal issued a capital note to the shareholders in the amount of NIS 45 million.

Subsequent to the balance sheet date, an agreement was signed with Bank Mizrahi for arrangement of the credit to the company.

- G.** In August 2009, the Company signed an agreement with a foreign bank whereby the Company acquired the mezzanine loan provided by the bank to Africa U.S. in connection with the Marquis building in Miami, Florida. As at July 31, 2009, the balance of the loan was about \$43 million. In consideration for acquisition of the loan, the Company paid out of its own sources the amount of about \$13 million. Collaterals provided to the bank by the Company and/or by a company it controls to secure the loan were cancelled.

With respect to acquisition of loan and after payment of the expenses involved with execution of the transaction, the Company recorded a gain in its financial statements, in the amount of about \$28 million.

- H.** Regarding postponement of the repayment date of loans – see Note 1B.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 8 – Related Parties

- A. In September 2009, the Board of Directors of Negev Ceramics Ltd. (a subsidiary, hereinafter – “Negev”) approved Negev’s undertaking in an agreement for sale of marble to Danya Cebus. The total consideration in respect of the said undertaking is about \$3 million.
- B. In July 2009, the General Meeting of Danya Cebus approved the undertaking of Danya Cebus in a contracting agreement with the Company, together with Adler and Son Investments Ltd., whereby Danya Cebus will serve as the general contractor in connection with residential buildings nos. 25 and 26, along with a joint parking area for the said two buildings, in the residential project “Savyonei Netzer Sironi” in Nes Ziona.

In consideration for construction of the buildings, Danya Cebus will be paid the aggregate amount of about NIS 35.8 million.

- C. In August 2009, the General Meeting of Danya Cebus approved the undertaking of Danya Cebus with One-Half Jubilee Ltd. (an associated company), in a contracting agreement whereby Danya Cebus will serve as the general contractor in connection with a parking facility (known as Parking Facility C–D). In consideration for execution of the contracting work, Danya Cebus will be paid the aggregate amount of about NIS 64 million.
- D. In September 2009, the General Meeting of Danya Cebus approved the undertaking of Danya Cebus with Africa Residences, together with B. Yair Initiations and Construction Ltd., in a contracting agreement whereby Danya Cebus will serve as the general contractor in connection with construction of a residential building in the “Sky” residential project in the City “Ihr Yamim” in Netanya.

In consideration for construction of the building, Danya Cebus will be paid the aggregate amount of about NIS 88 million.

- E. Further to that stated in Note 47D to the Annual Financial Statements, in September 2009, the Activities Boundary agreement between the Company and Africa Properties expired.

Note 9 – Seasonality

The cycle of the business revenues and results in some of the Company’s activity segments are affected by, among other things, a seasonal factor. In the hotels sector, the revenues in the first quarter are generally lower than the other quarters. The ceramics’ area is characterized by an increase in demand in the period prior to the festivals (the Jewish New Year and Passover) and in the summer months.

Africa Israel Investments Ltd.
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Note 10 – Information regarding Segment Activities

The Group has nine reportable segments, which constitute strategic business units. These strategic business units include a variety of product and service activities that are managed separately:

- A. Development of residential real estate in Israel – initiation of projects intended for residences in Israel by means of locating lands, acquisition thereof, construction of the buildings and sale of the units.
- B. Rental properties in Israel – initiation, construction (including by means of renovation and/or refurbishing), rental and operation of the buildings, mainly intended for industry, offices and commercial uses in Israel.
- C. Development of real estate in Eastern Europe – development of real estate designated for residential purposes, as well as initiation, construction, rental and operation of buildings, intended mainly for industry, offices and commercial use in Eastern Europe.
- D. Development of real estate and rental properties in the United States – development of real estate designated for residential purposes, as well as initiation, construction, rental and operation of buildings, intended mainly for offices and commercial use in the United States.
- E. Development of real estate and rental properties in the Commonwealth of Nations – development of real estate designated for residential purposes, as well as initiation, construction, rental and operation of buildings, intended mainly for offices and commercial use in the Commonwealth of Nations.
- F. Construction contracting – performance of construction for residential and non-residential purposes.
- G. Infrastructures – activities as concessionaire or performance contractor for traffic infrastructures, such as, highways, railroad tracks and bridges. The activities in the infrastructures' area are carried out mainly for the government sector by means of the PPP (Private Public Partnership) method wherein the private sector executes, finances and operates the project (for example projects of the BOT and PFI types).
- H. Steel products – this products group includes processing and marketing tin and flat steel products, profiles and pipelines, trade in aluminum and nierusta, galvanizing services, running of steel poles, trade in special steel and steel tools, manufacture and marketing of incubators, manufacture and marketing of communications' encasements and steel electronic kits, as well as steel lighting stanchions.
- I. Ceramic products – this products group includes marketing and sale of ceramic and porcelain products, along with end products, plus additional products for residential construction, renovation and design for casual customers, residential projects, contractors, merchants and foreign customers.

