AFI Europe N.V.

Consolidated financial statements as at and for the years ended December 31, 2009, 2008 and 2007 for the purpose of inclusion in relation to the bond offering of Africa Israel Properties Ltd.

Annual Report for the year ended December 31, 2009, 2008 and 2007

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Independent auditor’s report on historical financial statements in connection with a bond offering of Africa Israel Properties ltd

To: the Management Board of AFI Europe N.V.

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying consolidated financial statements of AFI Europe N.V. (the “Company”), Amsterdam, which comprise the consolidated statement of financial position as at 31 December 2009, 2008 and 2007, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders’ equity and the consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AFI Europe N.V. as at December 31, 2009, 2008 and 2007 and of its result and its cash flow for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of a matter

Without qualifying our above opinion, we draw attention to Note 2V to the consolidated financial statements regarding restatement of the consolidated financial statements as at December 31, 2009 and 2008 and for the years ended on such dates, which were signed on November 11, 2010, in order to retrospectively reflect in them the Company’s share of losses of German partnerships according to its share of the shareholders’ loans and not its share of indirect rights in the equity of such partnerships and a change in accounting policy.

Basis of accounting

We draw your attention to Note 2 to the consolidated financial statement, which describes the basis of accounting.

Amstelveen, January 25, 2011
KPMG ACCOUNTANTS N.V.

P. Mizrachy RA

Consolidated statement of financial position as at December 31

In thousands of Euros

	Note	2009*	2008*	2007*
Assets				
Investment in associate	5	**60,186**	65,697	86,837
Loan to associate company	5	**33,317**	29,004	19,833
Investment property	6	**644,120**	309,018	255,509
Investment property under development	7	**103,780**	286,381	212,123
Inventory of buildings	10	**204,312**	216,093	224,365
Property, plant and equipment	8	**2,029**	1,129	748
Deferred tax assets	9	**3,521**	7,951	5,941
Goodwill		**1,455**	1,650	9,163
Total non-current assets		**1,052,720**	916,923	814,519
Inventory of buildings	10	**90,274**	90,343	110,429
Trade and other receivables	11	**32,591**	36,569	33,501
Cash and cash equivalents	12	**16,173**	23,537	34,741
Total current assets		**139,038**	150,449	178,671
Total assets		**1,191,758**	1,067,372	993,190
Equity	13			
Issued capital		**90**	90	90
Share premium reserve		**287,227**	287,227	37,227
Translation reserve		**(1,128)**	(1,012)	331
Hedging reserve, net		**(8,339)**	(8,952)	(35)
Retained earnings/(losses)		**(82,902)**	(45,015)	33,819
Total equity attributable to equity holders of the parent		**194,948**	232,338	71,432
Non-controlling interest		**38,085**	33,895	27,862
Total equity		**233,033**	266,233	99,294
Liabilities				
Interest-bearing loans and borrowings	15	**456,018**	289,270	208,330
Interest-bearing loans and borrowings from related parties	15	**279,559**	265,696	479,037
Deferred tax liabilities	9	**34,224**	24,539	29,306
Other non-current liabilities	16	**8,259**	11,089	3,631
Total non-current liabilities		**778,060**	590,594	720,304
Interest-bearing loans and borrowings	15	**99,458**	100,527	68,579
Trade and other payables	17	**68,562**	98,697	76,478
Advances for selling inventory		**12,645**	11,321	28,535
Total current liabilities		**180,665**	210,545	173,592
Total liabilities		**958,725**	801,139	893,896
Total equity and liabilities		**1,191,758**	1,067,372	993,190

CEO - A. Barzilay

CFO - A- Goldstein

Amsterdam, January 25, 2011

* Restated – see Note 2V.

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

Consolidated income statement for the year ended December 31

In thousands of Euros

	Note	2009*	2008*	2007*
Gross rental income	20	**27,208**	19,569	13,161
Service charge income		**10,028**	5,643	2,385
Service charge expenses		**(11,091)**	(6,289)	(3,342)
Property operating expenses	21	**(1,157)**	(2,631)	(736)
Net rental and related income		**24,988**	16,292	11,468
Proceeds from sale of properties		**23,058**	39,669	4,580
Carrying value of properties sold	10	**(20,477)**	(35,867)	(4,378)
Write-down of inventory to net realizable value	10	**(18,786)**	(56,753)	-
Profit/(loss) on disposal of trading property		**(16,205)**	(52,951)	202
Net valuation gains/(loss) on investment property	6	**(20,345)**	36,673	33,116
Net valuation gains on investment property under development	7	**37,569**	-	-
Impairment of investment property under development		**-**	(10,432)	-
Administrative expenses	22	**(8,516)**	(9,374)	(3,749)
Selling and marketing expenses		**(2,738)**	(2,769)	(1,351)
Other income		**7,799**	8,221	1,627
Other expenses		**(9,853)**	(16,725)	(2,020)
Net other income/(expenses)	23	**(2,054)**	(8,504)	(393)
Net operating profit/(loss) before net financing Costs		**12,699**	(31,065)	39,293
Financial income		**1,964**	1,680	184
Interest expenses to Africa properties		**(8,854)**	(18,265)	(4,784)
Other financial expenses		**(20,582)**	(8,582)	(8,695)
Net financing costs	24	**(27,472)**	(25,167)	(13,295)
Profit/(loss) before tax		**(14,773)**	(56,232)	25,998
Income tax expense	25	**(16,235)**	2,563	(3,886)
Profit/(loss) for the year		**(31,008)**	(53,669)	22,112
Equity profit/(loss) from associate companies		**(308)**	(17,353)	6,638
Profit/(loss) for the year		**(31,316)**	(71,022)	28,750
Attributable to:				
Equity holders of the parent		**(37,887)**	(78,834)	14,559
Non-controlling interest		**6,571**	7,812	14,191
Profit/(loss) for the year		**(31,316)**	(71,022)	28,750
Basic and diluted earnings/(loss) per share (Euro)	14	**(0.76)**	(1.58)	0.29

* Restated – see Note 2V.

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended December 31

In thousands of Euros

	2009*	**2008***	**2007***
Foreign exchange translation differences for foreign operations	**(116)**	(1,343)	271
Reserves from hedge accounting	**613**	(8,917)	(35)
Net gain/(loss) recognized directly in equity	**497**	(10,260)	236
Profit/(loss) for the year	**(31,316)**	(71,022)	28,750
Total recognized income and expense for the year	**(30,819)**	(81,282)	28,986
Attributed to:			
Equity holders of the parent	**(37,390)**	(89,094)	14,795
Non-controlling interest	**6,571**	7,812	14,191
Total comprehensive income for the year	**(30,819)**	(81,282)	28,986

* Restated – see Note 2V.

The accompanying notes on pages 9 to78 are an integral part of these consolidated financial statements.

Consolidated statement of change in shareholders equity for the year ended December 31, 2009, 2008 and 2007

In thousands of Euros

	Issued capital	Share premium reserve	Translation reserve	Hedging reserve	Retained Earnings*	Equity attributable to equity holders of the parent*	Non controlling interest	Total Equity*
Balance at December 31, 2006	90	37,227	60	-	19,260	56,637	12,758	69,395
Non-controlling interest in fair value over carrying amount	-	-	-	-	-	-	913	913
Adjustments for translation	-	-	271	-	-	271	-	271
Reserves from hedge accounting	-	-	-	(35)	-	(35)	-	(35)
Net profit for the year	-	-	-	-	14,559	14,559	14,191	28,750
Balance at December 31, 2007	90	37,227	331	(35)	33,819	71,432	27,862	99,294
Conversion of loan to equity	-	250,000	-	-	-	250,000	-	250,000
Dividend paid to the minority	-	-	-	-	-	-	(358)	(358)
Business combinations	-	-	-	-	-	-	(1,421)	(1,421)
Adjustments for translation	-	-	(1,343)	-	-	(1,343)	-	(1,343)
Reserves from hedge accounting	-	-	-	(8,917)	-	(8,917)	-	(8,917)
Net profit/(loss) for the year	-	-	-	-	(78,834)	(78,834)	7,812	(71,022)
Balance at December 31, 2008	90	287,227	(1,012)	(8,952)	(45,015)	232,338	33,895	266,233
Dividend paid to the minority	-	-	-	-	-	-	**(2,381)**	**(2,381)**
Adjustments for translation	-	-	**(116)**	-	-	**(116)**	-	**(116)**
Reserves from hedge accounting	-	-	-	**613**	-	**613**	-	**613**
Net profit/(loss) for the year	-	-	-	-	**(37,887)**	**(37,887)**	**6,571**	**(31,316)**
Balance at December 31, 2009	**90**	**287,227**	**(1,128)**	**(8,339)**	**(82,902)**	**194,948**	**38,085**	**233,033**

* Restated - See Note 2.

(1) As at December 31, 2009, the authorized, issued and paid-up share capital of the Company comprises 90,000 ordinary shares of Euro 1 each. See also Note 13(b) for additional information regarding authorized, issued and paid-up share capital of the Company.

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended December 31

In thousands of Euros

	2009*	2008*	2007*
Cash flows from operating activities			
Profit (loss) for the year	**(31,316)**	(71,022)	28,750
Adjustment for:			
Depreciation	**672**	663	99
Gain from disposable of subsidiary	**-**	(679)	-
Equity loss (gain) from associate	**308**	17,353	(6,638)
Impairment of goodwill	**195**	9,163	-
Write-down of inventory to net realizable value	**18,786**	56,753	-
Impairment of investment property under development	**-**	10,432	-
Loss (gain) on fair value adjustment of investment property	**20,345**	(36,673)	(33,116)
Loss (gain) from value adjustment of investment property under development	**(37,569)**	-	-
Loss (gains) on sale of fixed assets	**-**	-	33
Net finance costs	**27,472**	25,167	13,295
Income tax expense	**16,235**	(2,563)	3,886
	15,128	8,594	6,309
Residential inventories on progress	**(3,873)**	(28,638)	(138,593)
Decrease/(increase) in trade and other receivables	**4,216**	(4,520)	(18,331)
Increase/(decrease) in trade and other payables	**(32,434)**	18,596	(1,264)
Increase/(decrease) in advance from selling inventory	**1,289**	(17,237)	28,535
	(15,674)	(23,205)	(123,344)
Income taxes paid	**(1,821)**	(2,006)	(115)
Cash flows from operating activities	**(17,495)**	(25,211)	(123,459)
Cash flows from investing activities			
Acquisition of newly consolidated subsidiaries	**-**	-	(113,752)
Acquisition of associate company	**-**	-	(35,975)
Loan to associate companies	**(2,803)**	2,492	(16,524)
Dividend received from associate company	**2,273**	2,173	1,807
Proceeds from sale of shares of subsidiary	**-**	2,514	-
Proceeds from associates	**2,500**	-	-
Acquisition of property, plant and equipment	**(1,578)**	(1,044)	(529)
Investment in investment property	**(1,802)**	(9,145)	(97,466)
Development of investment property	**(122,464)**	(199,162)	(153,873)
Cash flows from investing activities	**(123,874)**	(202,172)	(416,312)
Cash flows from financing activities			
Dividend paid to the minority	**(2,381)**	(358)	-
Repayment of borrowings	**(8,912)**	(22,603)	(4,494)
Proceeds of non-current borrowings	**167,497**	249,158	569,096
Proceeds of current borrowings, net	**(9,810)**	10,054	10,761
Payment of finance lease liabilities	**(926)**	-	82
Interest paid	**(11,368)**	(20,084)	(11,444)
Cash flows from financing activities	**134,100**	216,167	564,001
Net increase in cash and cash equivalents	**(7,269)**	(11,216)	24,230
Cash and cash equivalents at January 1	**23,537**	34,741	10,268
Effect of exchange rate fluctuations on cash held	**(95)**	12	243
Cash and cash equivalents at December 31	**16,173**	23,537	34,741

* Restated – see Note 2V.

The accompanying notes on pages 9 to 78 are an integral part of these consolidated financial statements.

Note 1 – General

These consolidated financial statements are not the statutory financial statements of the Company. The Company has filed financial statements under Dutch law for the fiscal years dated December 31, 2009, 2008 and 2007, respectively, with the Chamber of Commerce of Amsterdam.

A. AFI Europe N.V. (hereinafter – “the Company”) was incorporated on April 4, 2006. By a resolution dated April 18, 2006, the Shareholder of the Company resolved to change the form of the Company to a Dutch public limited liability company (*naamloze vennootschap*) and to change its name from AIIP Fin B.V. into AFI Europe N.V. The Company is domiciled in Amsterdam, the Netherlands.

As from incorporation in 2006, the Company was a wholly-owned subsidiary of Africa Israel International Properties (2002) Ltd. (hereinafter – “AIIP 2002”) a company registered in Israel, wholly owned by Africa Israel Properties Ltd. (hereinafter – “Africa Properties”), an Israeli company listed on the Tel Aviv Stock Exchange, which is approximately 56% owned by Africa Israel Investments Ltd, the ultimate parent of the Company.

B. During 2008 and 2009, there was a dramatic worsening of the global financial crisis and the extent of its consequences on the world economy. As a result of that crisis, which led to the collapse of significant players in the world's credit market, there was a substantial decline in the availability of bank credit, which was immediately followed by a general slowdown in many countries worldwide, including in countries in which the Group’s companies operate. The events relating to the financial crisis have an impact on the European economy in general, and on the Company in particular, including an increase in the interest rates on bank loans, stricter conditions for receipt and/or renewal of financing, and a fall in the fair values of real estate properties and land.

Subsequently, the financial crisis caused a slowdown in the sales of residential units by the Company, as well as postponement of construction of residential projects, decline in the demand for rental properties, a drop in the occupancy rates and a decrease in the rents received from rental properties. Furthermore, continuation of the crisis could lead to a significant increase in the discount rates, which would have a material impact on the results of the Company’s activities.

As the global financial crisis continues to affect the Company’s fields of business in the countries in which it operates, the Company continues preparing itself, and considers the measures which should be taken by it, for confronting the implications of the crisis.

In May 2010, Africa Israel Investments, the Company’s ultimate parent corporation, reached an agreement with the bondholders of all series to restructure NIS 7,500,000 thousand of debt (at that date approximately EUR 1,300,000 thousand). Pursuant to this agreement, Africa Israel Investments has exchanged the existing bonds for new bonds and shares. Furthermore, as a result of this restructuring, the shareholding of Africa Israel Investments in AFI Properties was diluted to 56% (previously 70%). On 11 May 2010, Africa Israel Investments notified the public that all conditions of this debt restructuring were fulfilled and that the debt restructuring process was completed.

The Company’s management believes that Africa Israel’s debt settlement does not have a material adverse effect on the Company’s financial position or on its projects, operations and business development plans.

Note 1 – General (cont'd)

B. (cont'd)

Due to the credit crunch caused by the global financial crisis, and considering that the Company's current obligations exceed its current assets by approximately Euro 41.6 million, the Company is taking steps to increase its liquid assets and decrease its short-term obligations through, among other things, obtaining long-term loans collateralized by investment property, realizing assets by exploiting adequate business opportunities, and using surplus cash generated by the Company's on-going operation, as well as by a credit line extended by its parent corporation. Accordingly on June 2010 the company signed agreements with several banks for converting short term loans to long term loans in amount of approximately Euro 30 million.

Over the past few years, Africa Israel Properties Ltd. ("Africa Properties") provided the Company with shareholder loans, the aggregate outstanding amount of which, effective as of December 31, 2009, is approximately Euro 248 million.

In light of the various possible resources available to the Company, the management believes that the Company will have sufficient financial means for performing its repayment obligations in the foreseeable future.

Note 2 - Significant Accounting Policies

A. Basis of preparation

The consolidated financial statements have been prepared for the purpose of inclusion in relation to the bond offering of Africa Israel Properties Ltd., in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"). The consolidated financial statements of the Company for the year ended December 31, 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the group interest in associates and jointly controlled entities.

The consolidated financial statements were authorized for issue by the Board of Directors on January 25, 2011.

The financial statements are presented in Euros which is the Company's functional currency. All financial information in Euro has been rounded to the nearest thousand. They are prepared on the historical cost basis except that investment property, investment property under development, financial instruments at fair value through profit or loss is stated at their fair value as well as derivative financial instruments.

Note 2 - Significant Accounting Policies

A. Basis of preparation (cont'd)

The accounting policies have been consistently applied to the results, other income and expenses, assets, liabilities and cash flows of entities included in the consolidated financial statements and are consistent with those used in the previous years.

The preparation of the financial statements on the basis of IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that management believes to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in Note 30.

The regular operating cycle of the Company generally exceeds one year and may extend for as long as two to three years. In consideration of the above, the items included in the current assets category include items that are expected to be realized within the Company's ordinary operating cycle.

Certain comparative amounts in the income statement and cash flow have been reclassified to conform with the current year's presentation as follows:

1. Selling and marketing expenses have been disclosed separately instead of inclusion in general and administrative expense as showing these expenses separately management considers more appropriate. Comparative amounts were reclassified for consistency.

2. Interest expenses to Africa Properties have been disclosed separately instead of inclusion in financial expenses as management considers more appropriate showing these expenses separately. Comparative amounts were classified for consistency.

3. Interest paid has been reclassified from cash flow from operating activities to cash flow from financing activities to reflect the sort of cash flow more appropriate.

Note 2 - Significant Accounting Policies (cont'd)

B. Changes in accounting policies

1. Presentation of financial statements

As from January 1, 2009 the Group implemented revised IAS 1, *Presentation of Financial Statements* (hereinafter – the Standard). The Standard allows the presentation of one statement of comprehensive income (a combined income statement and of other comprehensive income) or two statements – an income statement 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 – an income statement followed by a statement of comprehensive income. Furthermore, the Group presents a statement of changes in equity immediately after the statement of comprehensive income instead of including such statements in the notes. This statement includes changes in equity resulting from transactions with owners of the parent company in their capacity as owners (such as dividends, transactions with controlling shareholders, issuance of shares and/or options, etc.). The Standard is applied on a retrospective basis.

2. Segment reporting

As from January 1, 2009 the Group implemented IFRS 8, *Operating Segments* (hereinafter – the Standard). The Standard determines that the "management approach" should be used in segment reporting, which means that it is presented in accordance with the format of the internal reports provided to the chief operating officer of the Group. An operating segment is a component of the Group that meets three conditions as follows:

A. it is engaged in business activities from which it may earn revenues and incur expenses;
B. its operating results are reviewed regularly by the Group's chief operating officer to make decisions about resources and assets to be allocated to the segment; and
C. separate financial information is available.

3. Investment property

As from January 1, 2009 the Group implemented the amendment made to IAS 40, *Investment Property* (hereinafter – the Amendment) in the framework of the 2008 improvements to IFRSs project, pursuant to which investment property under development shall be measured in accordance with IAS 40 and not in accordance with IAS 16 Property, Plant and Equipment. The Amendment was adopted on a prospective basis.

Note 2 - Significant Accounting Policies (cont'd)

B. Changes in accounting policies

3. Investment property (cont'd)

The Group measures its investment property according to the fair value model and therefore measures its investment property under development as follows:

A. when the fair value of the investment property under development is reliably determinable: according to fair value; or
B. when the fair value is not reliably determinable: according to cost until the earlier completion of the development or the fair value becomes reliably determinable.

As a result of the implementation of the Amendment, the difference between the carrying amount of investment property under development and its fair value as at January 1, 2009 amounting to Euro 56,593 thousand was recognized in the income statement under the item 'net valuation gains on investment property under development'. The net effect on the profit attributed to the equity holders of the Parent was Euro 24,425 thousand (net of Euro 17,130 thousand tax expense and Euro 15,038 thousand non controlling interest).

C. Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial Statements from the date that control commences until the date the control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Acquisition of business from companies under common control

Business combinations arising from transfers of interest in entities that are under the control of the shareholders which controls the AFI Europe N.V. Group are accounted for as if the acquisition had occurred at the beginning of the earlier of comparative period presented or, if later, at the date that common control was established.
The assets and liabilities acquired under common control are recognized at the historical carrying amounts. Any cash paid for the acquisition is recognized directly in the (invested) equity.

Note 2 - Significant Accounting Policies (cont'd)

C. Basis of consolidation (cont'd)

(iii) Investment in associates and jointly-controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.
Investment in Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

D. Foreign currency

(i) Foreign currency transactions

The consolidated financial statements are presented in Euros which are the Company's functional and presentation currency. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into Euros at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euros at foreign exchange rates ruling at the dates the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss except for differences arising on the translation of financial liability designated as a hedge of the net investment in a foreign operation which are recognized directly in equity.

Note 2 - Significant Accounting Policies (cont'd)

D. Foreign currency (cont'd)

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euros at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated to euros at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognized as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the income statement upon disposal.

E. Investment property

Investment property is concerns properties which are held either to earn rental income for the long term or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognized professional qualification and recent experience in the location and category of property being valued, values the property portfolio once a year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations of completed investment properties are prepared by considering the aggregate of the net annual rents receivable from the properties and, where relevant, associated costs. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below.

The valuation of investment properties under development are prepared by the residual method or by comparison method, depending on the stage of completion.
The residual value is based on the fair value of a complete project less costs to complete and appropriate developer profit. The comparison method is based on the aggregate of the net annual rental income and where relevant associated costs. A yield which reflects the risk inherent in the net cash flows then applied to the net annual rental income.

