

August 13, 2018

To:
Mr. Ariel Goldstein, CFO
Africa Israel Properties Ltd.

Re: Debt Arrangement of Africa Israel Investments Ltd.

Dear Sir,

Our firm acts as legal counsel to the various companies of the Africa Israel Group, including Africa Israel Properties Ltd (the "**Company**") and its parent company, Africa Israel Investments Ltd. ("**AI**").

Reference is made to our previous notices of which the last one is dated July 26, 2018.

At your request, we wish to further update you on the process initiated by AI during May 2016 (and currently ongoing) between AI and the holders of AI debentures (the "**AI Bondholders**"), aimed at the restructuring of the financial debt of AI towards the AI Bondholders (the "**Debt Arrangement**"):

1. **Background Information**

- a. On August 8, 2018, the Trustees for the AI Bondholders (the "**Trustees**") announced that the meetings of the AI Bondholders (Series 26, 27 and 28) approved the Debt Arrangement by virtue of which, inter alia, Extra Development and Initiations Ltd. (a company controlled by Mr. Mordechai Ben-Moshe) (the "**Purchaser**") will acquire the entire share capital of AI, while Alon Blue Square Israel Ltd (another company controlled by Mr. Ben-Moshe) ("**Alon Square**") will acquire the shareholdings of AI in the Company (circa, 56% of the issued share capital of the Company) (the "**Ben-Moshe Proposal**"). On August 9, 2018, AI announced that the various meetings of AI's creditors have approved, by the majority required by law, the Debt Arrangement based on the Ben-Moshe Proposal.

Uri Bregman
Ora Dvir
Doron Dan
Ofer Yankovich
Taly Salton-Yeshua
Avi Ben-Yaacov
Dror Toren
Yael Moshkovich
Yossi Fallach
Eran Shuster
Igal Kolof
Sharon Drori Wichelevski
Dana Shwartz-Ashtar
Oren Pechthold
Michal Goren
Sagee Feldman
Revital Reuven
Tomer Tzadok
Limor Argov
Michal Leder
Eran Welt
Hila Goldfeld
Sagi Natan
Eran Fudem
Gil Cherchi
Eli Aviv
Orel Bar Dayan
Marina Simkin
Yosefa Kahana Winkler
Jonathan Libchick
Ohad Ravfogel
Dana Vaknin
Yasmin Shemi
Ravit Rennert Shmuelov
Idan Matlin
Faina Foner
Yossi Bregman
Shay Bar-David
Lotem Azulay
Stav Levy
Naama Baron
Shahar Rozenthal
Carmel Nudler
Reut Merla
Ben Nachshon
Noam Doron
Nitzan Yachimovitz
Ofer Lichtman levay
Shay Butbul
Shira Goldberg
Eyal Tal
Alex Sakharov
Dan Toledano
Haim Lankry
Sharon Saban

Jacob Weksler, of counsel
Ron Salpeter, of counsel

-
- b. On August 13, 2018, AI submitted an application to the Tel Aviv District Court (the "**Court**") for the final approval of the Debt Arrangement based on the Ben-Moshe Proposal.

2. Approval of the Debt Arrangement by the Court

- a. At the outset, it should be noted, that the Court is not obliged by the approvals of the meetings of AI's creditors, and such approval remains subject to the Court's discretion, based, inter alia, on estimating the economical merits of the Debt Arrangement for the benefit of AI's creditors and its fairness. In addition, an independent economical expert had been appointed by the Court, and he has prepared an expert's opinion in this respect.
- b. As noted in our previous notices, subject to the approval of the Ben-Moshe Proposal by Court and the fulfillment of the conditions precedent to the Ben-Moshe Proposal, the Debt Arrangement will become fully effective and binding on all parties to the Debt Arrangement. However, in accordance with the Israeli law, the decision of the Court may be appealed to the Supreme Court.

3. Conditions Precedent to the Debt Arrangement

- a. In accordance with the Ben-Moshe Proposal, which was published by AI on July 30, 2018, completion of the Debt Arrangement is contingent on fulfillment of a number of preconditions by no later than November 15, 2018. Such conditions mainly relate to receipt of the Court's approval to the Debt Arrangement, receipt of the approval of the Tel Aviv Stock Exchange (the "**TASE**"), the entry of the AI's settlement agreement with the Israeli Tax Authority (the "**ITA**") into effect and receipt of a pre-ruling from the ITA with respect to the tax consequences of the Debt Arrangement, and receipt of the approval of the Anti-Trust Authorities in Israel and in certain European countries (the "**Other Countries**"), as required under the applicable Anti-Trust laws in the Other Countries.
- b. To the best of our knowledge, most of the approvals mentioned above have technical characteristics, with the exception of the Court approval (as discussed above) and the approvals from the Anti-Trust Authorities in Israel and in the Other Countries.
- c. It should be noted that as part of the report for the convening of the meetings of the AI Bondholders, the Trustees announced that the Purchaser had informed them that with regard to obtaining the approvals of the Anti-Trust Authorities in the Other Countries, these should be regarded as technical procedures which are not expected to be denied, and therefore such proceedings are not expected to pose a threat to the Debt Arrangement, and that, to the best of the Purchaser's assessment, these proceedings are expected to continue for one to two months.

- d. To the best of our knowledge, subject to receipt of the Court's approval, AI and the Purchaser intend to submit applications to the relevant Anti-Trust authorities as mentioned above.

4. The Final Agreements regarding the Debt Arrangement

- a. At the request of the Trustees, on July 30, 2018, AI published an immediate report, in which AI included the final versions of the documents comprising the Debt Arrangement, as transferred to AI by the Trustees. Please note that the trust deeds, which constitute a part of said documents, are still subject to possible comments, which may be raised by the TASE.
- b. On the closing date of the Debt Arrangement, the Trustees and AI are expected to execute the various trust deeds, the Purchaser is expected to execute the pledge documents designated to secure certain obligations under the AI Amended Bonds¹.
- c. Taking into account the publication of the final documents of the Debt Arrangement, as stated above, and subject to the completion of the Debt Arrangement, to the best of our understanding, the execution of the various documents may be regarded to be merely of a technical nature.

For additional details, kindly refer to AI's public reports, as published on the MAGNA system.

Sincerely, 

Weksler, Bregman & Co.

¹ On the closing date, the Bonds (Series 28) will be cancelled and the balance of the debt in respect of Bonds (Series 26 and Series 27) will be reduced to the aggregate amount of NIS 310 million (the "AI Amended Bonds").