Other activities include operation of hotels and management of investment portfolios. These activities are not recognized as reportable segments.

Africa Israel Investments Ltd.
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Note 10 – Information regarding Segment Activities (Cont.)

Information regarding the activities of the reportable segments is presented in the following table. The segment's income is from outside parties before allocation of the increase in the fair value of investment property, other income and equity income. The segment's performance was measured based on the segment's income before equity in earnings of investees and taxes on income. Inter-segment pricing was determined based on prices of transactions in the ordinary course of business.

For the nine months ended September 30, 2009													
United States	Common-wealth of Nations	Eastern Europe	Rental property in Israel	Residential property in Israel	Infra-structures	Constr-uction	Steel	Ceramics	Other segments	Inter-segment	Unallo-cated amounts	Consol-idated	
In thousands of New Israeli Shekels													
Unaudited													
Total income from outside parties	253,637	83,838	217,402	165,646	486,310	234,582	866,789	664,825	344,527	291,978	–	1,235	3,610,769
Income from inter-segment sales	–	–	–	–	–	–	363,459	–	9,365	1,241	(374,065)	–	–
Segment results	(1,137,015)	736,317	138,210	64,383	105,374	(7,684)	17,362	12,397	23,381	(23,411)	10,856	(363,538)	(378,368)
Equity income (loss)	(154,117)	173,725	71	(3,778)	(307)	17,616	–	539	(596)	(3,161)	–	(37,949)	(7,957)
Segment income (loss) before taxes	(1,291,132)	910,042	183,281	60,605	105,067	9,932	17,362	12,936	22,785	(26,572)	10,856	(401,487)	(386,325)
Segment assets as at September 30, 2009	3,664,794	9,422,212	6,789,738	1,552,705	2,040,983	1,714,266	658,466	1,219,729	360,331	1,287,821	(43,739)	1,191,760	29,859,066
For the nine months ended September 30, 2008													
United States	Common-wealth of Nations	Eastern Europe	Rental property in Israel	Residential property in Israel	Infra-structures	Constr-uction	Steel	Ceramics	Other segments	Inter-segment	Unallo-cated amounts	Consol-idated	
In thousands of New Israeli Shekels													
Unaudited													
Total income from outside parties	120,440	63,866	274,074	210,279	369,286	631,449	821,949	1,181,527	344,437	300,553	–	1,690	4,319,550
Income from inter-segment sales	–	–	–	–	–	–	469,587	–	–	–	(469,587)	–	–
Segment results	(1,591,429)	(311,590)	(161,664)	9,479	27,173	7,283	8,546	70,971	22,557	(11,211)	(13,759)	681,585	(1,262,059)
Equity income (loss)	(343,127)	109,374	(825)	(3,538)	(156)	18,101	–	1,046	21	(4,733)	–	(111,769)	(335,606)
Segment income (loss) before taxes	(1,934,556)	(202,216)	(162,489)	5,941	27,017	25,384	8,546	72,017	22,578	(15,944)	(13,759)	569,816	(1,597,665)
Segment assets as at September 30, 2008	6,655,128	9,319,288	5,117,600	4,229,390	2,084,436	1,794,414	929,537	1,718,432	335,007	1,576,979	(23,282)	1,473,017	35,209,946

Africa Israel Investments Ltd.
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At September 30, 2009

Note 10 – Information regarding Segment Activities (Cont.)