	Yield		
Property	**December 31 2009**	**December 31 2008**	**December 31 2007**
Retail	7.42%-9%	7.1%-9.0%	5.75%-8.75%
Offices	8.5%-10.5%	9.0%-10.0%	8.0% - 8.5%
Storage	9%	9.2%	7.5%

Note 2 - Significant Accounting Policies (cont'd)

E. Investment property (cont’d)

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market’s general perception of their creditworthiness, the allocation of maintenance and insurance responsibilities between lessor and lessee, and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognized in the income statement. Rental income from investment property is accounted for as described in accounting policy O.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair values are recognized directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognized in the income statement immediately.

Where the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A property interest under operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy P.

Where the Group uses part of owned property and retains the remainder to generate rental income or capital appreciation, the extent of the Group’s utilization is considered to determine the classification of the property. If the Group’s utilization is not substantial, this is regarded as immaterial such that the whole property is classified as an investment property and stated at fair value. If the Group uses substantial space, the whole property is classified as property, plant and equipment and recorded at cost less accumulated depreciation and impairment losses.

F. Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy J). The cost of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Note 2 - Significant Accounting Policies (cont'd)

F. Property, plant and equipment (cont'd)

(ii) Subsequent expenditure

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Freehold land is not depreciated. The estimated useful lives are as follows:

●	Equipment and computers	3-7 years
●	Motor vehicles	7 years

Leasehold improvements are depreciated over the life period of the lease which does not exceed the economic useful life of the asset.

The residual value, if not insignificant, is reassessed annually.

G. Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other
Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Accounting for finance income and expenses is discussed in accounting policy P(iii).

Note 2 - Significant Accounting Policies (cont'd)

G. Financial Instruments (cont'd)

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Fair value hedges
Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognized in profit or loss and adjusts the carrying amount of the hedged item.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

Separable embedded derivatives
Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Note 2 - Significant Accounting Policies (cont'd)

H. Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

Acquisitions of non controlling interests
Goodwill arising on the acquisition of a non controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

I. Inventory of buildings

Inventory of buildings held for sale includes property intended for sale in the ordinary course of business or in the process of construction or development for such sale. Inventory of buildings held for sale is stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of self-constructed inventory includes the cost of materials, direct labor, and an appropriate portion of production overheads.

Note 2 - Significant Accounting Policies (cont'd)

I. Inventory of buildings (cont'd)

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the inventory are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs continues until the inventory is substantially ready for their intended use. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

J. Impairment

The carrying amounts of the Group's assets, other than investment property (see accounting policy D) and deferred tax assets (see accounting policy Q), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds it recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and their value in use. In assessing their value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of goodwill is not reversed. In respect to other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

K. Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than for a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Note 2 - Significant Accounting Policies (cont'd)

L. Interest-bearing loans and borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest rate basis.

M. Capitalization of borrowing costs

Specific and non-specific borrowing costs were capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Other borrowing costs are expensed as incurred.

N. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

O. Revenue

(i) Services rendered

Revenue from services rendered (such as project management) is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due or associated costs.

(ii) Rental income

Rental income from investment property leased out under operating leases is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(iii) Sale of inventory of buildings

Revenue from the sale of trading properties or inventories is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably, there is no continuing management involvement in the goods, and the amount of revenue can be measured reliably.

Note 2 - Significant Accounting Policies (cont'd)

P. Expenses

(i) Service costs and property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

(ii) Lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense, over the term of the lease.

When the property interest held under an operating lease is classified as an investment property, the property interest is accounted for as if it were a finance lease and the fair value model is used for the asset recognized.

Minimum lease payments on finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

(iii) Finance income and finance costs

Finance income comprises interest income on funds invested including, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, arid gains on hedging instruments that are recognised in profit or loss. Interest Income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Note 2 - Significant Accounting Policies (cont'd)

Q. Income tax

Income tax in profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is also recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

R. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Company does not have diluted earnings per share.

S. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments operating results are reviewed regularly by the Group’s CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Inter-segment pricing is determined on an arm’s length basis.

Note 2 - Significant Accounting Policies (cont'd)

S. Segment reporting (cont'd)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

T. Employee benefits

Currently, the Group does not have significant obligations with respect to defined contribution or defined benefit pension plans.

U. New standards and interpretations not yet adopted

1. Revised IFRS 3 *Business Combinations* (2008) and Revised IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – the Standards). The principal relevant revisions in the Standards are as follows:

    a. The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.

    b. Transactions resulting in discontinuance of consolidation are to be accounted for at full fair value, so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.

    c. Transactions resulting in the consolidation of financial statements (that were not consolidated before then) are to be accounted for at full fair value, so that the original holding before the consolidation is remeasured on the first date of consolidation, at fair value, through profit or loss.

    d. The non controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. This policy is available for instruments that give rise to present ownership interest and entitle the holder to a share in net assets in the event of liquidation.

    e. Acquisitions of additional shares or partial sales of existing shares, without the Company discontinuing consolidation of the financial statements of the companies in respect of which the transactions were performed, are to be accounted for so that all the differences deriving from the transactions are included directly in equity (including differences that in the past would have been included in profit or loss or as goodwill).

    f. Transaction costs will be expensed as incurred.

Note 2 - Significant Accounting Policies (cont'd)

U. New standards and interpretations not yet adopted (cont'd)

g. Measurement at fair value of contingent considerations in business combinations with changes in estimates relating to a contingent consideration that is a financial liability being recognized in profit or loss.

h. Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of acquiring businesses.

i. The attribution of comprehensive income to all the shareholders.

These standards shall apply to annual periods beginning on or after January 1, 2010. The principal revisions of these standards shall be applied prospectively, meaning in respect of transactions as from the initial date of implementation.
Implementation of the standard is not expected to affect the Company's financial position and results of operations.

2. Amendment to IAS 17, *Leases* – Classification of leases of land and buildings (hereinafter – the Amendment) – In accordance with the Amendment, a lease of land does not have to be classified as an operating lease in every case that ownership is not expected to pass to the lessee at the end of the lease period. In accordance with the amended standard, a land lease is to be examined according to the regular criteria for classifying a lease as a finance lease or as an operating lease.
The Amendment also provides that when a lease includes both a land component and a buildings component, the classification of each component should be based on the criteria of the standard, with the principal consideration regarding the classification of land being the fact that land normally has an indefinite useful life.

The Amendment applies to financial statements for annual periods beginning on or after January 1, 2010. The Amendment is to be implemented retrospectively, which means that 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 that in the event of reclassification of the lease, the provisions of IAS 17 are to be implemented retrospectively as from the date of the lease agreement. Nevertheless, if the entity does not have the information necessary to apply the Amendment retrospectively, it should use the information available on the adoption date of the Amendment and recognize the asset and liability related to a land lease that was classified as a result of the Amendment as a finance lease according to their fair value as at that date. Any difference between the fair value of the asset and the fair value of the liability shall be recognized in retained earnings.
Implementation of the standard is not expected to affect the Company's financial position and results of operations.

3. Amendment to IAS 36, *Impairment of Assets* – Unit of accounting for goodwill impairment test (hereinafter – the Amendment) – In accordance with the Amendment, for purposes of impairment testing the largest cash-generating unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Paragraph 12 of IFRS 8. The Amendment is to be applied prospectively for annual periods beginning on or after January 1, 2010.
Implementation of the standard is not expected to affect the Company's financial position and results of operations.

Note 2 - Significant Accounting Policies (cont’d)

U. New standards and interpretations not yet adopted (cont’d)

4. Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* – Scope exemption for business combination contracts (hereinafter – the Amendment) – The Amendment clarifies that the scope exemption in IAS 39 is restricted to forward contracts between an acquirer and a seller with respect to the sale or acquisition of a controlled entity, in a business combination at a future acquisition date. In addition, the term of the forward should not be longer than the period normally necessary for obtaining the approvals required for the transaction. The Amendment is to be applied prospectively to all unexpired contracts for annual periods beginning on or after January 1, 2010.
Implementation of the standard is not expected to affect the Company’s financial position and results of operations.

5. *Items Eligible for Hedging*, amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (hereinafter – the Amendment). The Amendment makes clear that an entity may designate as a hedged item changes in cash flows or fair value of a one-sided risk, meaning the risk of exposure to changes above <u>or</u> below a specified price or other defined variable. The Amendment also clarifies that inflationary components can be designated as a separate risk, on the condition that they form a contractually specified portion of the cash flows of an inflation-linked debenture, so that they are separately identifiable and reliably measurable, and if the other cash flows of the instruments are not affected by the inflationary component.

   The Amendment is effective retrospectively for annual periods beginning on or after January 1, 2010.
   Implementation of the standard is not expected to affect the Company’s financial position and results of operations.

6. IFRS 9 (2010), *Financial Instruments* (hereinafter – “the Standard”) – This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

   In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity’s business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

Note 2 - Significant Accounting Policies (cont’d)

U. New standards and interpretations not yet adopted (cont’d)

6. (cont'd)

The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods.

The Company is examining the effect of adopting the Standard on the financial statements with no plans for early adoption.

V. Change in accounting policy and restatement

1. Change in accounting policy

Further to that mentioned in Note 2B, until September 30, 2010 the Company implemented the proportionate consolidation method to jointly controlled entities. As from that date, the Group decided to change the method of presenting and reporting investments in jointly controlled entities to the equity method, by which profits or losses of jointly controlled entities are recognized on the equity basis, refer also to Note 2C above.
The policy was changed because in the opinion of management of the Group, the new accounting policy provides more reliable and relevant information regarding the Group’s assets due to it being a holding company and also corresponds with the accounting policy of the parent company.
The policy was retrospectively implemented in accordance with IAS 8.

2. Germany Portfolio

Until June 2008 The Company owned the entire issued share capital of the Dutch companies, each of which held 70% of the equity of one of the German partnerships and a similar rate of voting power in the partners’ meetings of these partnerships. The rest of the equity of the German partnerships and of the voting power in their partners’ meetings is held by two companies controlled by third parties at the rate of 15% each. In addition, The Company holds a company registered in Germany that acts as the general partners of each one of the German partnerships. According to the German partnership agreements, the general partner is responsible in its capacity for the ongoing management of the income-producing assets constituting the asset portfolio in Germany, whereas decisions not in the ordinary course of business of the German partnerships as well as other material decisions, are subject to the approval of the partners’ meetings’ in which as aforementioned the Dutch companies held 70% of the voting power. Taking under consideration all the aforementioned, until June 30, 2008 the Dutch companies and the German partnerships were consolidated in the financial statements of the Company.

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

2. Germany Portfolio (cont'd)

In May 2008 The Company entered into a sale agreement (amended in August 2008) (hereinafter – **"the sale agreement"**) regarding the sale of 30% of the issued share capital of the four Dutch companies (as well as part of the shareholders' loans the Company had provided to the Dutch companies) to Prevzon Holdings Ltd., a company registered in Cyprus (hereinafter – **"Prevzon"**). According to the sale agreement the consideration for the rights acquired in the Dutch companies amounted to Euro 3,074 thousand. The sale agreement provided that Prevzon will have the right to appoint two out of four directors in each Dutch company, for as long as it holds at least 20% of the issued share capital of the Dutch company, and that the chairman of the board of the Dutch companies will not have an additional vote. Furthermore, the sale agreement includes various restrictions on the transfer of shares of the Dutch companies, as accepted in transactions of this type.

The sale agreement also provided that the parties would act to implement a decision-making mechanism in each one of the German partnerships, pursuant to which the Company and Prevzon will participate in votes on resolutions being made by the partners' meetings of the German partnerships, according to their indirect rate of holding in each one of the German partnerships, meaning the Company will have 49% of the voting power and Prevzon will have 21% of it (hereinafter – **"the direct voting mechanism"**).

Taking into consideration the right that was provided to Prevzon to appoint half of the directors in the Dutch companies and considering the intention of implementing the direct voting mechanism in the partners' meetings of the German partnerships, so that the voting rights of the Dutch companies in them will be less than 49% upon the closing of the sale agreement, The Company believed that control has ceased to exist in the German partnerships, and accordingly the Company ceased to consolidate the German partnerships in its financial statements as from June 30, 2008.

As a result of the request of the Israel Securities Authority, it became clear that the direct voting mechanism of the German partnerships was not formally implemented, as its implementation required an amendment to the German partnership agreements (which constitute their incorporation documents), an action that requires unanimous agreement of all the partners in the German partnerships.

In light of the aforementioned, even though the Company have actually lost control in the Dutch companies, and as a result – in the German partnerships, due to the non-implementation of the direct voting agreement in the German partnerships, the Dutch companies continue to own 70% of the rights in the German partnerships, and therefore – have control over these partnerships. Furthermore, in the framework of selling 30% of the shares of the Dutch companies to Prevzon, Prevzon was granted the right to appoint half of the directors in these companies and as a result, the Company have joint control over the Dutch companies. It is noted that according to the change in accounting policy described in Paragraph 1 above, the equity method is implemented with respect to both affiliated entities and jointly controlled entities.

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

2. Germany Portfolio (cont'd)

Financing of acquisition of the asset portfolio in Germany in 2007 and of the rights by Prevzon in 2008, was made by means of, among other things, provision of shareholders' loans. The Company's interest in the shareholders' loans was higher than its rights in the capital of the German partnerships. Later on as well, the Company provided loans to the German partnerships at a rate higher than its rights in the capital of these partnerships. In light of the losses in the German partnerships, stemming from impairment in value of the investment properties making up the properties' portfolio in Germany, which created a capital deficiency in the German partnerships and in the Dutch companies, as well as due to a request of the Israeli Securities Authority, the Company decided to restate its financial statements for the relevant periods, in order that its share in the losses of the German partnerships will be according to its interest in the shareholders' loans and not based on the rate of its indirect rights in the capital of the German partnerships.

Presented hereunder is the effect of the change in accounting policy and of the restatement described above as at December 31, 2009, 2008 and 2007 and for the years then ended:

Statement of financial position

In thousands of Euros

	As at December 31, 2009			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Total non current assets	**1,107,809**	**(51,516)**	**(3,573)**	**1,052,720**
Total current assets	**141,127**	**(2,089)**		**139,038**
Total Invested (Equity)	**236,606**	**-**	**(3,573)**	**233,033**
Total non current liabilities	**819,105**	**(41,045)**		**778,060**
Total current liabilities	**193,225**	**(12,560)**		**180,665**

	As at December 31, 2008			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Total non current assets	973,849	(53,421)	(3,505)	916,923
Total current assets	152,618	(2,169)	-	150,449
Total Invested (Equity)	269,738	-	(3,505)	266,233
Total non current liabilities	636,211	(45,617)	-	590,594
Total current liabilities	220,518	(9,973)	-	210,545

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

Statement of financial position (cont'd)

In thousands of Euros

	As at December 31, 2007			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Total non current assets	862,520	(48,001)	-	814,519
Total current assets	181,849	(3,178)	-	178,671
Total Invested (Equity)	99,294	-	-	99,294
Total non current liabilities	769,641	(49,337)	-	720,304
Total current liabilities	175,434	(1,842)	-	173,592

Income statement

In thousands of Euros

	For the year ended December 31, 2009			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Net rental and related income	**30,836**	**(5,848)**	**-**	**24,988**
Profit on disposal of trading property	**(16,205)**	**-**	**-**	**(16,205)**
Valuation gains/losses on investment property under development	**36,690**	**879**	**-**	**37,569**
Valuation gains on investment property	**(22,564)**	**2,219**	**-**	**(20,345)**
Valuation losses on investment property				
Administrative expenses	**(8,810)**	**294**	**-**	**(8,516)**
Selling and marketing expenses	**(2,756)**	**18**	**-**	**(2,738)**
Net other income/ (expenses)	**(1,977)**	**(77)**	**-**	**(2,054)**
Net Financial costs	**(30,369)**	**2,897**	**-**	**(27,472)**
Income tax expense	**(16,660)**	**425**	**-**	**(16,235)**
Equity gain /(loss) from associate companies	**567**	**(807)**	**(68)**	**(308)**
Profit for the year	**(31,248)**	**-**	**(68)**	**(31,316)**
Basic and diluted loss per share (Euro)	**(0.76)**	**-**	**-**	**(0.76)**

The effect of the restatement on the statement of comprehensive income is the same as the effect on the income statement.

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

Income statement (cont'd)

In thousands of Euros

	For the year ended December 31, 2008			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Net rental and related income	21,705	(5,413)	-	16,292
Profit on disposal of trading property	(52,951)	-	-	(52,951)
Valuation gains/losses on investment property under development	(10,432)	-	-	(10,432)
Valuation gains on investment property	28,756	7,917	-	36,673
Valuation losses on investment property				
Administrative expenses	(9,683)	309	-	(9,374)
Selling and marketing expenses	(2,773)	4	-	(2,769)
Net other income/ (expenses)	(8,808)	304	-	(8,504)
Net Financial costs	(28,914)	3,747	-	(25,167)
Income tax expense	3,843	(1,280)	-	2,563
Equity gain /(loss) from associate companies	(8,260)	(5,588)	(3,505)	(17,353)
Profit for the year	(67,517)	-	(3,505)	(71,022)
Basic and diluted loss per share (Euro)	(1.51)	-	(0.07)	(1.58)

The effect of the restatement on the statement of comprehensive income is the same as the effect on the income statement.

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

Income statement (cont'd)

In thousands of Euros

	For the year ended December 31, 2007			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Net rental and related income	16,669	(5,201)	-	11,468
Profit on disposal of trading property	202	-	-	202
Valuation gains/losses on investment property under development				
Valuation losses on investment property	35,240	(2,124)	-	33,116
Administrative expenses	(4,067)	318	-	(3,749)
Selling and marketing expenses	(1,358)	7	-	(1,351)
Net other income/(expenses)	(291)	(102)	-	(393)
Net financial costs	(15,425)	2,130	-	(13,295)
Income tax expense	(2,060)	(1,826)	-	(3,886)
Equity gain /(loss) from associate companies	(160)	6,798	-	6,638
Profit for the year	28,750	-	-	28,750
Basic and diluted loss per share (Euro)	0.29	-	-	0.29

The effect of the restatement on the statement of comprehensive income is the same as the effect on the income statement.

Cash flow

In thousands of Euros

	As at December 31, 2009		
	As reported in the past	**Effect of change in accounting policy**	**As reported in these financial statements**
Cash flows from operating activities	(10,626)	(6,869)	(17,495)
Cash flows from investing activities	(124,110)	236	(123,874)
Cash flows from financing activities	127,631	6,469	134,100

Note 2 - Significant Accounting Policies (cont'd)

V. Restatement (cont'd)

Cash flow (cont'd)

In thousands of Euros

	As at December 31, 2008		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	(25,387)	176	(25,211)
Cash flows from investing activities	(209,239)	7,067	(202,172)
Cash flows from financing activities	222,419	(6,252)	216,167

In thousands of Euros

	As at December 31, 2007		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	(117,720)	(5,739)	(123,459)
Cash flows from investing activities	(423,669)	7,357	(416,312)
Cash flows from financing activities	566,274	(2,273)	564,001

Note 3 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment property (including investment property under development)

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio once a year, and upon demand in respect to which material events occurred (such as entrance of tenants, completion, significant change in rental income) as defined in the Group's policy. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Note 3 - Determination of Fair Values (cont'd)

Investment property (including investment property under development) (cont'd)

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

The valuations of investment properties under development are prepared by the residual method or by comparison method, depends on the stage of completion.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Trade and other receivables with a short duration are not discounted.

Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Note 4 - Significant Accounting Events in the Reported Period

A. As a result of the recent significant worsening of the global financial crisis and intensification of its consequences on the world economy, in general, and in Europe in particular, the Company examined the impacts of the crisis on the values of its investment property, investment property under development and other real estate properties. The said examination was mainly performed by independent outside appraisers having appropriate professional qualifications with respect to the location and type of property appraised, and on the basis of valuations performed for assets as stated.

Some of the valuations were performed based on transactions recently executed in the market with respect to real estate similar to that of the Company and in a similar location, to the extent such transactions existed, while some were performed based on discounting the cash flows expected to derive from the property and the residual method for properties under development.

Set forth below is detailed impacts of the crisis on the values of investments property, investment property under development and other real estate properties. (before taxes and non controlling interest) for the year ended December 31, 2009 and 2008:

In thousands of Euros

	2009	**2008**
Valuation gains/(loss) of investment property	**(20,345)**	36,673
Valuation gains/(loss) of investment property under development (1)	**37,569**	(10,432)
Impairment of inventory of buildings held for sale and land of buildings held for sale	**(18,786)**	(56,753)
Impairment of goodwill	**(195)**	(9,163)
Impairment of associate company	-	(3,209)

(1) As described in Note 2B.3 as from January 1, 2009 the Group implemented the amendment made to IAS 40 - Investment Property. As a result of the amendment the Group recorded valuation gains of investment property under development of approximately Euro 56.5 million.

B. In May 2008, the Company signed an agreement to sell 30% of four subsidiaries, which are incorporated under the law of the Netherlands. Each subsidiary is a limited partner, holding 70% of the issued share capital of a subsidiary registered under the laws of Germany and having its statutory seat in Berlin (hereinafter – “the German partnerships”).

The German partnerships hold a portfolio of real properties in Germany, consisting of 35 let properties mostly located in Berlin, Hannover and other cities in Germany.

Note 4 - Significant Accounting Events in the Reported Period (cont'd)

B. (cont'd)

The total consideration in the transaction amounts to Euro 3,074 thousand which was paid as follows:

a. 50% of the total consideration (i.e. Euro 1,537 thousand) 7 days after the signing date of the agreement.

b. 50% of the total consideration (i.e. Euro 1,537 thousand) 30 days after the signing date of the agreement.

The closing of the agreement was on June 30, 2008.

Immediately upon closing, the indirect percentage interest of the Company in each of the German partnerships reduced from 70% to 49%.

According to the agreement the sides to the agreement established a decision-making mechanism which allows each German partnership's ultimate shareholders (i.e. the Company, the Purchaser and the individuals holding the remaining 30% in each of the German partnerships) to participate in the decision-making process, based on their respective indirect percentage interest in the German partnerships.

Pursuant to that stated above, on the closing date, the Company's control over the German partnerships ceases, and therefore the Company no longer consolidates the German partnerships as from the closing date.

	At the closing date
	Euro thousands
Working capital (excluding cash and cash equivalents)	(1,889)
Investment in associate	1,531
Investment property	105,520
Deferred taxes	(1,274)
Non-current liabilities	(91,326)
Loan given	(11,663)
Non controlling interest	936
Gain from disposal of subsidiary	679
Cash flows from disposal, net of cash disposed	2,514

For further information about the influence of the sale on the Company's financial statements and the restatement pursuant to, please refer to Note 2V.

Note 4 - Significant Accounting Events in the Reported Period (cont'd)

C. The Company and Africa Israel Properties Ltd. ("**AFI Properties**"), which is the sole shareholder of Africa Israel International Properties (2002) Ltd., the Company's sole shareholder ("**AIIP**"), entered into a shareholders loan on 21 December 2008 (the "**Shareholder's Loan**") to replace all loans between the Company and AFI Properties that were outstanding as per that date, being in aggregate an amount of EUR 484,856 thousand including interest on the principal of such loans. Consequently, on 22 December 2008, AFI Properties and AIIP entered into an assignment agreement pursuant to which AFI Properties sold and assigned to AIIP a claim in the amount of EUR 250,000 thousand of its receivable under the Shareholder's Loan. Subsequently AIIP contributed this receivable as share premium on the shares in the capital of the Company. From 1 January 2009 the outstanding part of the Shareholder's Loan bears an interest rate of three-month EURIBOR plus 2% per annum. The Company has the right to prepay all or part of the Shareholder's Loan at any time.

In addition to the amount outstanding under the Shareholder's Loan, AFI Properties provided to the Company a short term loan in the amount of EUR 15,214 thousand. By way of an amendment to the Shareholder's Loan dated 30 June 2010, AFI Properties and the Company agreed that this amount shall be repaid within 12 months from the date on which the relevant funds were received by the Company.

This short- term loan shall, together with the other amount outstanding under the Shareholder's Loan, be assigned by AFI Properties to AIIP and be contributed to the Company. As at 30 September 2010, the Company had debt in the amount of EUR 268,668 thousand to AFI Properties pursuant to the Shareholder's Loan. In respect of the assignment of AFI Properties' rights and obligations in relation to the Shareholder's Loan to AIIP, and the subsequent contribution of the entire amount of the Shareholder's Loan to capital of the Company please refer to Note 13(b).

D. In December 2008 the Company signed an agreement for the purchase of 3.7% of the share capital of Intrastar International Ltd. (hereinafter "Intrastar") from Airport City Belgrade CEO. The purchase increased the Company's holding in Intrastar from 50% to 53.7%.
The amount of the purchase is Euro 4.15 million and was/is to be paid in the following manner:

(a) On January 2009 – an amount of Euro 1 million.

(b) On each of the first, second and third anniversary of the Transaction's initial closing date – three installments each in an amount of Euro 1 million plus 4% annual interest, accumulated from the initial closing date until the actual date of payment.

(c) Three additional installments, each in an amount of Euro 50 thousand, payable upon occurrence of certain conditions.

Until the entire consideration will be fully paid to the seller, the shares will continue to be held by the seller and will be released to the Company gradually upon payment of each installment. Nonetheless, from the initial closing date, the Company has all rights attached to these shares (i.e. voting rights and dividend rights).

As a result of the purchase, the Company recorded goodwill in the amount of Euro 1.65 million.

Note 4 - Significant Accounting Events in the Reported Period (cont'd)

E. In 2007, the Company completed a significant number of transactions in which it purchased real estate assets through subsidiaries (in Germany, Romania, Bulgaria, Hungary and the Czech Republic). The influence of these purchases of real estate assets on the balance sheet was as follows:

	Investment Properties	Investment Properties under development	Inventories of buildings held for sale Including lands	Total
Germany	104,500	-	-	104,500
Bulgaria	-	6,897	-	6,897
Czech Republic	-	-	35,040	35,040
Romania	-	89,829	107,533	197,362
Hungary	16,388	-	4,795	21,183
	120,888	96,726	147,368	364,982

Furthermore, the Company purchased the share capital of a number of companies (in Romania, Latvia, Bulgaria and Poland) for a total consideration of Euro 113.8 million (hereinafter – the purchase price).these purchases are consider as business combinations in accordance with International Financial Reporting Standard No. 3, "Business Combinations", the purchase price was attributed to the fair value of the purchased tangible assets, intangible assets and liabilities as at the dates of completing the purchases, on the basis of Purchase Price Allocation (PPA) projects that were prepared by an independent appraiser.

The excess purchase price in the total amount of Euro 114.5 million was attributed to the tangible and intangible assets of the acquired companies, as follows:

In thousands of Euros

	Carrying amount on the initial date of consolidation	Excess of fair value over carrying amount	Total
Working capital (excluding cash and cash equivalents)	(36,910)	-	(36,910)
Property, plant and equipment	231	-	231
Investment property	19,386	-	19,386
Investment property under development	6,728	40,571	47,299
Inventory of buildings held for sale	48,698	82,169	130,867
Deferred taxes	(796)	(17,403)	(18,199)
Goodwill	-	9,163	9,163
Non-current liabilities	(38,085)	-	(38,085)
	(748)	114,500	113,752

Note 5 - Investment in Associate

A. Summary financial data for associate companies, not adjusted for the percentage ownership held by the Company

(1) Summary information on financial position

In thousands of Euros

	Country	Rate of ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
		%			EUR thousands			
As at December 31, 2009								
Wilanow One, SP. Z.O.O	Poland	**30%**	**58,671**	**570**	**59,241**	**8,400**	**51,370**	**59,770**
Germany Portfolio (*)	Germany	**49%**	**2,379**	**96,805**	**99,184**	**7,090**	**104,769**	**111,859**
Flora sen	Czech	**50%**	**3,813**	**224,340**	**228,153**	**11,438**	**133,671**	**145,109**
NTP	Czech	**50%**	**305**	**13,953**	**14,258**	**3,944**	**17,853**	**21,797**
Club Aliga	Hungary	**50%**	**566**	**31,068**	**31,634**	**10,118**	**18,182**	**28,300**
			65,734	**366,736**	**432,470**	**40,990**	**325,845**	**366,835**
As at December 31, 2008								
Wilanow One, SP. Z.O.O	Poland	30%	66,555	1,397	67,952	29,891	40,138	70,029
Germany Portfolio (*)	Germany	49%	2,302	95,770	98,072	3,201	107,933	111,134
Flora sen	Czech	50%	3,547	226,062	229,609	6,874	137,967	144,841
NTP	Czech	50%	218	16,265	16,483	189	20,605	20,794
Club Aliga	Hungary	50%	572	30,934	31,506	12,896	13,682	26,580
			73,194	370,428	443,622	53,051	320,325	373,378

(*) Including 4 companies in Germany. See also Note 4B.

Note 5 - Investment in Associate (cont'd)

A. Summary financial data for associate companies, not adjusted for the percentage ownership held by the Company (cont'd)

(1) Summary information on financial position (cont'd)

In thousands of Euros

	Country	Rate of ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
		%	EUR thousands					
As at December 31, 2007								
Wilanow One, SP. Z.O.O	Poland	30%	52,220	964	53,184	9,138	45,815	54,953
Flora sen	Czech	50%	4,990	183,796	188,786	2,942	92,510	95,452
NTP	Czech	50%	872	18,548	19,420	692	18,724	19,416
Club Aliga	Hungary	50%	562	32,664	33,226	222	24,460	24,682
			58,644	235,972	294,616	12,994	181,509	194,503

(*) Including 4 companies in Germany. See also Note 4B.

Note 5 - Investment in Associate (cont'd)

A. Summary financial data for affiliated companies, not adjusted for the percentage ownership held by the Company (cont'd)

(2) Summary information on operating results

In thousands of Euros

	Country	Rate of ownership	Revenues	Expenses	Profit (loss) for the period
		%	EUR thousands		
For the year ended December 31, 2009					
Wilanow One, SP. Z.O.O	Poland	**30%**	**18,027**	**14,390**	**3,637**
Germany Portfolio (*)	Germany	**49%**	**11,237**	**10,937**	**300**
Flora sen	Czech	**50%**	**20,153**	**17,073**	**3,080**
NTP	Czech	**50%**	**1,163**	**4,391**	**(3,228)**
Club Aliga	Hungary	**50%**	**814**	**2,286**	**(1,472)**
			51,394	**49,077**	**2,317**
For the year ended December 31, 2008					
Wilanow One, SP. Z.O.O	Poland	30%	987	1,525	(538)
Germany Portfolio (*)	Germany	49%	10,776	21,666	(10,890)
Flora sen	Czech	50%	21,464	23,669	(2,205)
NTP	Czech	50%	1,173	5,490	(4,317)
Club Aliga	Hungary	50%	1,140	5,796	(4,656)
			35,540	58,146	(22,606)
For the year ended December 31, 2007					
Wilanow One, SP. Z.O.O	Poland	30%	846	1,378	(532)
Flora sen	Czech	50%	22,784	9,208	13,576
NTP	Czech	50%	344	324	20
Club Aliga	Hungary	50%	-	-	-
			23,974	10,910	13,064

(*) Including 4 companies in Germany. See also Note 4B.

Note 5 - Investment in Associate (cont'd)

B. Composition:

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Shares at cost	**30,792**	36,036	35,987
Company's equity in reserves and retained earnings, net	**29,394**	32,870	50,850
Impairment of goodwill	**-**	(3,209)	-
Carrying value	**60,186**	65,697	86,837
Loans (1)	**33,317**	29,004	19,833
	93,503	94,701	106,670

* Restated - see Note 2V.

(1) Loan	Rate	December 31 2009	December 31 2008	December 31 2007
Fixed rate loans	5.5%	**14,095**	12,960	-
Fixed rate loans	5%	**2,933**	2,803	2,682
Fixed rate loans	15%	**3,716**	3,330	2,913
Fixed rate loans	1.5%	**8,517**	6,231	5,000
Variable rate loans	Euribor + 2%	**4,056**	3,680	9,238
		33,317	29,004	19,833

* Restated – see Note 2V.

C. The movement in associates was as follows:

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Balance as at beginning of the year	**94,701**	106,670	45,037
Movement during the year:			
Investments in share (see Note 4B)	**-**	(1,531)	40,248
Proceeds from associate	**(2,500)**	-	-
Investment in loans	**2,803**	7,049	14,274
Equity in earnings, net	**(308)**	(17,353)	6,638
Hedging reserve	**(435)**	(1,007)	(35)
Dividend	**(2,273)**	(2,173)	(1,807)
Adjustment for translation	**5**	923	80
Movement in loans	**1,510**	2,123	2,235
Balance as at end of the year	**93,503**	94,701	106,670

* Restated – see Note 2V.

Note 5 - Investment in Associate (cont'd)

D. Fair value

The investment in associate company includes balance in excess of the fair value which is derived from the acquisition, as follows:

In thousands of Euros

	December 31 2009	December 31 2008	December 31 2007
Goodwill	**-**	-	3,209
Tangible assets	**30,731**	31,626	31,626
Total excess of fair value on carrying amount	**30,731**	31,626	34,835

Note 6 - Investment Property

In thousands of Euros

	*December 31 2009	*December 31 2008	December 31 2007
Balance at January 1	**309,018**	255,509	65,000
Acquisition/Investment	**1,802**	-	104,409
Newly consolidated subsidiaries	**-**	-	19,386
Out of consolidation (see Note 4B)	**-**	(105,520)	-
Transfer from investment property under development	**353,618**	122,451	33,266
Fair value adjustments (see Note 4A)	**(20,345)**	36,673	33,116
Effect of movement in foreign exchange	**27**	(95)	332
Balance at December 31	**644,120**	309,018	255,509

* Restated – see Note 2V.

Investment property relates to completed property only.

During the year ended December 31, 2009, the Company completed the construction of the following projects: (1) AFI Palace Contraceni in Romania. (2) Phase 3b of Airport City Belgrade in Serbia.

During the year ended December 31, 2008, the Company completed the construction of the following projects: (1) phase 3 of Airport City Belgrade in Serbia (2) AFI Palace Pardubice in the Czech Republic, (3) Building No. 8 of Business Park Varna. Therefore, these projects have been reclassified as investment properties.

During the year ended December 31, 2007, the Company completed the construction of the following projects: (1) phase 2 of Airport City Belgrade in Serbia (2) Building No.6 of Business Park Varna in Bulgaria. Therefore, these projects have been reclassified as investment property.

Note 7 - Investment Property under Development

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007
Balance at January 1	**286,381**	212,123	49,299
Newly consolidated subsidiaries	**-**	-	47,299
Acquisition	**-**	9,145	85,250
Cost capitalized	**122,464**	185,376	60,370
Interest capitalized	**10,984**	13,786	3,171
Transfer to investment property	**(353,618)**	(122,451)	(33,266)
Classified to inventory	**-**	(1,166)	-
Valuation gains (see Note 4A)	**37,569**	-	-
Impairment (see Note 4A)	**-**	(10,432)	-
Balance at December 31	**103,780**	286,381	212,123

* Restated – see Note 2V.

Note 8 - Property, Plant and Equipment

In thousands of Euros

	Leasehold improvements	Equipment	Total
Cost			
Balance at January 1, 2007	9	402	411
Acquisitions	-	529	529
First consolidation	-	288	288
Disposals	-	(59)	(59)
Effect of movements in foreign exchange	-	(6)	(6)
Balance at December 31, 2007	9	1,154	1,163
Balance at January 1, 2008	9	1,154	1,163
Acquisitions	-	1,044	1,044
Disposals	-	(268)	(268)
Balance at December 31, 2008	9	1,930	1,939
Balance at January 1, 2009	**9**	**1,930**	**1,939**
Acquisitions	**-**	**1,578**	**1,578**
Disposals	**(9)**	**(327)**	**(336)**
Balance at December 31, 2009	**-**	**3,181**	**3,181**
Depreciation			
Balance at January 1, 2007	2	271	273
First consolidation	-	57	57
Depreciation charge for the year	-	99	99
Disposals	-	(26)	(26)
Effect of movement in foreign exchange	-	12	12
Balance at December 31, 2007	2	413	415
Balance at January 1, 2008	2	413	415
Depreciation charge for the year	1	662	663
Disposals	-	(268)	(268)
Balance at December 31, 2008	3	807	810
Balance at January 1, 2009	**3**	**807**	**810**
Depreciation charge for the year	**-**	**672**	**672**
Disposals	**(3)**	**(327)**	**(330)**
Balance at December 31, 2009	**-**	**1,152**	**1,152**
Carrying amount			
At December 31, 2009	**-**	**2,029**	**2,029**
At December 31, 2008	6	1,123	1,129
At December 31, 2007	7	741	748

Note 9 - Deferred Tax Assets and Liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

In thousands of Euros

	Assets			Liabilities			Net		
	December 31 2009*	December 31 2008*	December 31 2007*	December 31 2009*	December 31 2008*	December 31 2007*	December 31 2009*	December 31 2008*	December 31 2007*
Property, fixtures and Fittings	**(276)**	(50)	(682)	-	-	-	**(276)**	(50)	(682)
Investment property	**(2,102)**	(2,906)	-	**45,369**	25,829	15,476	**43,267**	22,923	15,476
Inventory of building held for sale	-	-	-	**2,343**	2,937	13,166	**2,343**	2,937	13,166
Hedging capital funds	**(1,376)**	(319)	-	-	-	-	**(1,376)**	(319)	-
Capitalization and deferred expenses	**(1,783)**	(1,070)	(384)	**683**	757	566	**(1,100)**	(313)	182
Finance lease liabilities	**(1,315)**	(1,282)	(1,300)	-	-	-	**(1,315)**	(1,282)	(1,300)
Allowance for doubtful debts	**(38)**	(19)	(9)	-	-	-	**(38)**	(19)	(9)
Tax value of loss carry-Forwards recognized	**(10,057)**	(7,091)	(3,566)	-	-	-	**(10,057)**	(7,091)	(3,566)
Others	**(913)**	(502)	-	**168**	304	98	**(745)**	(198)	98
Tax (assets)/liabilities	**(17,860)**	(13,239)	(5,941)	**48,563**	29,827	29,306	**30,703**	16,588	23,365
Set off of tax	**14,339**	5,288	-	**(14,339)**	(5,288)	-	-	-	-
Net tax (asset) liabilities	**(3,521)**	(7,951)	(5,941)	**34,224**	24,539	29,306	**30,703**	16,588	23,365

* Restated – see Note 2V.

Note 9 - Deferred Tax Assets and Liabilities (cont'd)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Tax losses carried forward	**4,764**	3,630	2,782

* Restated – see Note 2V.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

At December 31, 2009, the Group had total tax losses carried forward and tax credit for an amount of Euro 64,824 thousand (December 31, 2008, Euro 78,254 thousand) for which a deferred tax asset is recognized of Euro 10,057 thousand (December 31, 2008, Euro 7,453 thousand).
The expiration of the tax losses, tax credit carried forward and the related deferred tax asset is as follows:

In thousands of Euros

Year	**Deferred tax assets on losses carried forward**	**Tax losses carried forward**
2010	4,657	31,981
2011	4,292	26,770
2012	240	1,534
2013	868	4,539
	10,057	64,824

Movement in temporary differences during the year

In thousands of Euros

	December 31 2009*	**December 31 2008***	**December 31 2007***
Balance as at beginning of the year	**16,588**	23,365	1,074
Recognized in profit or loss	**15,001**	(5,467)	3,696
Recognized in other comprehensive income	**(886)**	(36)	396
Out of consolidation	**-**	(1,274)	-
Acquired in business combinations	**-**	-	18,199
Balance as at end of the year	**30,703**	16,588	23,365

* Restated – see Note 2V.

Note 10 - Inventory of Buildings

In thousands of Euros

	2009	2008	2007
At January 1	**306,436**	334,794	27,401
Newly consolidated subsidiaries	-	-	130,867
Land	-	-	146,955
Classified from investment property under development	-	1,166	
Construction cost	**24,347**	51,649	25,690
Interest capitalized (refer to policy M)	**2,249**	12,856	7,344
	333,032	400,465	338,257
Effect of movement in foreign exchange	**817**	(1,409)	915
Write-down of inventory to net realizable value	**(18,786)**	(56,753)	-
Carrying value of properties sold	**(20,477)**	(35,867)	(4,378)
At December 31	**294,586**	306,436	334,794

In respect of the capitalization rate for the interest capitalized please refer to Notes 15 and 18.

Note 11 - Trade and Other Receivables

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Restricted cash	**5,170**	4,778	16,124
Trade receivables due from tenants	**5,617**	3,103	1,211
VAT receivables	**12,906**	18,238	6,069
Receivable from derivatives	**1,839**	-	-
Deferred expenses	**2,541**	4,836	2,492
Trade receivables due from related parties	**828**	2,021	-
Trade receivables due from jointly controlled entities	**102**	784	786
Other trade receivables	**4,783**	3,232	7,162
	33,786	36,992	33,844
Allowance for doubtful debts	**(1,195)**	(423)	(343)
	32,591	36,569	33,501

* Restated - see Note 2V.

Note 12 - Cash and Cash Equivalents

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Bank balances	**10,888**	17,087	31,502
Call deposits	**5,285**	6,450	3,239
Cash and cash equivalents	**16,173**	23,537	34,741

All cash and cash equivalents are payable on demand.

* Restated - see Note 2V.

Note 13 - Capital and Reserves

Composition of share capital:

	December 31, 2009, 2008 and 2007	
	Authorized	Issued and Outstanding
Ordinary share of Euro 1 par value each	90,000	90,000

a. As at December 31, 2009, the authorized, issued and paid-up share capital of the Company comprises 90,000 ordinary shares of Euro 1 each.

b. In view of the Company's plan to raise financing by way of an initial public offering of the Company's shares ("IPO"), on 4 November 2010 the Company's authorized share capital has been increased to EUR 1,221,000, divided into 122,100,000 shares with a nominal value of EUR 0.01 each.

(i) Simultaneously therewith each of the 90,000 shares with a nominal value of EUR 1 in the issued share capital of the Company has been converted and split into 100 shares with a nominal value of one cent (EUR 0.01), and all of them together into 9,000,000 shares.