For the three months ended September 30, 2009

	United States	Common-wealth of Nations	Eastern Europe	Rental property in Israel	Residential property in Israel	Infra-structures	Constr-uction	Steel	Ceramics	Other segments	Inter-segment	Unallo-cated amounts	Consol-idated
Unaudited													
Total income from outside parties	188,056	30,110	65,096	19,368	127,296	72,370	243,071	238,133	124,818	112,757	–	414	1,221,489
Income from inter-segment sales	–	–	–	–	–	–	127,347	–	2,891	1,241	(131,479)	–	–
Segment results	(142,872)	(12,800)	(135,286)	41,173	17,219	(9,387)	(3,785)	(655)	8,667	490	231	(135,946)	(372,951)
Equity income (loss)	(50,626)	(544)	4,533	(2,682)	(228)	4,400	–	284	(469)	(745)	–	1,340	(44,737)
Segment income (loss) before taxes	(192,498)	(13,344)	(130,753)	38,491	16,991	(4,987)	(3,785)	(371)	8,198	(2,55)	231	(134,606)	(417,688)

For the three months ended September 30, 2008

	United States	Common-wealth of Nations	Eastern Europe	Rental property in Israel	Residential property in Israel	Infra-structures	Constr-uction	Steel	Ceramics	Other segments	Inter-segment	Unallo-cated amounts	Consol-idated
Unaudited													
Total income from outside parties	29,570	24,239	69,424	65,963	224,372	214,030	250,494	425,601	123,603	119,701	–	542	1,547,539
Income from inter-segment sales	–	–	–	–	–	–	232,060	–	–	–	(232,060)	–	–
Segment results	(1,420,196)	(396,260)	(204,529)	(76,739)	22,735	572	2,049	11,035	9,301	(44,743)	(8,227)	803,633	(1,301,369)
Equity income (loss)	(320,954)	(70,495)	(8,118)	(1,999)	–	5,712	–	99	(114)	(1,731)	–	(97,811)	(495,411)
Segment income (loss) before taxes	(1,741,150)	(466,755)	(212,647)	(78,738)	22,735	6,284	2,049	11,134	9,187	(46,474)	(8,227)	705,822	(1,796,780)

For the year ended December 31, 2008*

	United States	Common-wealth of Nations	Eastern Europe	Rental property in Israel	Residential property in Israel	Infra-structures	Constr-uction	Steel	Ceramics	Other segments	Inter-segment	Unallo-cated amounts	Consol-idated
Audited													
Total income from outside parties	140,039	148,987	345,698	274,838	**514,550	773,866	1,143,090	1,482,686	432,871	398,387	–	7,292	**5,662,304
Income from inter-segment sales	–	–	–	–	–	–	642,686	–	18,890	–	(661,576)	–	–
Segment results	(3,133,650)	(610,663)	(279,983)	333,565	44,542	11,149	(16,805)	(2,752)	27,367	(93,280)	(35,119)	(486,984)	(4,242,613)
Equity income (loss)	(508,538)	66,899	(72,011)	(7,222)	(335)	26,501	–	1,063	(670)	(13,395)	–	(25,366)	(533,074)
Segment income (loss) before taxes	(3,642,188)	(543,764)	(351,994)	326,343	44,207	37,650	(16,805)	(1,689)	26,697	(106,675)	(35,119)	(512,350)	(4,775,687)
Segment assets as at December 31, 2008	4,845,600	8,369,378	5,672,751	4,202,033	**2,004,959	1,799,620	826,588	1,397,264	327,344	1,329,729	(59,206)	1,616,822	**32,332,882

* Reclassified – see Note 2C.

** Retroactive application – see Note 4.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 11 – Attached Financial Statements

The Company attaches to these financial statements the financial statements of the following associated companies:

- Derech Eretz Corporation Joint Venture – Registered Partnership.
- Derech Eretz Joint Venture 18 – Registered Partnership.

Note 12 – Information Regarding Guarantee Company

A. General

As stated in Note 5A, in June 2009, Africa Properties sold 51% of the shares of One-Half Jubilee. Commencing from this date, One-Half Jubilee is held by Africa Properties at the rate of 49% and the Company's investment therein is presented based on the equity method of accounting.

In respect of One-Half Jubilee's liability to a foreign bank in connection with construction of the Government Complex in Tel-Aviv and the student dormitory project in Jerusalem (hereinafter – "the Projects"), there is a first-priority fixed and floating lien in favor of the bank, unlimited in amount, on the receipts, property and real estate rights of the Projects. In addition, the Company and Africa Properties are each guarantors for the liabilities of One-Half Jubilee to the bank, by means of a perpetual guarantee.

Pursuant to the terms of the financing agreement, a worsening in the financial position of Africa Israel and/or the existence of insolvency proceedings in connection with Africa Israel could, it would appear, give the bank a possible position for establishing a cause of action for calling this loan for immediate repayment. As at the date of this report, the Company is not aware of any demand or claim on the part of the bank in respect of this matter. See also Note 1B.

As part of the sale transaction, it was agreed with the purchasers that until the bank agrees to set the guarantees of Africa Israel and Africa Properties, which are at the rate of 100% of the debt of One-Half Jubilee, at the present rate of Africa Properties' holdings in One-Half Jubilee, i.e., 49%, and if the bank will foreclose on all or part of the guarantees, the purchasers will indemnify Africa Properties for the payment in excess of its holdings in One-Half Jubilee, and if they do not do so, their interest in Africa Properties will be diluted based on the formula provided in the agreement.

No significant changes took place in One-Half Jubilee between 2008 and the nine-month period ended September 30, 2009.

Set forth below is condensed data relating to One-Half Jubilee:

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 12 – Information Regarding Guarantee Company (Cont.)

B. Condensed Statements of Financial Position

	At September 30 2009	At December 31 2008
	(Unaudited)	(Audited)
	In Thousands of New Israeli Shekels	
<u>ASSETS</u>		
<u>Non-current assets</u>		
Investment property	736,171	835,600
Investment property under construction	21,178	18,291
Long-term receivables (financial asset)	182,140	179,230
Deferred tax assets	43	–
Long-term deposits	5,467	–
	944,999	1,033,121
	-----	-----
<u>Current assets</u>		
Assets intended for realization	99,429	–
Trade receivables	4,301	4,562
Other receivables and debit balances	1,301	1,674
	105,031	6,236
	1,050,030	1,039,357
	-----	-----
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Shareholders' equity	28,673	31,001
	-----	-----
<u>Non-current liabilities</u>		
Shareholders' loans	237,344	190,643
Long-term bank loans	673,498	348,605
Deferred tax liabilities	–	10,628
	910,842	549,876
	-----	-----
<u>Current liabilities</u>		
Other payables and credit balances	28,706	18,394
Liabilities for current taxes	1,609	2,852
Provisions	1,800	34,500
Credit from bank and current maturities	67,448	401,254
Africa Israel Group	2,133	1,480
Liability designated for realization	8,819	–
	110,515	458,480
	1,050,030	1,039,357
	-----	-----

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 12 – Information Regarding Guarantee Company (Cont.)

C. Condensed Statements of Income

	For the Nine Months Ended September 30 2009	For the Three Months Ended September 30 2009	For the Year Ended December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	In Thousands of New Israeli Shekels		
<u>Revenues</u>			
Rental and operation of properties	41,622	14,690	56,503
Increase in fair value of investment property	—	—	<u>3,624</u>
	<u>41,622</u>	<u>14,690</u>	<u>60,127</u>
<u>Expenses</u>			
Rental and operation of properties	2,447	24	5,262
Administrative and general	<u>706</u>	<u>517</u>	<u>1,384</u>
	<u>3,153</u>	<u>541</u>	<u>6,646</u>
Operating income	<u>38,469</u>	<u>14,149</u>	<u>53,481</u>
Financing expenses	(64,780)	(33,539)	(79,313)
Financing income	<u>12,745</u>	<u>6,599</u>	<u>15,160</u>
Financing expenses, net	<u>(52,035)</u>	<u>(26,940)</u>	<u>(64,153)</u>
Loss before other income	(13,566)	(12,791)	(10,672)
Other income	<u>567</u>	—	—
Loss before tax benefit	(12,999)	(12,791)	(10,672)
Tax benefit	<u>10,671</u>	<u>10,843</u>	<u>814</u>
Loss for the period	<u>(2,328)</u>	<u>(1,948)</u>	<u>(9,858)</u>

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 12 – Information Regarding Guarantee Company (Cont.)