(ii) Also on that date, the Company, AFI Properties and AIIP executed agreements regarding the assignment of AFI Properties' rights and obligations in relation to the Shareholder's Loan to AIIP, and the subsequent contribution of the entire amount of the Shareholder's Loan to capital of the Company, of which an amount of EUR 409,669 has been contributed by AIIP to the Company's capital against the issue of 40,966,900 shares at nominal value of EUR 0.01 each,

(iii) The remaining outstanding balance of the Shareholder's Loan will be contributed to share premium on those newly issued shares concurrently with and subject to all conditions of the IPO having been met. Furthermore, the Company issued to AIIP additional 43,033,100 shares with a nominal value of EUR 0.01 each, against the (partial) conversion of the relevant statutory reserve maintained by the Company, amounting to EUR 430,331. As a result, there will be no outstanding Shareholder's loan upon the completion of the IPO, and effective as of 4 November 2010 the Company's issued share capital consisted of 93,000,000 shares with a nominal value of EUR 0.01 each, all of which are held by AIIP.

In November 2010 the company published a prospectus (hereinafter – "the prospectus") for a public offering of its shares that is intended for institutional and private investors in Poland, and institutional investors outside of Poland (but not in the USA), and for listing the shares for trade on the Warsaw Stock Exchange (WSE) in Poland (hereinafter – "the issuance").

As a result of the unstable conditions on the international capital markets at the beginning of December 2010 it was decided to postpone the issuance process. If it is decided to renew the issuance process, the Company will submit to the authorities in The Netherlands an amendment to the prospectus approved by the authorities.

Note 13 - Capital and Reserves (cont'd)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Note 14 - Earnings Per Share

Net profit attributable to ordinary equity holders of the parent

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007**
Net profit (loss) attributable to ordinary equity holders of the parent	**0.76**	(1.58)	0.29

* Restated – see Note 2V.

1. The weighted average number of ordinary shares at December 31, 2009, 2008 and 2007 that was taken as a starting point for the calculation was 49,966,900.

2. Subsequent to the mentioned in Note 13.b.(i) and 13.b.(ii) above and conversion as mention the company restated its earnings per share for the year 2008 and 2007 as follows:

	Number of shares			Basic and diluted loss per share (Euro)		
	Before split and issuance of bonus shares	Difference	After split and issuance of bonus shares	Before split and issuance of bonus shares	Difference	After split and issuance of bonus shares
For the year ended September 31, 2008	90,000	49,876,900	49,966,900	*(875.93)	874.35	*(1.58)
For the year ended September 31, 2007	90,000	49,876,900	49,966,900	(161.77)	(161.48)	0.29

* Restated – see Note 2V.

Note 15 - Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, refer to Note 18.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of Euros

				December 31, 2009		December 31, 2008		December 31, 2007	
	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value
Non-current									
Secured bank loan	Euro	3M Euribor+1.4-2.5	2010-2017	**421,485**	**433,529**	276,530	267,884	99,324	98,008
Secured bank loan	PLN	1M Wibor+1.6	2010-2012	**1,641**	**1,641**	1,798	1,748	3,575	3,575
Secured bank loan	CZK	3M Pribor+1.75	2018	**22,936**	**22,936**	18,042	18,042	6,835	6,711
Secured bank loan	Euro	5.55	2014	**-**	**-**	-	-	91,326	91,326
Finance lease liabilities	CZK	13.44	2047	**7,000**	**7,000**	6,873	6,873	6,850	6,850
Loan from related parties	Euro	3M Euribor+2	Not determined	**279,559**	**279,559**	265,696	265,696	479,037	479,037
Loan from Joint Venture partners	Euro	3M Euribor+2		**-**	**-**	-	-	4,015	4,015
Current maturity	Euro			**(9,088)**	**(9,088)**	(5,277)	(5,277)	(2,155)	(2,155)
Total non-current interest-bearing liabilities				**723,533**	**735,577**	563,662	554,966	688,807	687,367
Current									
Secured bank loan	Euro	3M Euribor+1.4-3	2010	**45,647**	**45,647**	50,740	50,740	37,662	37,645
Secured bank loan	PLN	1M Wibor+1.8	2010	**10,095**	**10,095**	14,192	14,192	6,382	6,382
Secured bank loan	CZK	1M Pribor + 1.75	2010	**23,141**	**23,141**	19,838	19,838	-	-
Current maturity	Euro			**9,088**	**9,088**	5,277	5,277	2,314	2,314
Loan from Joint Venture partners	Euro	3M Euribor+3.5	2010	**11,487**	**11,487**	10,480	10,480	22,238	22,238
Total current interest-bearing liabilities				**99,458**	**99,458**	100,527	100,527	68,596	68,579

The bank loans are secured on land and buildings with a carrying amount of Euro 536,989 thousand (2008: Euro 372,444 thousand; 2007: Euro 243,647 thousand (refer to Note 19).

Note 16 - Other Non-Current Liabilities

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Deposits from tenants	**3,048**	2,921	1,349
Payables for derivatives instruments	**-**	5,794	-
Related parties payables (see Note 26)	**4,223**	-	-
Other payables	**988**	2,374	2,543
Current maturity	**-**	-	(261)
	8,259	11,089	3,631

* Restated. - See Note 2V.

Note 17 - Trade and Other Payables

In thousands of Euros

	December 31 2009*	December 31 2008*	December 31 2007*
Payables for land purchase	**23,229**	29,660	43,945
Payables for derivative instruments	**11,192**	3,359	-
Trade payables due to related parties	**5,840**	8,092	1,027
Suppliers and other trade payables	**9,157**	35,831	22,959
Tax payables	**1,448**	2,295	-
Accruals expenses and deferred income	**15,340**	16,925	7,407
Advances from customers	**237**	406	-
Others	**2,119**	2,129	1,140
	68,562	98,697	76,478

* Restated. - See Note 2V.

Note 18 - Financial Instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group uses derivative financial instruments in certain loan agreements to hedge its exposure to interest rate risks arising from construction, financing and investment activities. Furthermore, the Group does not hold or issue derivative financial instruments for trading purposes.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral from its tenants (bank guarantee or cash deposits usually equal to three months rent income) in respect of lease agreements.

Note 18 - Financial Instruments (cont'd)

Credit risk (cont'd)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance date was:

In thousands of Euros

		Carrying amounts		
	Note	**2009***	**2008***	**2007***
Loan to associate company	5	**33,317**	29,004	19,833
Trade and other receivable	11	**32,591**	36,569	33,501
Cash and cash equivalents	12	**16,173**	23,537	34,741
		82,081	89,110	88,075

* Restated. - See Note 2V.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

In thousands of Euros

	Carrying amounts		
	2009*	**2008***	**2007***
Czech Republic	**15,924**	14,526	28,836
Romania	**13,541**	18,472	7,987
Bulgaria	**4,398**	5,467	3,715
Poland	**7,375**	9,644	7,519
Germany	**14,098**	13,056	1,856
Serbia	**11,961**	13,257	9,997
Other regions	**14,784**	14,688	28,165
	82,081	89,110	88,075

* Restated. - See Note 2V.

<u>Impairment losses</u>

The aging of trade receivables due from tenants at the balance sheet date was:

In thousands of Euros

	Gross 2009*	**Impairment 2009***	**Gross 2008***	**Impairment 2008***	**Gross 2007***	**Impairment 2007***
Not past due	**2,633**	**-**	657	-	595	-
Past due 0-30 days	**410**	-	1,245	-	203	120
Past due 31-120 days	**991**	**97**	707	-	139	-
Past due 121-365 days	**899**	**414**	191	120	197	146
More than one year	**684**	**684**	303	303	77	77
	5,617	**1,195**	3,103	423	1,211	343

* Restated. - See Note 2V.

Note 18 - Financial Instruments (cont'd)

Credit risk (cont'd)

Impairment losses (cont'd)

The movement in the allowance for impairment in respect of trade receivables due from tenants during the year was as follows:

In thousands of Euros

	2009*	**2008***	**2007***
Balance at January 1	**423**	343	91
Impairment loss recognized	**772**	201	132
Initial consolidation	**-**	-	120
Out of consolidation	**-**	(121)	-
Balance as at December 31	**1,195**	423	343

* Restated. - See Note 2V.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2009

In thousands of Euros

	Carrying amount*	**Contractual cash flows***	**6 months or less***	**6-12 months***	**1-2 years***	**2-5 years***	**More than 5 years***
Non-derivative financial liabilities:							
Secured bank loans	**458,106**	**531,420**	**8,885**	**9,504**	**34,524**	**282,194**	**196,313**
Short-term loans	**78,883**	**81,982**	**32,630**	**20,045**	**15,694**	**13,613**	**-**
Finance lease liability	**7,000**	**35,895**	**483**	**482**	**1,896**	**2,793**	**30,241**
Loans from related parties	**279,559**	**319,290**	**-**	**-**	**-**	**-**	**319,290**
Non-current liabilities	**8,259**	**8,259**	**9**	**9**	**8,241**	**-**	**-**
Loans from joint venture partners	**11,487**	**11,607**	**11,571**	**-**	**36**	**-**	**-**
Trade and other payables	**68,562**	**68,562**	**56,537**	**12,025**	**-**	**-**	**-**
	911,856	**1,057,015**	**110,115**	**42,065**	**60,391**	**298,600**	**545,844**

* Restated. - See Note 2V.

Note 18 - Financial Instruments (cont'd)

Liquidity risk (cont'd)

December 31, 2008

In thousands of Euros

	Carrying amount*	Contractual cash flows*	6 months or less*	6-12 months*	1-2 years*	2-5 years*	More than 5 years*
Non-derivative financial liabilities:							
Secured bank loans	287,674	359,770	6,139	7,400	18,727	193,441	134,063
Short-term loans	84,770	90,028	40,592	28,505	6,551	14,380	-
Finance lease liability	6,873	36,081	456	404	846	2,747	31,628
Loans from Related parties	265,696	375,552	-	-	-	-	375,552
Non-current liabilities	11,089	13,398	-	19	2,568	5,849	4,962
Loans from joint venture partners	10,480	11,887	-	-	11,887	-	-
Trade and other payables	98,697	98,697	91,419	7,278	-	-	-
	765,279	985,413	138,606	43,606	40,579	216,417	546,205

* Restated. - See Note 2V.

December 31, 2007

In thousands of Euros

	Carrying amount*	Contractual cash flows*	6 months or less*	6-12 months*	1-2 years*	2-5 years*	More than 5 years*
Non-derivative financial liabilities:							
Secured bank loans	199,624	270,771	6,322	7,516	51,009	43,346	162,578
Short-term loans	66,264	67,526	46,660	20,866	-	-	-
Finance lease liability	6,850	37,458	432	432	906	2,817	32,871
Loans from Related parties	474,765	500,093	-	250,000	250,093	-	-
Non-current liabilities	3,631	3,844	-	-	3,844	-	-
Loans from joint venture partners	8,287	8,588	100	-	4,216	-	4,272
Trade and other payables	76,478	76,479	47,888	28,591	-	-	-
	835,899	964,759	101,402	307,405	310,068	46,163	199,721

* Restated. - See Note 2V.

Note 18 - Financial Instruments (cont’d)

Currency risk

Exposure to currency risk

The Group’s exposure to foreign currency risk was as follows based on notional amounts:

In thousands of Euros

	Euro*	CZK*	PLN	BGN	RON	Others*	Total*
	December 31, 2009						
Loans to investee company	**33,317**	-	-	-	-	-	**33,317**
Trade receivables	**12,116**	**804**	**659**	**1,792**	**10,679**	**6,541**	**32,591**
Cash and cash equivalents	**7,628**	**5,295**	**61**	**283**	**864**	**2,042**	**16,173**
Interest-bearing loans and borrowings	**(793,362)**	**(29,937)**	**(11,736)**	-	-	-	**(835,035)**
Other non current liabilities	**(8,230)**	**(29)**	-	-	-	-	**(8,259)**
Trade and other payables	**(54,815)**	**(7,965)**	**(532)**	**(3,030)**	**(357)**	**(1,863)**	**(68,562)**
Balance exposure	**(803,346)**	**(31,832)**	**(11,548)**	**(955)**	**11,186**	**6,720**	**(829,775)**

	Euro*	CZK*	PLN	BGN	RON	Others*	Total*
	December 31, 2008						
Loans to investee company	29,004	-	-	-	-	-	29,004
Trade receivables	14,807	5,544	452	1,472	9,440	4,854	36,569
Cash and cash equivalents	11,549	2,246	2,737	2,053	3,950	1,002	23,537
Interest-bearing loans and borrowings	(601,672)	(37,880)	(15,941)	-	-	-	(655,493)
Other non current liabilities	(8,221)	(2,869)	-	-	-	1	(11,089)
Trade and other payables	(37,488)	(24,477)	(1,701)	(9,025)	(13,732)	(12,274)	(98,697)
Balance exposure	(592,021)	(57,436)	(14,453)	(5,500)	(342)	(6,417)	(676,169)

	Euro*	CZK*	PLN	CSD	Others*	Total*
	December 31, 2007					
Loans to investee company	19,833	-	-	-	-	19,833
Trade receivables	17,011	13,104	590	-	2,796	33,501
Cash and cash equivalents	29,928	2,557	842	1,010	404	34,741
Interest-bearing loans and borrowings	(732,429)	(13,561)	(9,956)	-	-	(755,946)
Other non current liabilities	(3,631)	-	-	-	-	(3,631)
Trade and other payables	(59,190)	(12,019)	(3,554)	-	(1,715)	(76,478)
Balance exposure	(728,388)	(9,919)	(12,078)	1,010	1,485	(747,980)

* Restated - see Note 2V.

Note 18 - Financial Instruments (cont'd)

Currency risk (cont'd)

The exchange rates as per period end are presented in the following table:

	Average rate			Spot rate As at December 31		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
CZK (into Euros)	**26.4**	25.0	27.8	**26.5**	26.0	26.6
LEVA (into Euros)	**0.7**	0.7	0.7	**0.7**	0.7	0.7
BGN (into Euros)	**1.9**	1.9	1.9	**1.9**	1.9	1.9
RON (into Euros)	**4.2**	3.7	3.5	**4.2**	4.0	3.6
PLN (into Euros)	**4.3**	3.5	3.7	**4.1**	4.2	3.6

Sensitivity analysis

An increase as at December 31, 2009 of 10% in the exchange rate of the Euro against the following currencies would increase (decrease) the shareholders' equity and the net profit (loss) by the amounts presented below. This analysis was made based on the assumption that all the other variables, particularly the interest rates, remain fixed. The analyses for 2008 and 2007 were made based on the same assumptions.

In thousands of Euros

		Equity	Profit or loss
December 31, 2009			
	CZK	**3,217**	**(3,273)**
	PLN	**(940)**	**(1,077)**
	BGN	**(95)**	**(95)**
	RON	**1,119**	**1,119**
	Others	**665**	**665**
December 31, 2008			
	CZK	(5,935)	(5,766)
	PLN	(278)	(535)
	BGN	(550)	(550)
	RON	(34)	(34)
	Others	(637)	(637)
December 31, 2007			
	CZK	(535)	(685)
	PLN	(3,655)	-
	CSD	101	-
	Others	171	-

A decrease as at December 31, 2009 of 10% in the exchange rate of the euro against the above currencies would have the same effect but in the opposite direction, based on the assumption that all the other variables remain fixed.

Note 18 - Financial Instruments (cont'd)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of Euros

	Carrying amount		
	2009*	**2008***	**2007***
Fixed rate instruments			
Financial assets	**29,261**	25,323	10,595
Financial liabilities	**(7,000)**	(6,873)	(98,176)
	22,261	18,450	(87,581)
Variable rate instruments			
Financial assets	**4,056**	3,680	9,238
Financial liabilities	**(828,035)**	(648,620)	(657,770)
	(823,979)	(644,940)	(648,532)

* Restated. - See Note 2V.

Sensitivity Analysis of the Fair Value with respect to Financial Instruments bearing Fixed Interest

The Group's assets and liabilities bearing fixed interest are not measured at fair value with the differences being recorded in the statements of operations, and the Group does not use derivative financial instruments as hedging instruments in accordance with the fair value hedging model. Therefore, any change in the interest rates as at the date of the report will have no effect on the statement of operations.

Note 18 - Financial Instruments (cont'd)

Sensitivity analysis of the cash flows with respect to Financial Instruments bearing Variable Interest

A change of 100 points in the base interest rate as at the date of the report would increase/decrease the net profit/loss by the following amounts. This analysis was made based on the assumption that all the other variables, particularly the foreign currency exchange rates, will remain fixed. The analyses for 2008 and 2007 were based on the same assumptions.

Effect in thousands of euros

	Profit or (loss)		Equity	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
December 31, 2009				
Variable rate instruments	**(11,224)**	**11,224**	**(11,224)**	**11,224**
Interest rate swap	**3,331**	**(3,331)**	**4,986**	**(5,097)**
Cash flow sensitivity (net)	**(7,893)**	**7,893**	**(6,238)**	**6,127**
December 31, 2008				
Variable rate instruments	(9,461)	9,461	(9,461)	9,461
Interest rate swap	1,668	(1,668)	7,490	(3,724)
Cash flow sensitivity (net)	(7,793)	7,793	(1,971)	5,737
December 31, 2007				
Variable rate instruments	(5,513)	5,513	(5,513)	5,513
Interest rate swap	187	(103)	1	(85)
Cash flow sensitivity (net)	(5,326)	5,410	(5,512)	5,428

Note 18 - Financial Instruments (cont'd)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In thousands of Euros

	December 31, 2009*		December 31, 2008*		December 31, 2007*	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loan to associate company	**33,317**	**33,317**	29,004	27,032	19,833	20,169
Cash and cash equivalents	**16,173**	**16,173**	23,537	23,537	34,741	34,741
Trade and other receivables	**32,591**	**32,591**	36,569	36,569	33,501	33,501
Secured bank loans	**(458,106)**	**(453,333)**	(287,674)	(254,360)	(199,620)	(192,839)
Finance lease liabilities	**(7,000)**	**(7,000)**	(6,873)	(6,873)	(6,850)	(6,850)
Loan from Related parties	**(279,559)**	**(279,559)**	(265,696)	(265,696)	(479,037)	(479,037)
Loans from joint Venture partnership	**-**	**-**	-	-	(4,015)	(4,015)
Other non-current liabilities	**(8,259)**	**(8,259)**	(11,089)	(9,877)	(3,631)	(3,631)
Short-term loans	**(78,883)**	**(78,883)**	(84,771)	(84,771)	(66,265)	(66,265)
Trade and other payables	**(68,562)**	**(68,562)**	(98,697)	(98,697)	(76,478)	(76,478)

* Restated. - See Note 2V.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2009	2008	2007
Loans and borrowings	3M Euribor+2%	3M Euribor+2%	3M Euribor+2%
Leases	13.44%	13.44%	13.44%

Derivative financial instruments

The Company uses derivative financial instruments in certain loans to hedge its exposure to interest rate risks as cash flow hedge.

	Interest receivable	Interest payable	Expiration exercise date	Amount	Fair value	Effective hedge net of tax
				In thousands of Euros		
Interest rate swap *	3M Euribor	4.59%	31/12/2012	51,298	(3,644)	(2,952)
Interest rate swap	3M Euribor + 2.3%	4.70%	30/12/2010	230,000	(8,208)	(5,841)
Interest rate swap	3M Euribor + 2.125%	3.015%	30/09/2014	23,556	(533)	(480)
Interest rate swap	3M Euribor + 2.1%	3.215%	30/09/2015	26,604	(602)	(541)

* The derivative financial instrument was purchased by a jointly controlled entity.

Note 19 - Contingent Liabilities

A. Securities, guarantees and pledges under bank finance agreements

In order to secure loans for construction or investment, the Company granted banks (i) first ranking pledges on the assets of certain group companies, including rights with respect to the land of certain projects for which the loans were taken; (ii) pledges on the rights of certain group companies pursuant to the agreements in which they are party, including general contractor contracts and long term tenants leases, and (iii) subordination of shareholders loans given to certain group companies to their debt towards the financing banks. In some cases the Company pledged its shares in the relevant group company in favor of the financing bank.

As a security for repayment of loans taken by two particular group companies, the Company's shares in these companies are held in trust by an escrow agent related to a bank, and their assets were pledged in favor of the bank.

Several group companies agreed not to dispose secured assets, and not to sell, transfer or lease any substantial part of their assets, without the prior consent of the financing bank. In addition, some of the group companies are not allowed, without the prior consent of the financing bank, to change the holding structure of the relevant project company, to change their incorporation documents, or to change the scope of the project.

In some of the financing agreements of the group companies, the Company is obliged to inject further financing in case it is required to complete the relevant project. The group companies agreed to comply with certain financial ratios and minimum cash balances (covenants). The major covenants are (i) compliance with ratios between periodical net rental income to periodical loan repayments and other similar ratios, (ii) ratio between outstanding loan balance to the value of the project, and (iii) reporting requirements. The group companies are in compliance with all covenants, under the respective financing agreement, except for:

(i) A loan agreement in relation to financing the acquisition of the German Portfolio, where the “loan to value” ratio has been reduced, as a result of a decline in real properties’ values throughout Germany, which led to an impairment with respect to the value of the German Portfolio’s properties.

(ii) Two loan agreements in relation to financing obtained by the subsidiaries for projects Metropolia and Soleville in Latvia, where as a result of a decline in real properties’ values throughout Latvia, an impairment was made with respect to the value of projects Soleville and Metropolia, causing each of these subsidiaries to be in a situation of negative equity, thus currently failing to meet one of the covenants under its loan agreements. It is hereby clarified, however, that the bank would be entitled to demand immediate repayment of the loan based on a negative equity situation, only if such situation is not remedied within 10 days following receipt of the bank's applicable notice in this matter. Such notice of the bank has never been delivered to date, and even if it will be delivered, both project subsidiaries are in a position to timely remedy the negative equity situation before the bank's entitlement to demand immediate repayment of the loan would be triggered.

The Company holds a continuous dialogue with the relevant banks, which periodically receive financial reports of the relevant subsidiary and updated valuation reports on the relevant properties, and none of these banks has issued any request or demand in relation to the matters described above.

Note 19 - Contingent Liabilities (cont'd)

B.

1. A claim in Serbia against Airport City Belgrade d.o.o. in which the Company's indirect interest is 53.7% ("ACB") was filed by Industrija Masina I Traktora a.d. ("IMT") for payment of EUR 0.9 million under an agreement dated 11 March 2004. In its response to the aforementioned claim, ACB argues that such payment was conditional upon the occurrence of certain conditions precedent which were not fulfilled by IMT, and that the amount payable to IMT should therefore be substantially reduced.

   In the opinion of the company management and its legal advisers, the chances of the claim to be accepted are remote. No provision was recorded in respect of the claim.

2. In February 2008, a lawsuit of a total amount of approximately Euro 1.1 Million was appealed before the District Court of Tel-Aviv, Israel. The lawsuit concerns a real estate purchase agreement in Romania.
   According to the Company management and its legal advisers, the chances of the claim to be accepted are remote. No provision was recorded in respect of the claim.

3. In February 2009, a claim in a total amount of approximately Euro 0.9 million was filed against the Company with the Court of the Central District, Israel, with respect to allegedly payable brokerage commissions in connection with a real estate purchase transaction in Romania and a real estate transaction in the Czech Republic.

   According to the Company management and its legal advisers, the chances of the claim to be accepted are less than 50%. No provision was recorded in respect of the claim.

4. Please refer to Note 28(2) regarding a settlement between the Company and premier solutions & team S.R.L regarding a penalty dispute.

C. Effective as of 30 September 2010, 7 corporate guarantees with an aggregate value of approximately EUR 60 million have been issued by the Company as securities for repayment obligations of certain Subsidiaries with respect to financing obtained by each of such Subsidiaries in relation to its project.

Note 20 - Gross Rental Income

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Czech Republic*	**8,706**	3,426	2,613
Serbia	**10,309**	8,164	4,396
Romania	**4,120**	-	-
Bulgaria	**3,839**	3,808	780
Germany	**-**	3,905	5,210
Others*	**234**	266	162
	27,208	19,569	13,161

* Restated. - See Note 2V.

The Group leases out its investment property under operating leases. The operating leases are usually for terms of 5 years or more.

Note 21 - Property Operating Expenses

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Property insurance premium	**106**	343	256
Property taxes and fees	**863**	361	475
Other expenses	**188**	1,927	5
	1,157	2,631	736

* Restated. - See Note 2V.

Note 22 - Administrative Expenses

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Wages and salaries	**4,286**	5,230	2,226
Professional services	**2,151**	2,753	1,930
Depreciation	**672**	664	99
Legal and audit fees	**1,514**	2,837	1,948
Rent	**584**	672	471
Other administrative expenses	**4,084**	5,668	2,264
Recharged to jointly controlled entity	**-**	-	(721)
Capitalized expenses directly attributed to projects under construction	**(4,775)**	(8,450)	(4,468)
	8,516	9,374	3,749

* Restated. - See Note 2V.

Note 23 - Net Other Income (Expenses)

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Management fees	**604**	318	341
Income from parking	**18**	-	-
Contracting work	**4,928**	6,112	958
Other	**2,249**	1,791	328
	7,799	8,221	1,627
Expenses relating parking	**-**	(89)	(32)
Expenses due to IPO	**-**	(1,922)	(752)
Contracting work	**(3,455)**	(4,462)	(640)
Impairment of goodwill	**(195)**	(9,163)	
VAT not recoverable	**-**	-	(180)
Other	**(6,203)**	(1,089)	(416)
	(9,853)	(16,725)	(2,020)
	(2,054)	(8,504)	(393)

* Restated. - See Note 2V.

Note 24 - Net Financing Costs

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Bank interest expense	**14,448**	9,615	6,906
Interest expenses to Africa Properties	**8,852**	18,265	4,784
Leasing interest	**931**	911	909
Net foreign exchange loss/(gain)	**2,149**	(3,865)	(491)
Other financing income	**(1,964)**	(1,680)	(184)
Commitments and other financing fees	**3,056**	1,921	1,371
	27,472	25,167	13,295

* Restated – see Note 2V.

Note 25 - Income Tax Expense

Recognized in the income statement

In thousands of Euros

	For the year ended December 31		
	2009*	**2008***	**2007***
Current tax expense			
Current year	**1,234**	2,904	190
Deferred tax expense			
Origination and reversal of timing differences	**15,001**	(5,555)	3,996
Reduction in tax rate	**-**	88	(300)
	15,001	(5,467)	3,696
	16,235	(2,563)	3,886

* Restated – see Note 2V.

1. Results of operations for tax purposes of the Company are computed in accordance with Dutch tax legislation.
2. Tax rates applicable to the Company and its subsidiaries are as follows:

	Tax rate
Netherlands	25.5%
Czech Republic	20.0%
Serbia	10.0%
Bulgaria	10.0%
Hungary	20.0%
Romania	16.0%
Latvia	15.0%

Note 25 - Income Tax Expense (cont'd)

Reconciliation of effective tax rate

In thousands of Euros

	For the year ended December 31					
		2009*		**2008***		**2007***
Profit/(loss) before Tax		**(14,773)**		(56,232)		25,998
Income tax using the Dutch statutory corporation tax rate	**(25.5%)**	**(3,767)**	(25.5%)	(14,339)	25.5%	6,629
Effect of tax rates in foreign jurisdictions	**12.9%**	**1,906**	4.1%	2,327	(18.5%)	(4,817)
Impairment of goodwill	**-**	**50**	4.2%	2,337	-	-
Non-deductible expenses	**6 %**	**884**	0.8%	500	1.7%	447
Tax exempt income	**(8.9%)**	**(1,318)**	(1.4%)	(790)	(0.8%)	(213)
Impairment of real estate for which no deferred tax liability	**71.6%**	**10,584**	7.8%	4,401	-	-
Impact of change in tax rate	**-**	**-**	-	88	(1.2%)	(300)
Tax credit on investment	**12.8%**	**1,943**	(1.0%)	(589)	(2.4%)	(616)
Current year losses for which no deferred tax assets	**32.2%**	**4,764**	6.4%	3,630	10.7%	2,782
Other	**8%**	**1,189**	-	(128)	-	(26)
	109.1%	**16,235**	(4.6%)	(2,563)	14.9%	3,886

* Restated – see Note 2V.

Note 26 - Related Parties

The parent company of the Group is Africa Israel International Properties (2002) Ltd (Israel) (AIIP 2002) which is part of Africa Israel Investments Group.

Transactions between the companies within the Group, which are related parties, have been eliminated in the consolidated financial statements and are not disclosed in this note.

Note 26 - Related Parties (cont'd)

Details of transactions between the Group and other related parties are disclosed below:

In thousands of Euros

	2009*	**2008***	**2007***
Management fees, net	**(604)**	(318)	(341)
Interest, net	**8,854**	18,265	4,784
	8,250	17,947	4,443
Balance:			
Africa Israel properties	**40**	40	(794)
Africa Israel investments	**-**	(325)	(32)
Loans from Africa Israel Group	**(248,390)**	(235,045)	(474,765)
Loans from jointly controlled entity	**(31,169)**	(30,651)	(4,272)
Other Africa Israel's Group companies, net	**(9,469)**	(5,463)	10,254

* Restated - see Note 2V.

(1) In December 2008, the Company and Africa Properties signed a loan agreement, which was assigned and transferred to AIIP 2002. AIIP 2002 contributed Euro 250,000 thousand of the loan to the capital of the Company by making a share premium on its shares (see Note 4C).

(2) As for a sign of an annex to the General Works Agreement between Cotroceni Park S.A. ("CP"), a Romanian subsidiary of the Company and Danya Cebus Rom S.R.L (Africa Israel group's company) the Project's general contractor, and a loan agreement between the Company and Danya Cebus Rom S.R.L, see Note 28- Subsequent events.

(3) Transactions with key management personnel are included in Note 4D.

(4) On 24 September 2010 Mr Avraham Barzilay was appointed CEO of the Company, following the resignation of Opher Linchevski for personal reasons. Over the last 10 years Mr Barzilay served as CFO of AFI Properties and as director of the Company since incorporation. He has been actively involved in the Company's project development, funding, operations and management.

Note 27 - Segment Reporting

The segment reporting format of the Company reflects the principal and material source of risks and rewards to which the Company is exposed. The reporting format includes a primary report (geographical segments) according to the main geographic source of revenues and risks, as stated above and a secondary report (business segments).

The accounting policies implemented in preparing the segment information correspond with the generally accepted accounting policies applied in the preparation of the Company's consolidated financial statements.

A. Geographical Segments

The Company has seven main geographical areas: Czech Republic, Serbia, Bulgaria, Romania, Latvia, Poland and Other Regions.

B. Business Segments

The Group comprises the following main business segments:

- Investment properties – properties which are held to earn rent income or capital appreciation or for both.
- Residential – properties intended for sale in the ordinary course of business.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments

In thousands of Euros

	For the year ended December 31, 2009								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	**8,706**	**10,309**	**3,839**	**4,120**	**-**	**234**	**-**	**-**	**27,208**
Proceeds from sale of trading properties	**10,514**	**-**	**795**	**-**	**3,755**	**7,994**	**-**	**-**	**23,058**
Service charge income	**3,274**	**3,999**	**1,020**	**1,706**	**-**	**29**	**-**	**-**	**10,028**
Net valuation gains	**(12,410)**	**12,475**	**(10,248)**	**27,647**	**-**	**(240)**	**-**	**-**	**17,224**
Other	**1,030**	**4,976**	**49**	**647**	**563**	**25**	**509**	**-**	**7,799**
Total income	**11,114**	**31,759**	**(4,545)**	**34,120**	**4,318**	**8,042**	**509**	**-**	**85,317**
Segment result	**(4,022)**	**23,067**	**(6,673)**	**25,434**	**(15,150)**	**2,190**	**(893)**	**-**	**23,953**
Unallocated expenses									**(11,254)**
Profit from operations									**12,699**
Net financing costs									**(27,472)**
Taxes on income									**(16,235)**
Equity losses from affiliated company									**(308)**
Non controlling interest									**(6,571)**
Loss for the year									**(37,887)**

* Restated. See Note 2V.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments

In thousands of Euros

	For the year ended December 31, 2008								
	Czech Republic*	Serbia	Bulgaria	Romania	Latvia	Poland	Other Regions*	Eliminations*	Consolidated*
Income from external customers:									
Rental income	3,426	8,164	3,808	-	-	266	3,905	-	19,569
Proceeds from sale of trading properties	-	-	-	-	9,187	30,482	-	-	39,669
Service charge income	1,385	2,519	982	-	-	-	757	-	5,643
Net valuation gains	20,699	16,504	-	-	-	(530)	-	-	36,673
Other	1,790	6,067	49	84	101	1	129	-	8,221
Total income	27,300	33,254	4,839	84	9,288	30,219	4,791	-	109,775
Segment result	24,370	25,217	(6,829)	(8,031)	(30,730)	(21,110)	(1,809)	-	(18,922)
Unallocated expenses									(12,143)
Loss from operations									(31,065)
Net financing costs									(25,167)
Taxes on income									2,563
Equity losses from affiliated company									(17,353)
Non controlling interest									(7,812)
Loss for year									(78,834)

* Restated. - See Note 2V.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments

In thousands of Euros

	For the year ended December 31, 2007								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Germany**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:	2,613	4,396	780	-	5,210	162	-	-	13,161
Rental income									
Proceeds from sale of trading properties	-	-	-	-	-	908	3,672	-	4,580
Service charge income	545	865	122	-	842	11	-	-	2,385
Valuation gains	-	30,254	2,271	-	591	-	-	-	33,116
Other	522	958	6	-	-	45	96	-	1,627
Total income	3,680	36,473	3,179	-	6,643	1,126	3,768	-	54,869
Segment result	2,554	34,952	2,946	(28)	4,235	82	(348)	-	44,393
Unallocated expenses									(5,100)
Profit from operations									39,293
Net financing costs									(13,295)
Taxes on income									(3,886)
Equity losses from affiliated company									6,638
Non controlling interest									(14,191)
Profit for the year									14,559

* Restated. - See Note 2V.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments (cont'd)

In thousands of Euros

	December 31, 2009								
	Czech Republic*	**Serbia**	**Romania**	**Bulgaria**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Segment assets	**198,714**	**168,871**	**535,880**	**121,209**	**37,283**	**33,234**	**509,414**	**(416,368)**	**1,188,237**
Unallocated assets	**811**	**39**	**2,546**	**-**	**76**	**-**	**49**	**-**	**3,521**
Total assets	**199,525**	**168,910**	**538,426**	**121,209**	**37,359**	**33,234**	**509,463**	**(416,368)**	**1,191,758**
Segment liabilities	**180,282**	**88,635**	**475,763**	**130,083**	**54,734**	**11,986**	**316,149**	**(333,131)**	**924,501**
Unallocated liabilities	**4,311**	**7,720**	**15,467**	**4,491**	**2**	**1,958**	**-**	**275**	**34,224**
Total liabilities	**184,593**	**96,355**	**491,230**	**134,574**	**54,736**	**13,944**	**316,149**	**(332,856)**	**958,725**
Capital expenditure	**13,781**	**2,769**	**119,488**	**10,462**	**1,232**	**881**	**-**	**-**	**148,613**
Depreciation	**353**	**87**	**74**	**41**	**59**	**19**	**39**	**-**	**672**
Impairment of goodwill	**-**	**195**	**-**	**-**	**-**	**-**	**-**	**-**	**195**
Write-down of inventory net realizable value	**1,167**	**-**	**2,565**	**-**	**15,054**	**-**	**-**	**-**	**18,786**

* Restated. - See Note 2V.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments (cont'd)

In thousands of Euros

	December 31, 2008								
	Czech Republic*	**Serbia**	**Romania**	**Bulgaria**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Segment assets	205,816	155,728	321,156	83,862	55,592	32,641	544,445	(339,819)	1,059,421
Unallocated assets	346	2,908	2,152	2,545	-	-	-	-	7,951
Total assets	206,162	158,636	323,308	86,407	55,592	32,641	544,445	(339,819)	1,067,372
Segment liabilities	173,492	82,428	337,529	119,393	56,588	22,489	316,093	(331,412)	776,600
Unallocated liabilities	6,557	7,397	-	1,988	5	531	8,061	-	24,539
Total liabilities	180,049	89,825	337,529	121,381	56,593	23,020	324,154	(331,412)	801,139
Capital expenditure	53,113	23,880	117,576	8,548	1,885	10,489	-	-	215,491
Depreciation	366	85	70	29	60	14	39	-	663
Impairment of goodwill	-	-	-	5,875	-	2,232	1,056	-	9,163
Write-down of inventory to net realizable value	-	-	2,875	-	-	21,400	32,478	-	56,753
Impairment of investment property under development	-	-	5,916	4,516	-	-	-	-	10,432

* Restated. - See Note 2V.

Note 27 - Segment Reporting (cont'd)

A. Geographical segments (cont'd)

In thousands of Euros

	December 31, 2007								
	Czech Republic*	**Serbia**	**Romania**	**Bulgaria**	**Germany**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Segment assets	130,114	112,608	255,286	130,595	107,418	122,969	683,382	(555,123)	987,249
Unallocated assets	2,817	-	3,124	-	-	-	-	-	5,941
Total assets	132,931	112,608	258,410	130,595	107,418	122,969	683,382	(555,123)	993,190
Segment liabilities	121,068	60,710	186,597	95,366	108,301	38,348	582,204	(328,004)	864,590
Unallocated liabilities	4,520	2,628	145	6,451	1,178	7,806	6,578	-	29,306
Total liabilities	125,588	63,338	186,742	101,817	109,479	46,154	588,782	(328,004)	893,896
Capital expenditure	22,358	23,472	100,277	75,999	104,566	4,135	-	-	330,807
Depreciation	42	-	4	12	4	17	20	-	99

* Restated. - See Note 2V.

Note 27 - Segment Reporting (cont'd)

B. Business segments

In thousands of Euros

Below is a breakdown of income by business segments:

	2009	2008	2007
Investment properties	**62,259**	70,106	50,289
Residential	**23,058**	39,669	4,580
	85,317	109,775	54,869

Below is a breakdown of assets and capital investments by business segments:

	Total segment - assets		
	2009	2008	2007
Investment properties	**747,900**	595,399	467,632
Residential	**294,586**	306,436	334,794
Others and unallocated assets	**149,272**	165,537	190,764
	1,191,758	1,067,372	993,190

	Total capital investments		
	2009	2008	2007
Investment properties	**124,266**	194,521	316,714
Residential	**24,347**	28,638	269,623
Others	**1,578**	1,044	762
	150,191	224,203	587,099

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise tax assets and liabilities and intercompany loans.

Note 28 - Subsequent events

1. Cotroceni Park S.A. ("CP"), a Romanian subsidiary of the Company which developed and now owns and operates the shopping mall in Bucharest known as AFI Palace Cotroceni (the "Project"), signed with the Project's general contractor on 27 March 2010, an annex to the General Works Agreement between them, pursuant to which the total price under that agreement was increased to an aggregate amount of approx. Euro 188.3 million plus VAT, out of which the remaining amount that CP is obliged to pay is Euro 4.3 million plus VAT.

   On 27 March 2010 a loan agreement was executed between the Company, as borrower, and Danya Cebus Rom S.R.L., as lender, regarding the following two loans: one – in an amount of Euro 4.3 million, to be repaid until 31 March 2012 in five quarterly installments starting from 31 March 2011, and the other – in an amount of Euro 816 thousand, to be repaid within 6 months (or earlier, as provided in that loan agreement). Both loans bear interest at a rate of 3-months EURIBOR + 5.6%.

2. In September 2007 Premier Solutions & Team S.R.L. (“Premier”), a Romanian subsidiary of the Company, purchased five plots of land with a total area of approximately 156,000 sqm in Bucuresti Noi, in the northern part of Bucharest, Romania (the “Land”) from Laromet S.A. (“Laromet”). The purchase price for the Land amounted to approximately EUR 78,000,000. During the first quarter of 2009, Premier concluded with Laromet an addendum to the purchase agreement, to reschedule the payment of the then-outstanding portion of the purchase price in the amount of EUR 22,500,000, and to postpone the transfer of possession in relation to part of the Land. In February 2010, Premier paid to Laromet an amount of approximately EUR 7,400,000 that consisted of two contractual installments. These installments were paid after their due date for payment under the purchase agreement. In May 2010 Laromet notified Premier that as a result of these late payments an execution procedure would be carried out in relation to the Land, unless Premier would pay to Laromet an amount of approximately EUR 8,200,000 as liquidated damages, which were allegedly payable pursuant to a penalty clause in the agreement.

   On 9 November 2010 Premier and Laromet settled this of Laromet by the execution of a second addendum to the purchase agreement.
   Under the terms of this settlement, Laromet and Premier agreed to terminate all legal proceedings regarding the purchase agreement. They furthermore agreed that the outstanding payment due to Laromet under the purchase agreement (approximately EUR 15,541 thousand) will be paid in 8 installments payable over a period of 2 years. In addition Premier paid to Laromet an amount of EUR 8,000 thousand for (i) settlement of the liquidated damages that were claimed by Laromet pursuant to the purchase agreement; (ii) reimbursement of expenses incurred by Laromet in relation to the dispute; (iii) and additional penalty for late payment by Premier and (iv) payment of the remaining outstanding portion of the land purchase price. Finally, Premier undertook to develop for Laromet an office building with a gross built up area of 4,000 sqm, that will be adjacent to the AFI Golden City Mall and to sell this building to Laromet together with several parking spaces for a price of approximately EUR 3,500 thousand.

   Premier’s obligations to Laromet have been secured by a corporate guarantee of the Company, as well as by mortgages over the part of project’s land and over one of the Company’s landbank properties in Bucharest. The Company’s management has recorded an adequate provision in the Company’s financial statements as at September 30, 2010.

Note 28 - Subsequent events (cont'd)

3. On 15 September 2010 S.C. Premier Solutions & Team S.R.L ("**Premier**"), a fully owned Romanian subsidiary of the Company signed a preliminary agreement with a chain of do-it-yourself stores (the "**purchaser**"), setting out the primary terms for the sale and transfer of a plot of land of approximately 30,000 sqm by Premier to the purchaser. The plot is located on 166 Bucurestii Noi Blvd, District 1, Bucharest and is currently part of the AFI Golden City land bank property. The aggregate consideration is EUR 16,000 thousand plus VAT. The consideration is payable by the purchaser in several instalments as follows:

   (i) EUR 2,000 thousand plus VAT is payable within 8 weeks from signing the preliminary agreement, subject to the purchaser's satisfaction with the results of its due diligence review as at the financial statement date, the said amount was received.