D. Condensed Statements of Cash Flows

	For the Nine Months Ended September 30 2009	For the Three Months Ended September 30 2009	For the Year Ended December 31 2008
	(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels		
Cash flows from operating activities			
Loss as per the statement of income	(2,328)	(1,948)	(9,858)
Expenses (income) not involving cash flows:			
Increase in fair value of investment property	–	–	(3,624)
Interest expenses recognized in the statement of income, net	52,035	26,940	64,153
Decline in liabilities for employee severance pay, net	–	(2)	(2)
Deferred taxes recognized in the statement of income, net	(10,671)	(10,843)	(814)
Taxes paid	(1,243)	–	–
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	261	(44)	3,628
Decrease (increase) in other receivables	373	(1,046)	1,022
Increase in other payables	10,313	3,683	9,949
Decrease in provisions	(23,881)	(2,065)	(21,508)
Increase in balances with the Africa Israel Group	653	140	1,480
	<u>27,840</u>	<u>16,763</u>	<u>54,284</u>
Cash flows provided by operating activities	<u>25,512</u>	<u>14,815</u>	<u>44,426</u>
Cash flows from investing activities			
Investment in investment property under construction	(2,887)	(681)	(3,371)
Investment in long-term deposit	(5,467)	(5,467)	–
Interest received	9,835	6,400	12,656
Cash flows provided by investing activities	<u>1,481</u>	<u>252</u>	<u>9,285</u>
Cash flows from financing activities			
Receipt of long-term bank loans	–	–	510,000
Short-term credit from bank, net	8,392	2,493	(11,365)
Repayment of long-term bank loans	(37,503)	(12,621)	(521,308)
Shareholders' loans received	30,558	730	14,601
Interest paid	(28,440)	(11,018)	(46,870)
Cash flows used in investing activities	<u>(26,993)</u>	<u>(20,416)</u>	<u>(54,942)</u>
Decrease in cash and cash equivalents	–	(5,349)	(1,231)
Cash and cash equivalents at beginning of year	–	<u>5,349</u>	<u>1,231</u>
Cash and cash equivalents at end of year	<u>–</u>	<u>–</u>	<u>–</u>

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 13 – Events Occurring Subsequent to the Balance Sheet Date

- A. Regarding events subsequent to the balance sheet date relating to efforts to reach a debt arrangement with the holders of the Company's debentures – see Notes 1B and 1C.
- B. On October 11, 2009, a memorandum of understanding was signed, subject to the signing of an agreement between the parties (as detailed below), between the Company (through a wholly owned company) and a third party (hereinafter – “the Purchaser”) in connection with sale of the Company's holdings in Anglo Saxon Agencies (1992) Ltd. (a wholly owned company (indirectly) hereinafter – “Anglo Saxon”). Pursuant to the terms of the transaction, in consideration for sale of the above-mentioned shares being sold, the Company will be paid an aggregate amount of NIS 20 million. In addition, in accordance with the terms of the transaction, the Company is permitted to withdraw from Anglo Saxon the balance of the excess of its assets over its liabilities on the closing date of the transaction.

Closing of the transaction is subject to the signing of a detailed agreement between the parties within 30 days of the signing date of the memorandum of understanding and completion of the due diligence examinations by the Purchaser within the period up to the signing of the detailed agreement. If the transaction is closed, the Company is expected to record a pre-tax gain in its financial statements in the amount of about NIS 14.3 million.

During November, a detailed agreement as stated was signed.

- C. On November 8, 2009, an agreement was signed between Africa Israel Investments House Ltd. (a wholly owned investee company) and its two subsidiaries, Africa Israel Mutual Funds Management Ltd. and Africa Israel Investments Portfolio Management Ltd., on the one side (hereinafter together – “the Africa Companies”), and Meitav Investments House Ltd. and its subsidiaries (hereinafter together – “Meitav”), on the other side, regarding sale of the mutual fund management activities and investments portfolio management activities of the Africa Companies to Meitav.

Pursuant to the terms of the transaction, in exchange for sale of the mutual fund management activities, on the closing date of the transaction immediate consideration of NIS 10 million will be paid (hereinafter – “the Immediate Consideration for Management of the Funds”) and, in addition, the Africa Companies will be entitled to additional contingent consideration of not more than NIS 3 million, subject to a future increase in the management fees collected in respect of the mutual funds (settlement of this matter will be made within 12 months from the closing date).

In exchange for sale of the investments portfolio management activities along with a non-competition commitment, the Company and/or the Africa Companies will be entitled to a base consideration of up to NIS 3 million, in accordance with the amount of the management fees from customers of the Africa Companies that are actually transferred to Meitav and with which a portfolio management agreement is signed, of which a non-refundable deposit of NIS 1.5 million is to be paid on the closing date of the transaction (hereinafter – “the Deposit”). In addition, the Africa Companies will be entitled to an additional contingent consideration not in excess of NIS 3 million, to the extent there is a future increase in the management fees from the customers transferred, as well as from certain new customers having a connection to the Company Group (the settlement with respect to this matter will be made at the end of 6 months and at the end of 12 months from the closing date of the transaction).