   (ii) EUR 5,000 thousand plus VAT is payable upon the transfer of the plot's ownership from Premier to the purchaser by signing an authenticated sale-purchase agreement on the earlier of 1 May 2011 or 15 days after obtaining a building permit enabling the construction of a DIY store on the plot with a built-up area of approx. 18,000 sqm; and

   (iii) 4 additional instalments of EUR 2,250 thousand plus VAT each are payable on 30 May of each of the years 2012, 2013, 2014 and 2015, according to promissory notes personally guaranteed by the purchaser's administrator/owner and secured by Premier's publicly registered privilege over the plot until the purchase price is paid in full.

It is hereby clarified that this transaction is conditional upon the timely settlement of the dispute between Premier and Laromet S.A., which is further described herein (see Note 28.2 above), and upon the land sold to the purchaser being free and clear of all encumbrances.

Note 29 - Group Entities

Significant subsidiaries, associates and jointly controlled entities

	Country of incorporation	12.2009	12.2008	12.2007
National Technology Parks .s.r.o. (1)	**Czech Republic**	50.0	50.0	50.0
Adut s.r.o.	**Czech Republic**	63.0	63.0	63.0
Praha-Jerusalem s.r.o.	**Czech Republic**	100.0	100.0	63.0
M.I.C.C Prague s.r.o.	**Czech Republic**	64.0	64.0	64.0
Bohemia-Sen s.r.o.	**Czech Republic**	100.0	100.0	100.0
Tolipa City s.r.o.	**Czech Republic**	100.0	100.0	100.0
Broadway Creseus s.r.o.	**Czech Republic**	100.0	100.0	100.0
Balabenka s.r.o.	**Czech Republic**	100.0	100.0	100.0
Flora Sen s.r.o. (1)	**Czech Republic**	50.0	50.0	50.0
AFI Europa Czech Republic s.r.o	**Czech Republic**	100.0	100.0	100.0
Faringer Enterprises Ltd.	**Cyprus**	100.0	100.0	50.0
– Nofim Czech Republic s.r.o.	**Czech Republic**	100.0	100.0	100.0
Intrastar International Ltd.(2)(5)	**British Virgin Islands**	53.7	53.7	50.0
– Galway Consolidated Ltd.	**British Virgin Islands**	100.0	100.0	100.0
– Airport City Belgrade d.o.o. (3)	**Serbia**	100.0	100.0	100.0
Tulipa Modrany s.r.o.	**Czech Republic**	100.0	100.0	100.0
Tulipa Rokytka s.r.o.	**Czech Republic**	100.0	100.0	100.0
Tulipa Vokovice s.r.o.	**Czech Republic**	100.0	100.0	100.0
Vitosha Gardens Eood	**Bulgaria**	100.0	100.0	100.0
Malina Gardens Eood	**Bulgaria**	100.0	100.0	100.0
AFI Europe Bulgaria Eood	**Bulgaria**	100.0	100.0	100.0
AFI Europe Management s.r.l.	**Romania**	100.0	100.0	-
Controceni Park SA	**Romania**	98.0	98.0	98.0
Controceni Investments Ltd.	**Cyprus**	100.0	100.0	100.0
Europe Logistics s.r.l.	**Romania**	100.0	100.0	100.0
Star Estate s.r.l.	**Romania**	100.0	100.0	100.0
Veroskip Trading s.r.l.	**Romania**	100.0	100.0	-
Premier Solutions R Team s.r.l.	**Romania**	100.0	100.0	100.0
Tulip Management s.r.l.	**Romania**	100.0	100.0	100.0
Plaza Arad Imobiliar s.r.l.	**Romania**	100.0	100.0	100.0
Roi Management s.r.l.	**Romania**	100.0	100.0	100.0
King Garden s.r.l.	**Romania**	100.0	100.0	100.0
Premium Property Management Eood	**Bulgaria**	100.0	-	-
AFI Lagera Tulip Eood	**Bulgaria**	100.0	100.0	100.0
Plovdiv Logistic Center Eood	**Bulgaria**	75.0	75.0	75.0
Business Park Varna AD	**Bulgaria**	100.0	100.0	100.0
Novo Maar Sp. Zoo	**Poland**	100.0	100.0	100.0
Czerwone Maki Prosect Sp. Z.0.0	**Poland**	100.0	100.0	100.0
AFI Wilanow Holdings B.V.	**The Netherlands**	100.0	100.0	100.0
AFI Management Sp. Z.0.0	**Poland**	100.0	100.0	100.0
Wilanow One, Sp. Z.0.0 (6)	**Poland**	30.0	30.0	30.0
SIA AFI Investments	**Latvia**	100.0	100.0	100.0
SIA AFI Management	**Latvia**	100.0	100.0	100.0
– SIA A.R. Holdings	**Latvia**	100.0	100.0	100.0
SIA B.R. Holdings	**Latvia**	100.0	100.0	100.0
– SIA Anninmuizas Ipasums	**Latvia**	100.0	100.0	100.0
AFI Europe Hungary	**Hungary**	100.0	100.0	100.0
Pro-mot Hungaria Kf.t (1)	**Hungary**	50.0	50.0	50.0
Szepligat Kf.t.	**Hungary**	100.0	100.0	100.0
Akar Lake Kft.	**Hungary**	100.0	100.0	100.0
AFI Properties Berlin B.V. (5) (1)	**The Netherlands**	70.0	70.0	100.0

Note 29 - Group Entities (cont'd)

Significant subsidiaries and jointly controlled entities

	Country of incorporation	12.2009	12.2008	12.2007
– Margalit Grundstucks GmbH & Co. KG (1)	**Germany**	70.0	70.0	70.0
AFI Properties B.V. (5) (1)	**The Netherlands**	70.0	70.0	100.0
– Peerli Grundstucks GmbH & Co. KG (1)	**Germany**	70.0	70.0	20.0
AFI Properties Logistics B.V. (5) (1)	**The Netherlands**	70.0	70.0	100.0
– Harel Grovdsturcks GmbH & Co. KG (1)	**Germany**	70.0	70.0	70.0
AFI Properties Development B.V. (5) (1)	**The Netherlands**	70.0	70.0	100.0
– Margalit Teltower Damm Grundstucks GmbH & Co. KG (1)	**Germany**	70.0	70.0	70.0
AFI Germany Investment GmbH	**Germany**	100.0	100.0	100.0
AFI Germany GmbH	**Germany**	100.0	100.0	100.0
AFIEM Cyprus Limited	**Cyprus**	100.0	100.0	100.0
AFI Europe (Israel Branch) Ltd.	**Israel**	100.0	100.0	-
AFI Europe Infrastructure B.V.	**The Netherlands**	100.0	100.0	-

(1) Jointly controlled entities

(2) As the Group controls these entities, the results and the balance sheet of each company were fully consolidated.

(3) Intrastar holds 85% in Airport City Belgrade d.o.o. and Galway Consolidated Ltd. holds 15% in Airport City Belgrade d.o.o.

(4) In December 2008, the Company increased its holding in Intrastar International Ltd. from 50% to 53.7% by purchasing additional shares against payment in the amount of Euro 4 million. As a result of the purchase, the Company recorded Euro 1.6 million goodwill.

(5) In June 2008, the Company sold 30% of the German activities, refer to Note 4(B).

(6) Associates

Note 30 - Accounting Estimates and Adjustments

Management discussed with the Board of Directors the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Critical accounting estimates and assumptions

Accounting estimates and assumptions discussed in this section are considered to be the most critical to an understanding of the financial statements because they inherently involve significant judgments and uncertainties. For all of these estimates, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Critical accounting judgments in applying the Group's accounting policies

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 6 Investment property
Note 7 Investment property under development
Note 9 Deferred tax assets and liabilities
Note 10 Inventory of buildings held for sale
Note 19 Contingent liabilities

AFI Europe N.V.

Unaudited Condensed Consolidated Interim Financial Statements for the Nine Months Ended September 30, 2010

For the Purpose of Inclusion in relation to the bond offering of Africa Israel Properties Ltd.

Unaudited Interim Financial Statements for the nine months ended September 30, 2010

Contents

Review report on historical interim financial information in connection with a bond offering of Africa Israel Properties ltd

To: the management Board of AFI Europe N.V.

Review report

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim financial information for the nine- month period ended September 30, 2010 of AFI Europe N.V., Amsterdam (the ‘Company’), which comprises the condensed consolidated interim statement of financial position as at September 30, 2010, the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of change in shareholders’ equity and the condensed consolidated interim statement of cash flows for the nine- month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, ‘Interim Financial Reporting’ as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Dutch law including standard 2410, “Review of Interim Financial Information Performed by the Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards 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, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at September 30, 2010 is not prepared, in all material respects, in accordance with IAS 34, ‘Interim Financial Reporting’, as adopted by the European Union.

Emphasis of a matter

We draw attention to Note 3B to the unaudited condensed consolidated interim financial information regarding restatement of the unaudited condensed consolidated interim financial information in order to retrospectively reflect in them the Company's share of losses of German partnerships according to its share of the shareholders' loans and not its share of indirect rights in the equity of such partnerships and a change in accounting policy.

Basis of Accounting

We draw attention to note 2 and 3 to the unaudited condensed consolidated interim financial information, which describes the basis of accounting.

Amstelveen, January 25, 2011
KPMG ACCOUNTANTS N.V.

P. Mizrachy RA

Unaudited Condensed Consolidated Interim Statement of Financial Position

In thousands of Euros

	Note	September 30 *2010 (Unaudited)	September 30 *2009 (Unaudited)	December 31 *2009 (Audited)
Assets				
Investment in associate		**55,216**	62,805	60,186
Loan to associate company		**33,858**	32,377	33,317
Investment property		**649,143**	327,702	644,120
Investment property under development		**101,177**	426,299	103,780
Inventory of buildings		**188,188**	213,641	204,312
Property, plant and equipment		**1,718**	1,773	2,029
Deferred tax assets		**5,867**	8,511	3,521
Goodwill		**1,455**	1,650	1,455
Total non-current assets		**1,036,622**	1,074,758	1,052,720
Property held for sale		**14,542**	-	-
Inventory of buildings		**72,257**	93,636	90,274
Trade and other receivables		**32,395**	44,479	32,591
Cash and cash equivalents		**14,750**	15,871	16,173
Total current assets		**133,944**	153,986	139,038
Total assets		**1,170,566**	1,228,744	1,191,758
Equity				
Issued capital		**90**	90	90
Share premium reserve		**287,227**	287,227	287,227
Translation reserve		**(727)**	(1,180)	(1,128)
Hedging reserve, net		**(3,930)**	(9,827)	(8,339)
Retained earnings (loses)		**(86,834)**	(45,283)	(82,902)
Total equity attributable to equity holders of the parent		**195,826**	231,027	194,948
Non-controlling interest		**36,963**	47,868	38,085
Total equity		**232,789**	278,895	233,033
Liabilities				
Interest-bearing loans and borrowings		**483,402**	440,671	456,018
Interest-bearing loans and borrowings from related parties		**284,996**	276,120	279,559
Deferred tax liabilities		**36,711**	41,849	34,224
Other non-current liabilities		**5,489**	6,805	8,259
Total non-current liabilities		**810,598**	765,445	778,060
Interest-bearing loans and borrowings		**54,041**	104,709	99,458
Interest-bearing loans and borrowings from related parties		**18,280**	-	-
Trade and other payables		**51,608**	70,955	68,562
Advances for selling inventory		**3,250**	8,740	12,645
Total current liabilities		**127,179**	184,404	180,665
Total liabilities		**937,777**	949,849	958,725
Total equity and liabilities		**1,170,566**	1, 228,744	1,191,758

CEO – A Barzilay **CFO – A. Goldstein**
Amsterdam, January 25, 2011

* Restated – see Note 3B.

The accompanying notes on pages 10 to 31 are an integral part of these consolidated interim financial statements.

Unaudited Condensed Consolidated Interim Income Statement

In thousands of Euros

	Note	For the nine months ended September 30 *2010 (Unaudited)	*2009 (Unaudited)	For the three months ended September 30 *2010 (Unaudited)	*2009 (Unaudited)
Gross rental income		**35,594**	17,122	**11,698**	5,926
Service charge income		**11,387**	6,040	**3,738**	1,966
Service charge expenses		**(12,709)**	(6,622)	**(4,100)**	(2,169)
Property operating expenses		**(725)**	(898)	**(246)**	(197)
Net rental and related income		**33,547**	15,642	**11,090**	5,526
Proceeds from sale of properties		**27,744**	18,646	**5,767**	5,917
Carrying value of properties sold		**(22,200)**	(16,860)	**(4,663)**	(5,482)
Write-down of inventory to net realized value		**(5,410)**	(8,521)	**(5,410)**	(262)
Profit/(loss) on disposal of trading Property		**134**	(6,735)	**(4,306)**	173
Net valuation gains/(loss) on investment Property, net		**136**	(3,183)	**1,782**	(2,592)
Net valuation gains/(loss) on investment property under development, net		**(3,302)**	51,472	**(3,302)**	(19,448)
Administrative expenses		**(7,765)**	(5,763)	**(3,002)**	(1,874)
Selling and marketing expenses		**(758)**	(1,063)	**(289)**	(357)
Other income		**2,912**	6,131	**1,239**	955
Other expenses		**(7,090)**	(5,033)	**(1,797)**	(1,452)
Net other income/(expenses)		**(4,178)**	1,098	**(558)**	(497)
Net operating profit before net financing costs		**17,814**	51,468	**1,415**	(19,069)
Financial income		**727**	1,506	**290**	502
Interest expenses to Africa Properties		**(5,222)**	(6,815)	**(1,883)**	(1,896)
Other financial expenses		**(23,240)**	(10,885)	**(7,188)**	(4,112)
Net financing costs		**(27,735)**	(16,194)	**(8,781)**	(5,506)
Profit/(loss) before tax		**(9,921)**	35,274	**(7,366)**	(24,575)
Income tax (expense)		**(596)**	(19,213)	**1,005**	2,047
Profit/(loss) for the period		**(10,517)**	16,061	**(6,361)**	(22,528)
Equity gain/(loss) from associate companies		**6,508**	(40)	**4,506**	827
Profit /(loss) for the period		**(4,009)**	16,021	**(1,855)**	(21,701)
Attributable to:					
Equity holders of the parent		**(3,932)**	(268)	**(1,205)**	(21,172)
Non-controlling interest		**(77)**	16,289	**(650)**	(529)
Profit/(loss) for the period		**(4,009)**	16,021	**(1,855)**	(21,701)
Basic and diluted loss per share (Euro)	8(A)	**(0.08)**	(0.01)	**(0.02)**	(0.42)

* Restated – see Note 3B.

The accompanying notes on pages 10 to 31 are an integral part of these consolidated interim financial statements.

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

In thousands of Euros

	For the nine months ended September 30		For the three months ended September 30	
	2010*	**2009***	**2010***	**2009***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Foreign exchange translation differences for foreign operations	**401**	(168)	**371**	511
Reserves from hedge accounting	**3,716**	(875)	**2,041**	1,309
Net gain/(loss) recognized directly in equity	**4,117**	(1,043)	**2,412**	1,820
Profit (loss) for the period	**(4,009)**	16,021	**(1,855)**	(21,701)
Total recognized income (expenses) for the period	**108**	14,978	**557**	(19,881)
Attributed to:				
Equity holders of the parent	**878**	(1,311)	**1,314**	(19,352)
Non-controlling Interest (1)	**(770)**	16,289	**(757)**	(529)
Total comprehensive income (expenses) for the period	**108**	14,978	**557**	(19,881)

(1) Include non-controlling interest interest in loss from subsidiaries in the amount of Euro 77 thousand and 650 thousand for the nine and three months ended September 30, 2010, respectively, and non-controlling interest interest in reserves from hedge accounting in the amount of Euro 693 thousand and 107 thousand for the nine and three months ended September 30, 2010.

* Restated – see Note 3B.

The accompanying notes on pages 10 to 31 are an integral part of these consolidated interim financial statements.

Unaudited Condensed Consolidated Interim Statement of Change in Equity

In thousands of Euros

	Issued capital	Share premium reserve	Translation reserve	Hedging reserve	Retained earnings*	Equity attributable to equity holders of the parent*	Non-controlling interest	Total equity*
Balance at January 1, 2009	90	287,227	(1,012)	(8,952)	(45,015)	232,338	33,895	266,233
Comprehensive income for the period (1)	-	-	(116)	613	(37,887)	(37,390)	6,571	(30,819)
Dividend paid to the non-controlling interest	-	-	-	-	-	-	(2,381)	(2,381)
Balance at December 31, 2009 (Audited)	90	287,227	(1,128)	(8,339)	(82,902)	194,948	38,085	233,033
Balance at January 1, 2010 (Audited)	**90**	**287,227**	**(1,128)**	**(8,339)**	**(82,902)**	**194,948**	**38,085**	**233,033**
Comprehensive income for the period (1)	**-**	**-**	**401**	**4,409**	**(3,932)**	**878**	**(770)**	**108**
Dividend paid to the non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**(352)**	**(352)**
Balance at September 30, 2010 (Unaudited)	**90**	**287,227**	**(727)**	**(3,930)**	**(86,834)**	**195,826**	**36,963**	**232,789**
Balance at January 1, 2009 (Audited)	90	287,227	(1,012)	(8,952)	(45,015)	232,338	33,895	266,233
Comprehensive income for the period (1)	-	-	(168)	(875)	(268)	(1,311)	16,289	14,978
Dividend to non-controlling interest	-	-	-	-	-	-	(2,316)	(2,316)
Balance at September 30, 2009 (Unaudited)	90	287,227	(1,180)	(9,827)	(45,283)	231,027	47,868	278,895
Balance at July 1, 2010 (Unaudited)	**90**	**287,227**	**(1,098)**	**(6,078)**	**(85,629)**	**194,512**	**37,720**	**232,232**
Comprehensive income for the period (1)	**-**	**-**	**371**	**2,148**	**(1,205)**	**1,314**	**(757)**	**557**
Balance at September 30, 2010 (Unaudited)	**90**	**287,227**	**(727)**	**(3,930)**	**(86,834)**	**195,826**	**36,963**	**232,789**
Balance at July 1, 2009 (Audited)	90	287,227	(1,691)	(11,136)	(24,111)	250,379	48,550	298,929
Comprehensive income for the period (1)	-	-	511	1,309	(21,172)	(19,352)	(529)	(19,881)
Dividend to non-controlling interest	-	-	-	-	-	-	(153)	(153)
Balance at September 30, 2009 (Unaudited)	90	287,227	(1,180)	(9,827)	(45,283)	231,027	47,868	278,895

* Restated – see Note 3B.

(1) Net of tax

(2) As at September 30, 2010, the authorized, issued and paid-up share capital of the Company comprises 90,000 ordinary shares of Euro 1 each. See also Note 8(A) for additional information regarding authorized, issued and paid-up share capital of the Company.

The accompanying notes on pages 10 to 31 are an integral part of these consolidated interim financial statements.

Unaudited Condensed Consolidated Interim Statement of Cash Flows

In thousands of Euros

	For the nine months ended September 30		For the three months ended September 30	
	2010*	**2009***	**2010***	**2009***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Cash flows from operating activities				
Profit (loss) for the period	**(4,009)**	16,021	**(1,855)**	(21,701)
Adjustment for:				
Depreciation	**421**	486	**99**	168
Loss (gain) from fair value adjustment of investment property	**(136)**	3,183	**(1,782)**	2,592
Loss (gain) from fair value adjustment of investment property under development	**3,302**	(51,472)	**3,302**	19,448
Write-down of inventory to net realizable value	**5,410**	8,521	**5,410**	262
Equity losses (gains) from associate	**(6,508)**	40	**(4,506)**	(827)
Net finance costs	**27,735**	16,194	**8,781**	5,506
Income tax expense	**596**	19,213	**(1,005)**	(2,047)
	26,811	12,186	**8,444**	3,401
Decrease/(increase) in residential inventories on progress	**19,571**	(3,536)	**4,244**	2,598
Decrease/(increase) in trade and other receivables	**342**	(7,564)	**(1,133)**	(4,290)
Increase /(Decrease) in trade and other payables	**(11,919)**	(33,306)	**(1,356)**	302
Decrease in advance from selling inventory	**(9,688)**	(2,748)	**(975)**	(1,042)
	25,117	(34,968)	**9,224**	969
Income taxes paid	**(902)**	(1,846)	**(157)**	(915)
Cash flows from (to) operating activities	**24,215**	(36,814)	**9,067**	54
Cash flows from investing activities				
Loan to affiliated company	**(542)**	(2,158)	**(778)**	-
Acquisition of property, plant and equipment	**(110)**	(366)	-	(175)
Investment in investment property	**(2,467)**	-	**(821)**	-
Development of investment property under development	**(501)**	(101,153)	**(385)**	(34,083)
Dividends received from affiliated company	**2,931**	2,273	**2,931**	2,273
Investment in associate company	**(1,303)**	-	-	-
Cash flows from (to) investing activities	**(1,992)**	(101,404)	**947**	(31,985)
Cash flows from financing activities				
Dividend paid to the non-controlling interest	**(352)**	(2,317)	-	(154)
Repayment of borrowings	**(10,891)**	(3,083)	**(1,951)**	(1,464)
Proceeds of non-current borrowings	**21,702**	147,157	**3,168**	42,602
(Payment) proceeds of current borrowings, net	**(10,852)**	(2,035)	**(2,339)**	(8,052)
Payment of finance lease liabilities, net	**511**	(690)	**311**	(239)
Interest paid	**(24,038)**	(8,392)	**(8,340)**	(3,971)
Cash flows from (to) financing activities	**(23,920)**	130,640	**(9,151)**	28,722
Net increase (decrease) in cash and cash equivalents	**(1,697)**	(7,578)	**863**	(3,209)
Cash and cash equivalents at beginning of the period	**16,173**	23,537	**14,076**	19,104
Effect of exchange rate fluctuations on cash held	**274**	(88)	**(189)**	(24)
Cash and cash equivalents at the end of the period	**14,750**	15,871	**14,750**	15,871

* Restated – see Note 3B.

The accompanying notes on pages10 to 31 are an integral part of these consolidated interim financial statements.

Note 1 - Reporting Entity

AFI Europe N.V. (hereinafter – "the Company") was incorporated on April 4, 2006. By a resolution dated April 18, 2006, the Shareholder of the Company resolved to change the form of the Company to a Dutch public limited liability company (*naamloze vennootschap*) and to change its name from AIIP Fin B.V. to AFI Europe N.V. The Company is domiciled in Amsterdam, the Netherlands.

As from incorporation in 2006, the Company was a wholly-owned subsidiary of Africa Israel International Properties (2002) Ltd. (hereinafter – "AIIP 2002") a company registered in Israel, wholly owned by Africa Israel Properties Ltd. (hereinafter – "Africa Properties"), an Israeli company listed on the Tel Aviv Stock Exchange, which is approximately 56% owned by Africa Israel Investments Ltd, the ultimate parent of the Company.

The condensed interim financial statements of the Company as at and for the nine months ended September 30, 2010 comprises the Company and its subsidiaries (together referred as the "Group") and the Group's interest in associates and jointly controlled entities.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared for the purpose of inclusion in relation to the bond offering of Africa Israel Properties Ltd., in accordance with International Financial Reporting Standard (IFRS) IAS 34, 'Interim Financial Reporting'. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2009.

These consolidated interim financial statements were approved by the Board of Directors on January 25, 2011.

B. Use of estimates and judgment

The consolidated financial statements of the Group as at and for the year ended December 31, 2009 are available upon request from the Company's registered office.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2009.

Other aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended December 31, 2009.

Note 3 - Significant Accounting Policies

A. The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2009, except for the accounting policies stated in paragraph 3B and 3C.

B. Change in accounting policy and restatement

1. Change in accounting policy

Until September 30, 2010 the Company implemented the proportionate consolidation method to jointly controlled entities. As from that date, the Group decided to change the method of presenting and reporting investments in jointly controlled entities to the equity method, by which profits or losses of jointly controlled entities are recognized on the equity basis.
The policy was changed because in the opinion of management of the Group, the new accounting policy provides more reliable and relevant information regarding the Group's assets due to it being a holding company and also corresponds with the accounting policy of the parent company.
The policy was retrospectively implemented in accordance with IAS 8.

2. Germany Portfolio

Until June 2008 The Company owned the entire issued share capital of the Dutch companies, each of which held 70% of the equity of one of the German partnerships and a similar rate of voting power in the partners' meetings of these partnerships. The rest of the equity of the German partnerships and of the voting power in their partners' meetings is held by two companies controlled by third parties at the rate of 15% each. In addition, The Company holds a company registered in Germany that acts as the general partners of each one of the German partnerships. According to the German partnership agreements, the general partner is responsible in its capacity for the ongoing management of the income-producing assets constituting the asset portfolio in Germany, whereas decisions not in the ordinary course of business of the German partnerships as well as other material decisions, are subject to the approval of the partners' meetings' in which as aforementioned the Dutch companies held 70% of the voting power. Taking under consideration all the aforementioned, until June 30, 2008 the Dutch companies and the German partnerships were consolidated in the financial statements of the Company.

In May 2008 The Company entered into a sale agreement (amended in August 2008) (hereinafter – **"the sale agreement"**) regarding the sale of 30% of the issued share capital of the four Dutch companies (as well as part of the shareholders' loans the Company had provided to the Dutch companies) to Prevzon Holdings Ltd., a company registered in Cyprus (hereinafter – **"Prevzon"**). According to the sale agreement the consideration for the rights acquired in the Dutch companies amounted to euro 3,074 thousand. The sale agreement provided that Prevzon will have the right to appoint two out of four directors in each Dutch company, for as long as it holds at least 20% of the issued share capital of the Dutch company, and that the chairman of the board of the Dutch companies will not have an additional vote. Furthermore, the sale agreement includes various restrictions on the transfer of shares of the Dutch companies, as accepted in transactions of this type.

Note 3 - Significant Accounting Policies (cont'd)

B. Change in accounting policy and restatement (cont'd)

2. Germany Portfolio (cont'd)

The sale agreement also provided that the parties would act to implement a decision-making mechanism in each one of the German partnerships, pursuant to which the Company and Prevzon will participate in votes on resolutions being made by the partners' meetings of the German partnerships, according to their indirect rate of holding in each one of the German partnerships, meaning the Company will have 49% of the voting power and Prevzon will have 21% of it (hereinafter – **"the direct voting mechanism"**).

Taking into consideration the right that was provided to Prevzon to appoint half of the directors in the Dutch companies and considering the intention of implementing the direct voting mechanism in the partners' meetings of the German partnerships, so that the voting rights of the Dutch companies in them will be less than 49% upon the closing of the sale agreement, The Company believed that control has ceased to exist in the German partnerships, and accordingly the Company and the Company ceased to consolidate the German partnerships in its financial statements as from June 30, 2008.

As a result of a request of the Israeli Securities Authority, it becomes clear that the direct voting mechanism of the German partnerships was not formally implemented, as its implementation required an amendment to the German partnership agreements (which constitute their incorporation documents), an action that requires unanimous agreement of all the partners in the German partnerships.

In light of the aforementioned, even though the Company have actually lost control in the Dutch companies, and as a result – in the German partnerships, due to the non-implementation of the direct voting agreement in the German partnerships, the Dutch companies continue to own 70% of the rights in the German partnerships, and therefore – have control over these partnerships. Furthermore, in the framework of selling 30% of the shares of the Dutch companies to Prevzon, Prevzon was granted the right to appoint half of the directors in these companies and as a result, the Company has joint control over the Dutch companies. It is noted that according to the change in accounting policy described in Paragraph 1 above, the equity method is implemented with respect to both affiliated entities and jointly controlled entities.

Financing of acquisition of the asset portfolio in Germany in 2007 and of the rights by Prevzon in 2008, was made by means of, among other things, provision of shareholders' loans. The Company's interest in the shareholders' loans was higher than its rights in the capital of the German partnerships. Later on as well, the Company provided loans to the German partnerships at a rate higher than its rights in the capital of these partnerships. In light of the losses in the German partnerships, stemming from impairment in value of the investment properties making up the properties' portfolio in Germany, which created a capital deficiency in the German partnerships and in the Dutch companies, as well as due to a request of the Israeli Securities Authority, the Company decided to restate its financial statements for the relevant periods, in order that its share in the losses of the German partnerships will be according to its interest in the shareholders' loans and not based on the rate of its indirect rights in the capital of the German partnerships.

Note 3 - Significant Accounting Policies (cont'd)

B. Change in accounting policy and restatement (cont'd)

2. Germany Portfolio (cont'd)

Presented hereunder is the effect of the change in accounting policy and of the restatement described above as at September 30, 2010 and 2009 and for the nine and three months then ended:

Statement of financial position

In thousands of Euros

	September 30, 2010			
	Unaudited			
	As reported in the past	Effect of change in accounting policy	Effect of restatement	As reported in these financial statements
Total non current assets	**1,091,408**	**(50,617)**	**(4,169)**	**1,036,622**
Total current assets	**136,089**	**(2,145)**	**-**	**133,944**
Total Invested (Equity)	**236,958**	**-**	**(4,169)**	**232,789**
Total non current liabilities	**853,464**	**(42,866)**	**-**	**810,598**
Total current liabilities	**137,075**	**(9,896)**	**-**	**127,179**

In thousands of Euros

	September 30, 2009			
	Unaudited			
	As reported in the past	Effect of change in accounting policy	Effect of restatement	As reported in these financial statements
Total non current assets	1,131,724	(53,408)	(3,558)	1,074,758
Total current assets	155,649	(1,663)	-	153,986
Total Invested (Equity)	282,453	-	(3,558)	278,895
Total non current liabilities	808,590	(43,145)	-	765,445
Total current liabilities	196,330	(11,926)	-	184,404

In thousands of Euros

	As at December 31, 2009			
	As reported in the past	Effect of change in accounting policy	Effect of restatement	As reported in these financial statements
Total non current assets	1,107,809	(51,516)	(3,573)	1,052,720
Total current assets	141,127	(2,089)		139,038
Total Invested (Equity)	236,606	-	(3,573)	233,033
Total non current liabilities	819,105	(41,045)		778,060
Total current liabilities	193,225	(12,560)		180,665

Note 3 - Significant Accounting Policies (cont'd)

C. Restatement (cont'd)

<u>Income statement</u>

In thousands of Euros

	For the nine months ended September 30, 2010			
	Unaudited			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Net rental and related income	**37,971**	**(4,424)**	**-**	**33,547**
Profit on disposal of trading property	**134**	**-**	**-**	**134**
Valuation loss on investment property under development, net	**(3,476)**	**174**	**-**	**(3,302)**
Valuation gain on investment property, net	**4,121**	**(3,985)**	**-**	**136**
Administrative expenses	**(7,830)**	**65**	**-**	**(7,765)**
Selling and marketing expenses	**(774)**	**16**	**-**	**(758)**
Net other income/ (expenses)	**(1,530)**	**(2,648)**	**-**	**(4,178)**
Net Financial costs	**(29,690)**	**1,955**	**-**	**(27,735)**
Income tax expense	**(2,173)**	**1,577**	**-**	**(596)**
Equity gain /(loss) from associate companies	**(166)**	**7,270**	**(596)**	**6,508**
Profit for the year	**(3,413)**	**-**	**(596)**	**(4,009)**
Basic and diluted loss per share (Euro)	**(0.07)**	**-**	**(0.01)**	**(0.08)**

The effect of the restatement on the statement of comprehensive income is the same as the effect of the income statement.

In thousands of Euros

	For the nine months ended September 30, 2009			
	Unaudited			
	As reported in the past	**Effect of change in accounting policy**	**Effect of restatement**	**As reported in these financial statements**
Net rental and related income	20,099	(4,457)	-	15,642
Profit on disposal of trading property	(6,735)	-	-	(6,735)
Valuation gains on investment property under development, net	51,472	-	-	51,472
Valuation loss on investment property, net	(3,626)	443	-	(3,183)
Administrative expenses	(5,882)	119	-	(5,763)
Selling and marketing expenses	(1,201)	138		(1,063)
Net other income/ (expenses)	781	317	-	1,098
Net Financial costs	(18,797)	2,603	-	(16,194)
Income tax expense	(20,114)	901	-	(19,213)
Equity gain /(loss) from associate companies	77	(64)	(53)	(40)
Profit for the year	16,074	-	(53)	16,021
Basic and diluted loss per share (Euro)	(0.01)	-	-	(0.01)

The effect of the restatement on the statement of comprehensive income is the same as the effect of the income statement.

Note 3 - Significant Accounting Policies (cont'd)

C. Restatement (cont'd)

Income statement (cont'd)

In thousands of Euros

	For the three months ended September 30, 2010			
	Unaudited			
	As reported in the past	Effect of change in accounting policy	Effect of restatement	As reported in these financial statements
Net rental and related income	**12,576**	**(1,486)**	**-**	**11,090**
Profit on disposal of trading property	**(4,306)**	**-**	**-**	**(4,306)**
Valuation loss on investment property under development, net	**(3,476)**	**174**	**-**	**(3,302)**
Valuation gain on investment property, net	**6,206**	**(4,424)**	**-**	**1,782**
Administrative expenses	**(2,984)**	**(18)**	**-**	**(3,002)**
Selling and marketing expenses	**(289)**	**-**	**-**	**(289)**
Net other income/(expenses)	**(577)**	**19**	**-**	**(558)**
Net financial costs	**(8,949)**	**168**	**-**	**(8,781)**
Income tax expense	**216**	**789**	**-**	**1,005**
Equity gain /(loss) from associate companies	**116**	**4,778**	**(388)**	**4,506**
Profit for the year	**(1,467)**	**-**	**(388)**	**(1,855)**
Basic and diluted loss per share (Euro)	**(0.02)**	**-**	**-**	**(0.02)**

The effect of the restatement on the statement of comprehensive income is the same as the effect of the income statement.

In thousands of Euros

	For the three months ended September 30, 2009			
	Unaudited			
	As reported in the past	Effect of change in accounting policy	Effect of restatement	As reported in these financial statements
Net rental and related income	7,054	(1,528)	-	5,526
Profit on disposal of trading property	173	-	-	173
Valuation loss on investment property under development, net	(19,448)	-	-	(19,448)
Valuation loss on investment property, net	(2,592)	-	-	(2,592)
Administrative expenses	(1,816)	(58)	-	(1,874)
Selling and marketing expenses	(491)	134	-	(357)
Net other income/(expenses)	(519)	22	-	(497)
Net financial costs	(5,918)	412	-	(5,506)
Income tax expense	1,606	441	-	2,047
Equity gain /(loss) from associate companies	260	577	(10)	827
Profit for the year	(21,691)	-	(10)	(21,701)
Basic and diluted loss per share (Euro)	(0.42)	-	-	(0.42)

The effect of the restatement on the statement of comprehensive income is the same as the effect of the income statement.

Note 3 - Significant Accounting Policies (cont'd)

C. Restatement (cont'd)

Cash flow

In thousands of Euros

	For the nine months ended September 30, 2010		
	Unaudited		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	**31,167**	**(6,952)**	**24,215**
Cash flows from investing activities	**(5,303)**	**3,311**	**(1,992)**
Cash flows from financing activities	**(27,724)**	**3,804**	**(23,920)**

In thousands of Euros

	For the nine months ended September 30, 2009		
	Unaudited		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	(31,696)	(5,118)	(36,814)
Cash flows from investing activities	(101,519)	115	(101,404)
Cash flows from financing activities	125,715	4,925	130,640

In thousands of Euros

	For the three months ended September 30, 2010		
	Unaudited		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	**12,128**	**(3,061)**	**9,067**
Cash flows from investing activities	**(1,747)**	**2,694**	**947**
Cash flows from financing activities	**(10,052)**	**901**	**(9,151)**

In thousands of Euros

	For the three months ended September 30, 2009		
	Unaudited		
	As reported in the past	Effect of change in accounting policy	As reported in these financial statements
Cash flows from operating activities	1,366	(1,312)	54
Cash flows from investing activities	(34,258)	2,273	(31,985)
Cash flows from financing activities	29,728	(1,006)	28,722

Note 3 - Significant Accounting Policies (cont'd)

C. Initial implementation of accounting standards

1. Business combinations and transactions with non-controlling interests

As from January 1, 2010 the Group implements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – IFRS 3 and IAS 27, respectively).

The principal revisions are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- Transactions resulting in the parent company losing control over a subsidiary are to be accounted for so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
- In business combinations achieved in stages, the difference between the fair value at the first date of consolidation and the carrying amount of the original investment at that date, is recognized in profit or loss.
- Non-controlling interests will be measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Transactions with non-controlling interests while retaining control are accounted for as equity transactions, so that any difference between the consideration paid or received and the change in non-controlling interests is included in the share of the Company's owners in equity.
- Costs associated with the acquisition that were incurred by the acquirer in respect of the business combination are accounted for as an expense in the period they are incurred and the services are received.
- Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the date of acquisition, changes in the fair value of a contingent consideration classified as a financial liability are recognized in profit or loss.
- Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.
- Profit or loss and any part of other comprehensive income are allocated to the equity holders of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.
- The discounted exercise price of a put option granted by the Group to non-controlling interests is recognized as a financial liability. In subsequent periods, changes in value of the liability are recognized in profit or loss.
- On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination, even if it is not included in the financial statements of the acquiree, if there is a present obligation resulting from past events and its fair value can be reliably measured.
- The definition of non-controlling interests has been broadened and includes in it additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

Implementation of standards did not have a material effect on the Group's results of operation and financial position.

Note 3 - Significant Accounting Policies (cont'd)

C. Initial implementation of accounting standards (cont'd)

2. Leases

As from January 1, 2010 the Group implements the amendment to IAS 17, *Leases* – Classification of leases of land and buildings (hereinafter – the Amendment), which was published in the framework of the 2009 Improvements to IFRSs project.

In accordance with the Amendment, a lease of land does not have to be classified as an operating lease in every case that ownership is not expected to pass to the lessee at the end of the lease period. In accordance with the amended standard, a land lease is to be examined according to the regular criteria for classifying a lease as a finance lease or as an operating lease.

The Amendment also provides that when a lease includes both a land component and a buildings component, the classification of each component should be based on the criteria of the standard, with the principal consideration regarding the classification of land being the fact that land normally has an indefinite useful life.

Implementation of the Amendment did not have a material effect on the Group's results of operation and financial position.

3. Impairment of assets

As from January 1, 2010 the Group implements the amendment to IAS 36, *Impairment of Assets* – Unit of accounting for goodwill impairment test (hereinafter – the Amendment), which was published in the framework of the 2009 Improvements to IFRSs project. The Amendment provides that for purposes of impairment testing the largest cash-generating unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Paragraph 12 of IFRS 8. The Amendment is applied prospectively. The Group has chosen to test goodwill for impairment in accordance with the transitional provisions of the Amendment on the regular annual testing date.

Implementation of the Amendment did not have a material effect on the Group's results of operation and financial position.

4. Business combination contracts

As from January 1, 2010 the Group implements the amendment to IAS 39, *Financial Instruments: Recognition and Measurement* – Scope exemption for business combination contracts (hereinafter – the Amendment), which was published in the framework of the 2009 Improvements to IFRSs project. The Amendment clarifies that the scope exemption in IAS 39 is restricted to forward contracts between an acquirer and a seller with respect to the sale or acquisition of a controlled entity, in a business combination at a future acquisition date. In addition, the term of the forward should not be longer than the period normally necessary for obtaining the approvals required for the transaction. The Amendment also clarifies that the aforementioned exemption does not apply to acquisitions and sales of equity accounted investees.
The Amendment is applied prospectively to all unexpired contracts as at January 1, 2010. Implementation of the Amendment did not have a material effect on the Group's results of operations and financial position.

Implementation of the Amendment did not have a material effect on the Group's results of operation and financial position.

Note 3 - Significant Accounting Policies (cont'd)

D. New standards and interpretations not yet adopted

IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard") – This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods.

The Company is examining the effect of adopting the Standard on the financial statements with no plans for early adoption.

Note 4 - Significant Accounting Events in the Reported Period

1. As the global financial crisis continues to affect the Company's fields of business in the countries in which it operates, the Company continues preparing itself, and considers the measures which should be taken by it, for confronting the implications of the crisis.

   In May 2010, Africa Israel Investments, the Company's ultimate parent corporation, reached an agreement with the bondholders of all series to restructure NIS 7,500,000 thousand of debt (at that date approximately EUR 1,300,000 thousand). Pursuant to this agreement, Africa Israel Investments has exchanged the existing bonds for new bonds and shares. Furthermore, as a result of this restructuring, the shareholding of Africa Israel Investments in AFI Properties was diluted to 56% (previously 70%). On 11 May 2010, Africa Israel Investments notified the public that all conditions of this debt restructuring were fulfilled and that the debt restructuring process was completed.

   Due to the credit crunch caused by the global financial crisis, and considering that the Company's current obligations exceed its current assets by approximately Euro 1 million, the Company is taking steps to increase its liquid assets and decrease its short-term obligations through, among other things, obtaining long-term loans collateralized by investment property, realizing assets by exploiting adequate business opportunities, and using surplus cash generated by the Company's on-going operation. Accordingly on June 2010 the company signed agreements with several banks for converting short term loans to long term loans in amount of approximately Euro 30 million.

   Over the past few years Africa Israel Properties Ltd. ("Africa Properties") provided the Company with shareholder loans, the aggregate outstanding amount of which, effective as of September 30, 2010, is approx. Euro 268 million.

   In light of the various possible resources available to the company, the management believes that the Company will have sufficient financial means for performing its repayment obligations in the foreseeable future.

2. The Company and Africa Israel Properties Ltd. ("**AFI Properties**"), which is the sole shareholder of Africa Israel International Properties (2002) Ltd., the Company's sole shareholder ("**AIIP**"), entered into a shareholders loan on 21 December 2008 (the "**Shareholder's Loan**") to replace all loans between the Company and AFI Properties that were outstanding as per that date, being in aggregate an amount of EUR 484,856 thousand including interest on the principal of such loans. Consequently, on 22 December 2008, AFI Properties and AIIP entered into an assignment agreement pursuant to which AFI Properties sold and assigned to AIIP a claim in the amount of EUR 250,000 thousand of its receivable under the Shareholder's Loan. Subsequently AIIP contributed this receivable as share premium on the shares in the capital of the Company. From 1 January 2009 the outstanding part of the Shareholder's Loan bears an interest rate of three-month EURIBOR plus 2% per annum. The Company has the right to prepay all or part of the Shareholder's Loan at any time.