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
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Note 13 – Events Occurring Subsequent to the Balance Sheet Date (Cont.)

C. (Cont.)

The entire consideration to be paid in respect of the transaction may not exceed, in any case, NIS 16 million. As a payment indicating seriousness of intention, Meitav deposited with a representative of the Africa Companies the amount of NIS 750 thousand in trust, which was transferred to the Africa Companies upon signing of the agreement.

Closing of the transaction is subject to fulfillment of preconditions provided, including, among others, regulatory approvals required by law.

Upon closing of the transaction, in respect of the Immediate Consideration for Management of the Funds and “the Deposit, the Company is expected to record a pre-tax gain in its financial statements of about NIS 11.5 million.

- D. In November 2009, the Board of Directors of Danya Cebus approved the undertaking of Danya Cebus (through a company it wholly owns) with AFI Russia (through an investee company) in an agreement for execution of completion work in the shopping center project known as “Moscow City” in Moscow.

The consideration for execution of the completion work, Danya Cebus is to be paid an amount estimated at about \$16.5 million.

- E. In November 2009, the Board of Directors of Danya Cebus approved the undertaking of Danya Cebus in a contracting agreement with Africa Residences, whereby Danya Cebus will serve as the general contractor in connection with construction of the Savyonei Talmei Menasheh project in Be'er Sheva. In the framework of the project, 256 residential units are planned to be constructed in 5 residential buildings. In consideration for construction of the buildings, Danya Cebus is to be paid an aggregate amount of about NIS 118.5 million.

- F. In November 2009, the Board of Directors of Danya Cebus approved the undertaking of Danya Cebus (through a company it wholly owns) with AFI Development (through an investee company) in an agreement for execution of adaptation work and completion work in the Uzerkobeskia 22-24 project in Moscow. In consideration for execution of the work, Danya Cebus is to be paid an amount estimated at about \$3.9 million.

- G. In November 2009, it was decided by the Audit Committee, the Board of Directors of Africa Properties and the Board of Directors of the Company that the accounting mechanism for the additional management fees will be updated, such that the additional management fees due to the Company from Africa Properties will be paid based on the annual consolidated financial statements of Africa Properties, however in the case of a loss, the management fees will not be reduced below the base management fees. In addition it was decided that the above-mentioned update will apply retroactively commencing from the date the management services agreement entered into effect, that is, effective commencing from January 1, 2008. The impact of the change in the accounting mechanism in respect of the period from January 1, 2008 through September 30, 2009, is a reduction of the management fees in the amount of NIS 8.7 million, which will be reflected in the fourth quarter of 2009.

Update of the accounting mechanism in connection with the management fees, as stated, is subject to receipt of the approval under Section 1(2) of the Companies Regulations (Relief in Transactions with Interested parties), 2000.

Africa Israel Investments Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
At September 30, 2009

Note 13 – Events Occurring Subsequent to the Balance Sheet Date (Cont.)

- H. In accordance with approval of the Board of Directors of Africa Residences from November 22, 2009, Africa Residences issued an additional NIS 37,419,815 par value debentures (Series A) to institutional investors, in exchange for NIS 42,000,000. The terms of the additional debentures are the same as the terms of the debentures (Series A) issued by Africa Residences pursuant to a prospectus dated June 22, 2006.

Limitations regarding resale apply to the said debentures as provided in Section 15C of the Securities Law, 1968, and the regulations promulgated thereunder.

On November 24, 2009, approval of the Stock Exchange was received for registration of the aforesaid debentures for trading.

- I. A subsidiary has debt balance in respect of acquisition of land in Romania, in the amount of about €23.5 million. Based on the payment schedule provided with the sellers, the company was to have paid €5.5 million in the middle of November 2009 and the balance of the amount during 2010.

As at the approval date of the financial statements, the subsidiary had not yet paid the said amount and it is carrying on negotiations with the sellers for change of the payment dates. In the estimation of the subsidiary's management, the chances of reaching understandings with the sellers, as stated, are good.

Africa Israel Investments Ltd.

Condensed Interim Consolidated Financial Statements

At September 30, 2009

(Unaudited)