   In addition to the amount outstanding under the Shareholder's Loan, AFI Properties provided to the Company a short term loan in the amount of EUR 15,214 thousand. By way of an amendment to the Shareholder's Loan dated 30 June 2010, AFI Properties and the Company agreed that this amount shall be repaid within 12 months from the date on which the relevant funds were received by the Company.

Note 4 - Significant Accounting Events in the Reported Period (cont'd)

3. Cotroceni Park S.A. ("**CP**"), a Romanian subsidiary of the Company which developed and now owns and operates the shopping mall in Bucharest known as AFI Palace Cotroceni (the "**Project**"), signed with the Project's general contractor on 27 March 2010, an annex to the General Works Agreement between them, pursuant to which the total price under that agreement was increased to an aggregate amount of approx. Euro 188.3 million plus VAT, out of which the remaining amount that CP is obliged to pay is Euro 4.3 million plus VAT.

   On 27 March 2010 a loan agreement was executed between the Company, as borrower, and Danya Cebus Rom S.R.L., as lender, regarding the following two loans: one – in an amount of Euro 4.3 million, to be repaid until 31 March 2012 in five quarterly installments starting from 31 March 2011, and the other – in an amount of Euro 816 thousand, to be repaid within 6 months (or earlier, as provided in that loan agreement). Both loans bear interest at a rate of 3-months EURIBOR + 5.6%.

4. On 15 September 2010 S.C. Premier Solutions & Team S.R.L ("**Premier**"), a fully owned Romanian subsidiary of the Company signed a preliminary agreement with a chain of do-it-yourself stores (the "**purchaser**"), setting out the primary terms for the sale and transfer of a plot of land of approximately 30,000 sqm by Premier to the purchaser. The plot is located on 166 Bucurestii Noi Blvd, District 1, Bucharest and is currently part of the AFI Golden City land bank property. The aggregate consideration is EUR 16,000 thousand plus VAT. The consideration is payable by the purchaser in several instalments as follows:

   (i) EUR 2,000 thousand plus VAT is payable within 8 weeks from signing the preliminary agreement, subject to the purchaser's satisfaction with the results of its due diligence review, as at the date of the financial statement the said amount was received.

   (ii) EUR 5,000 thousand plus VAT is payable upon the transfer of the plot's ownership from Premier to the purchaser by signing an authenticated sale-purchase agreement on the earlier of 1 May 2011 or 15 days after obtaining a building permit enabling the construction of a DIY store on the plot with a built-up area of approx. 18,000 sqm; and

   (iii) 4 additional instalments of EUR 2,250 thousand plus VAT each are payable on 30 May of each of the years 2012, 2013, 2014 and 2015, according to promissory notes personally guaranteed by the purchaser's administrator/owner and secured by Premier's publicly registered privilege over the plot until the purchase price is paid in full.

   It is hereby clarified that this transaction is conditional upon the timely settlement of the dispute between Premier and Laromet S.A., which is further described herein (see Note 6(c)), and upon the land sold to the purchaser being free and clear of all encumbrances. Furthermore, in light of the agreement between Premier and the purchaser, the plot of land which is the subject matter of such agreement has been classified by the company as "property held for sale".

Note 5 - Income Tax Expense

The Group's consolidated effective tax rate of continuing operation for the nine months ended September 30, 2010 was (6%) (for the nine months ended September 30, 2009: 55%). This change in effective tax rate was caused mainly by two factors:

- deferred tax assets were not recognized in the current period in respect of carryforward losses of several companies, since management does not anticipate utilization;
- increase in non-deductible expenses.

Note 6 - Contingent Liabilities

A. Securities, guarantees and pledges under bank finance agreements

In order to secure loans for construction or investment, the Company granted banks (i) first ranking pledges on the assets of certain group companies, including rights with respect to the land of certain projects for which the loans were taken; (ii) pledges on the rights of certain group companies pursuant to the agreements in which they are party, including general contractor contracts and long term tenants leases, and (iii) subordination of shareholders loans given to certain group companies to their debt towards the financing banks. In some cases the Company pledged its shares in the relevant group company in favor of the financing bank.

As a security for repayment of loans taken by two particular group companies, the Company's shares in these companies are held in trust by an escrow agent related to a bank, and their assets were pledged in favor of the bank.

Several group companies agreed not to dispose secured assets, and not to sell, transfer or lease any substantial part of their assets, without the prior consent of the financing bank. In addition, some of the group companies are not allowed, without the prior consent of the financing bank, to change the holding structure of the relevant project company, to change their incorporation documents, or to change the scope of the project.

In some of the financing agreements of the group companies, the Company is obliged to inject further financing in case it is required to complete the relevant project. The group companies agreed to comply with certain financial ratios and minimum cash balances (covenants). The major covenants are (i) compliance with ratios between periodical net rental income to periodical loan repayments and other similar ratios, (ii) ratio between outstanding loan balance to the value of the project, and (iii) reporting requirements. The group companies are in compliance with all covenants, under the respective financing agreement, except for:

(i) A loan agreement in relation to financing the acquisition of the German Portfolio, where the “loan to value” ratio has been reduced, as a result of a decline in real properties’ values throughout Germany, which led to an impairment with respect to the value of the German Portfolio’s properties.

(ii) Two loan agreements in relation to financing obtained by the subsidiaries for projects Metropolia and Soleville in Latvia, where as a result of a decline in real properties’ values throughout Latvia, an impairment was made with respect to the value of projects Soleville and Metropolia, causing each of these subsidiaries to be in a situation of negative equity, thus currently failing to meet one of the covenants under its loan agreements. It is hereby clarified, however, that the bank would be entitled to demand immediate repayment of the loan based on a negative equity situation, only if such situation is not remedied within 10 days following receipt of the bank's applicable notice in this matter. Such notice of the bank has never been delivered to date, and even if it will be delivered, both project subsidiaries are in a position to timely remedy the negative equity situation before the bank's entitlement to demand immediate repayment of the loan would be triggered.

The Company holds a continuous dialogue with the relevant banks, which periodically receive financial reports of the relevant subsidiary and updated valuation reports on the relevant properties, and none of these banks has issued any request or demand in relation to the matters described above.

Note 6 - Contingent Liabilities (cont'd)

B.

1. A claim in Serbia against Airport City Belgrade d.o.o. in which the Company's indirect interest is 53.7% ("ACB") was filed by Industrija Masina I Traktora a.d. ("IMT") for payment of EUR 0.9 million under an agreement dated 11 March 2004. In its response to the aforementioned claim, ACB argues that such payment was conditional upon the occurrence of certain conditions precedent which were not fulfilled by IMT, and that the amount payable to IMT should therefore be substantially reduced.

   In the opinion of the company management and its legal advisers, the chances of the claim to be accepted are remote. No provision was recorded in respect of the claim.

2. In February 2008, a lawsuit of a total amount of approximately Euro 1.1 Million was appealed before the District Court of Tel-Aviv, Israel. The lawsuit concerns a real estate purchase agreement in Romania.
   According to the Company management and its legal advisers, the chances of the claim to be accepted are remote. No provision was recorded in respect of the claim.

3. In February 2009, a claim in a total amount of approximately Euro 0.9 million was filed against the Company with the Court of the Central District, Israel, with respect to allegedly payable brokerage commissions in connection with a real estate purchase transaction in Romania and a real estate transaction in the Czech Republic.

   According to the Company management and its legal advisers, the chances of the claim to be accepted are less than 50%. No provision was recorded in respect of the claim.

C. In September 2007 Premier Solutions & Team S.R.L. ("Premier"), a Romanian subsidiary of the Company, purchased five plots of land with a total area of approximately 156,000 sqm in Bucuresti Noi, in the northern part of Bucharest, Romania (the "Land") from Laromet S.A. ("Laromet"). The purchase price for the Land amounted to approximately EUR 78,000,000. During the first quarter of 2009, Premier concluded with Laromet an addendum to the purchase agreement, to reschedule the payment of the then-outstanding portion of the purchase price in the amount of EUR 22,500,000, and to postpone the transfer of possession in relation to part of the Land. In February 2010, Premier paid to Laromet an amount of approximately EUR 7,400,000 that consisted of two contractual installments. These installments were paid after their due date for payment under the purchase agreement. In May 2010 Laromet notified Premier that as a result of these late payments an execution procedure would be carried out in relation to the Land, unless Premier would pay to Laromet an amount of approximately EUR 8,200,000 as liquidated damages, which were allegedly payable pursuant to a penalty clause in the agreement.

   On 9 November 2010 Premier and Laromet settled this of Laromet by the execution of a second addendum to the purchase agreement.
   Under the terms of this settlement, Laromet and Premier agreed to terminate all legal proceedings regarding the purchase agreement. They furthermore agreed that the outstanding payment due to Laromet under the purchase agreement (approximately EUR 15,541 thousand) will be paid in 8 installments payable over a period of 2 years. In addition Premier paid to Laromet an amount of EUR 8,000 thousand for (i) settlement of the liquidated damages that were claimed by Laromet pursuant to the purchase agreement; (ii) reimbursement of expenses incurred by Laromet in relation to the dispute; (iii) and additional penalty for late payment by Premier and (iv) payment of the remaining outstanding portion of the land purchase price.

Note 6 - Contingent Liabilities (cont'd)

C. **(cont'd)**

Finally, Premier undertook to develop for Laromet an office building with a gross built up area of 4,000 sqm, that will be adjacent to the AFI Golden City Mall and to sell this building to Laromet together with several parking spaces for a price of approximately EUR 3,500 thousand.

Premier's obligations to Laromet have been secured by a corporate guarantee of the Company, as well as by mortgages over the part of project's land and over one of the Company's landbank properties in Bucharest. The Company's management has recorded an adequate provision in the Company's financial statements as at September 30, 2010**.**

D. Effective as of 30 September 2010, 7 corporate guarantees with an aggregate value of approximately EUR 60 million have been issued by the Company as securities for repayment obligations of certain Subsidiaries with respect to financing obtained by each of such Subsidiaries in relation to its project.

Note 7 - Related Parties

The parent company of the Group is Africa Israel International Properties (2002) Ltd (Israel) which is part of Africa Israel Investments Group.

Transactions between the companies within the Group, which are related parties, have been eliminated in the consolidated financial statements and are not disclosed in this note.

Details of transactions between the Group and other related parties are disclosed below:

In thousands of Euros

	September 30 2010	**September 30 2009**	**December 31 2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Management fees, net	**599**	431	604
Interest to Africa properties	**(5,222)**	(6,815)	(8,854)
Interest to other Africa Israel's group companies	**(100)**	-	-
	(4,723)	(6,384)	(8,250)
Balance:			
Africa Israel properties	**(1,015)**	(478)	40
Africa Israel investments	-	(371)	-
Loans from Africa properties and other associate	**(298,167)**	(276,120)	(279,559)
Other Africa Israel's Group companies, net	**(5,361)**	(7,794)	(9,469)

On 24 September 2010 Mr Avraham Barzilay was appointed CEO of the Company, following the resignation of Opher Linchevski for personal reasons. Over the last 10 years Mr Barzilay served as CFO of AFI Properties and as director of the Company since incorporation. He has been actively involved in the Company's project development, funding, operations and management.

Note 8 - Subsequent Events

A. In view of the Company's plan to raise financing by way of an initial public offering of the Company's shares ("IPO"), on 4 November 2010 the Company's authorized share capital has been increased to EUR 1,221,000, divided into 122,100,000 shares with a nominal value of EUR 0.01 each.

1. Simultaneously therewith each of the 90,000 shares with a nominal value of EUR 1 in the issued share capital of the Company has been converted and split into 100 shares with a nominal value of one cent (EUR 0.01), and all of them together into 9,000,000 shares.

2. Also on that date, the Company, AFI Properties and AIIP executed agreements regarding the assignment of AFI Properties' rights and obligations in relation to the Shareholder's Loan to AIIP, and the subsequent contribution of the entire amount of the Shareholder's Loan to capital of the Company, of which an amount of EUR 409,669 has been contributed by AIIP to the Company's capital against the issue of 40,966,900 shares at nominal value of EUR 0.01 each,

3. The remaining outstanding balance of the Shareholder's Loan will be contributed to share premium on those newly issued shares concurrently with and subject to all conditions of the IPO having been met. Furthermore, the Company issued to AIIP additional 43,033,100 shares with a nominal value of EUR 0.01 each, against the (partial) conversion of the relevant statutory reserve maintained by the Company, amounting to EUR 430,331. As a result, there will be no outstanding Shareholder's loan upon the completion of the IPO, and effective as of 4 November 2010 the Company's issued share capital consisted of 93,000,000 shares with a nominal value of EUR 0.01 each, all of which are held by AIIP.

In November 2010 the Company published a prospectus (hereinafter – "the prospectus") for a public offering of its shares that is intended for institutional and private investors in Poland, and institutional investors outside of Poland (but not in the USA), and for listing the shares for trade on the Warsaw Stock Exchange (WSE) in Poland (hereinafter – "the issuance").

As a result of the unstable conditions on the international capital markets at the beginning of December 2010 it was decided to postpone the issuance process. If it is decided to renew the issuance process, the Company will submit to the authorities in The Netherlands an amendment to the prospectus approved by the authorities.

Note 8 - Subsequent Events (cont'd)

Subsequent to the mentioned in Note 8.A.1 and 8.A.2 above and conversion as mention the Company restated its earnings per share for the nine and three month periods ended September 30, 2009 and 2010 as follows:

	Number of shares			Basic and diluted loss per share (Euro)		
	Before split and issuance of bonus shares	Difference	After split and issuance of bonus shares	Before split and issuance of bonus shares*	Difference	After split and issuance of bonus shares*
For the nine month period ended September 30, 2010	90,000	49,876,900	49,966,900	(43.69)	43.61	(0.08)
For the nine month period ended September 30, 2009	90,000	49,876,900	49,966,900	(2.98)	2.97	(0.01)
For the three month period ended September 30, 2010	90,000	49,876,900	49,966,900	(13.39)	13.37	(0.02)
For the three month period ended September 30, 2009	90,000	49,876,900	49,966,900	(235.24)	234.82	(0.42)

* Restated – see Note 3B.

Note 9 - Segment Reporting

The group has seven reportable segments, these are the group's strategic business area's.
The Company has seven main geographical areas: Czech Republic, Serbia, Bulgaria, Romania, Latvia, Poland and Other Regions. For each of the strategic business area the group's CEO reviews internal management reports, on at least a quarterly basis.
The accounting policies implemented in preparing the segment information correspond with the generally accepted accounting policies applied in the preparation of the Company's consolidated financial statements.

Note 9 - Segment Reporting (cont'd)

In thousands of Euros

	For the nine months ended September 30, 2010 (Unaudited)								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	**6,932**	**8,182**	**2,541**	**17,738**	**-**	**201**	**-**	**-**	**35,594**
Proceeds from sale of trading properties	**13,768**	**-**	**4,330**	**-**	**2,857**	**6,789**	**-**	**-**	**27,744**
Service charge income	**2,182**	**3,262**	**736**	**5,181**	**-**	**26**	**-**	**-**	**11,387**
Valuations gains (losses)	**503**	**(2,573)**	**(1,259)**	**57**	**-**	**106**	**-**	**-**	**(3,166)**
Other	**1,295**	**811**	**59**	**201**	**43**	**362**	**3,635**	**(3,494)**	**2,912**
Total income	**24,680**	**9,682**	**6,407**	**23,177**	**2,900**	**7,484**	**3,635**	**(3,494)**	**74,471**
Write down of inventory to net realized value	**-**	**-**	**-**	**(3,910)**	**(1,500)**	**-**	**-**	**-**	**(5,410)**
Segment result	**9,858**	**4,732**	**2,203**	**10,692**	**(1,018)**	**3,109**	**(3,239)**	**-**	**26,337**
Unallocated expenses									**(8,523)**
Profit from operations									**17,814**
Net financing costs									**(27,735)**
Taxes on income									**(596)**
Equity gain from associate companies									**6,508**
Non-controlling interest									**77**
Profit for the period									**(3,932)**
Segment assets	**192,187**	**168,406**	**119,931**	**532,698**	**33,044**	**28,464**	**515,242**	**(425,273)**	**1,164,699**

* Restated – see Note 3B.

Note 9 - Segment Reporting (cont'd)

In thousands of Euros

	For the nine months ended September 30, 2009 (Unaudited)								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	6,388	7,635	2,926	-	-	173	-	-	17,122
Proceeds from sale of trading properties	9,697	-	-	-	3,006	5,943	-	-	18,646
Service charge income	2,446	2,806	767	-	-	21	-	-	6,040
Valuation gains (loss)	-	34,050	(8,084)	22,558	-	(235)	-	-	48,289
Other	696	4,243	54	155	446	17	520	-	6,131
Total income	19,227	48,734	(4,337)	22,713	3,452	5,919	520	-	96,228
Write down of inventory to net realized value	-	-	-	-	(8,215)	-	(306)	-	(8,521)
Segment result	7,171	41,913	(5,404)	22,132	(8,430)	1,589	(677)	-	58,294
Unallocated expenses									(6,826)
Profit from operations									
Net financing costs									51,468
Taxes on income									(16,194)
Equity gain from associate									(19,213)
companies									(40)
Non-controlling interest									(16,289)
Loss for the period									(268)
Segment assets	210,401	190,074	123,251	522,503	45,061	34,202	542,849	(448,108)	1,220,233

* Restated – see Note 3B.

Note 9 - Segment Reporting (cont'd)

In thousands of Euros

	For the three months ended September 30, 2010 (Unaudited)								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	**2,376**	**2,692**	**850**	**5,713**	**-**	**67**	**-**	**-**	**11,698**
Proceeds from sale of trading properties	**2,256**	**-**	**470**	**-**	**844**	**2,197**	**-**	**-**	**5,767**
Service charge income	**656**	**1,074**	**211**	**1,790**	**-**	**7**	**-**	**-**	**3,738**
Valuations gains (losses)	**799**	**(2,047)**	**(1,259)**	**881**	**-**	**106**	**-**	**-**	**(1,520)**
Other	**636**	**150**	**51**	**45**	**43**	**106**	**1,152**	**(944)**	**1,239**
Total income	**6,723**	**1,869**	**323**	**8,429**	**887**	**2,483**	**1,152**	**(944)**	**20,922**
Write down of inventory to net realized value	**-**	**-**	**-**	**(3,910)**	**(1,500)**	**-**	**-**	**-**	**(5,410)**
Segment result	**3,980**	**471**	**(342)**	**921**	**(1,387)**	**1,043**	**20**	**-**	**4,706**
Unallocated expenses									**(3,291)**
Profit from operations									**1,415**
Net financing costs									**(8,781)**
Taxes on income									**1,005**
Equity gain from associate companies									**4,506**
Non-controlling interest									**650**
Profit for the period									**(1,205)**
Segment assets	**192,187**	**168,406**	**119,931**	**532,698**	**33,044**	**28,464**	**515,242**	**(425,273)**	**1,164,699**

* Restated – see Note 3B.

Note 9 - Segment Reporting (cont'd)

In thousands of Euros

	For the three months ended September 30, 2009 (Unaudited)								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	2,246	2,634	985	-	-	61	-	-	5,926
Proceeds from sale of trading properties	3,190	-	-	-	849	1,878	-	-	5,917
Service charge income	784	933	242	-	-	7	-	-	1,966
Valuation gains	-	(2,531)	(6,300)	(13,209)	-	-	-	-	(22,040)
Other	320	30	4	10	226	4	361	-	955
Total income	6,540	1,066	(5,069)	(13,199)	1,075	1,950	361	-	(7,276)
Write down of inventory to net realized value	-	-	-	-	(262)	-	-	-	(262)
Segment result	2,662	30	(5,384)	(13,539)	(514)	163	(256)	-	(16,838)
Unallocated expenses									(2,231)
Profit from operations									(19,069)
Net financing costs									(5,506)
Taxes on income									2,047
Equity gain from associate companies									827
Non-controlling interest									529
Loss for the period									(21,172)
Segment assets	210,402	190,074	123,251	522,503	45,061	34,202	542,849	(448,109)	1,220,233

* Restated – see Note 3B.

Note 9 - Segment Reporting (cont'd)

In thousands of Euros

	For the year ended December 31, 2009								
	Czech Republic*	**Serbia**	**Bulgaria**	**Romania**	**Latvia**	**Poland**	**Other Regions***	**Eliminations***	**Consolidated***
Income from external customers:									
Rental income	8,706	10,309	3,839	4,120	-	234	-	-	27,208
Proceeds from sale of trading properties	10,514	-	795	-	3,755	7,994	-	-	23,058
Service charge income	3,274	3,999	1,020	1,706	-	29	-	-	10,028
Net valuation gains	(12,410)	12,475	(10,248)	27,647	-	(240)	-	-	17,224
Other	1,030	4,976	49	647	563	25	509	-	7,799
Total income	11,114	31,759	(4,545)	34,120	4,318	8,042	509	-	85,317
Write down of inventory to net realized value	(1,167)	-	-	(2,565)	(15,054)	-	-	-	(18,786)
Segment result	(4,022)	23,067	(6,673)	25,434	(15,150)	2,190	(893)	-	23,953
Unallocated expenses									(11,254)
Profit from operations									12,699
Net financing costs									(27,472)
Taxes on income									(16,235)
Equity losses from associate companies									(308)
Non-controlling interest									(6,571)
Profit for the year									(37,887)
Segment assets	198,714	168,871	121,209	535,880	37,283	33,234	509,414	(416,368)	1,188,237

* Restated – see Note 3B.