

## **1. Description of the Principles of the Debt Arrangement between AI and its Bondholders**

Set forth below is a brief description of the basic principles of the Debt Arrangement – solely for purposes of convenience

The Debt Arrangement is based on the integration of three offers made by three separate entities under the control of Mr. Mordechai Ben Moshe: Alon Blue Square Ltd. (hereinafter – “Blue Square” and “the Blue Square Offer”, respectively), Dor Alon Energy Israel (1988) Ltd. (hereinafter – “Dor Alon” and “the Dor Alon Offer”, respectively) and Extra Development and Initiations Ltd. (hereinafter – “the Purchaser” and “the Purchaser’s Offer”, respectively), as a consolidated arrangement.

### **1.1 The Blue Square Offer**

Blue Square will acquire from Africa Israel Investments Ltd. (“AI”) its entire holdings in Africa Israel Properties Ltd. (“Africa Properties”) (about 55.93% of the issued and paid up share capital of Africa Properties) along with any and all ancillary rights, for a consideration of NIS 1,270 million in cash and the grant of two options to receive additional consideration in an aggregate amount of at least NIS 130 million (in conjunction with future increase in the share price of Africa Properties). All of the above-mentioned amounts will be paid to the holders of AI debentures (hereinafter – “the AI Bondholders”).

### **1.2 The Dor Alon Offer**

Dor Alon will acquire AI’s cumulative holdings (directly and indirectly) – about 35.5% of the rights in the “Hamafil” companies along with any and all ancillary rights, for a consideration of NIS 165 million in cash.

1.3 The amounts detailed above (In connection with the Blue Square Offer and the Dor Alon Offer) are linked to the Israeli CPI and bear interest at the annual rate of 4% up to the closing date of the relevant transaction.

### **1.4 The Purchaser’s Offer**

The Purchaser will acquire all the shares of AI (100%) in consideration for the various components described below:

#### **1.4.1 Making of an initial investment and issuance of shares to the Purchaser**

1.4.1.1 The Purchaser will provide the amount of NIS 125 million into a trust account in the name of the trustees for the AI Bondholders, against issuance to the Purchaser of ordinary shares of AI that will constitute 100% of AI’s issued and paid up share capital and the voting rights of AI.

1.4.1.2 The Purchaser will make a cash investment in AI in the amount of NIS 45 million.

#### **1.4.2 Transfer of an external asset**

Within 24 months after the completion date, the Purchaser will transfer to AI an external asset, with a net value of US\$ 20 million or cash in the amount of US\$ 20 million, net of amounts that the Purchaser will provide for purposes of supporting AI’s current ongoing expenses.

#### **1.4.3 Compensation for not making early repayment**

The AI Bondholders will be entitled to additional consideration, in the amount of NIS 20 million, in the event that AI will not make early repayment of the entire amount of the Adjusted Bonds (as defined below) by the end of 24 months.

#### 1.4.4 Bonds (Series 1)

AI will issue to the AI Bondholders on the completion date, Bonds (Series 1) in the amount of NIS 50 million par value, not bearing interest, which will be repayable in one payment at the end of 30 months for purposes of payment of additional consideration to the AI Bondholders, in the event that shares of Danya Cebus Ltd. are sold (after separating it from its subsidiary Africa Israel Residences Ltd.) at a price reflecting for Danya Cebus an enterprise value of more than NIS 140 million.

#### 1.4.5 Bonds (Series 2)

AI will issue to the AI Bondholders on the completion date Bonds (Series 2) in the amount of NIS 40 million par value, which are to be repaid within 36 months from the execution date. The Bonds (Series 2) will not be marketable, will not bear interest and will not be linked to any index.

#### 1.4.7 Proceeds in respect of land in Russia

The AI Bondholders will be assigned with AI's rights in connection with a collateral provided for its benefit (shares of a company that holds a property in Russia) as part of a loan provided to its subsidiary.

### 1.5 Reduction of the debt in respect of the existing bonds and amendment of their terms

On the completion date, the Bonds (Series 28) will be cancelled and the balance of the debt (principal and linkage) of the balance of the debt in respect of Bonds (Series 26 and Series 27) will be reduced to the aggregate amount of NIS 325 million (the "Adjusted Bonds").

The Adjusted Bonds will bear interest at the annual rate of 5.5%.

### 1.6 Alternative to full repayment

The Purchaser is permitted to increase the initial investment to the amount of NIS 450 million and in such a case, the existing AI Bonds will be fully repaid/cancelled.

### 1.7 Preconditions for completion of the Debt Arrangement

Completion of the Debt Arrangement is contingent on fulfillment of a number of preconditions, by no later than March 14, 2018 (with the exception that in respect to the Dor Alon Offer, the final date may be postponed until July 14, 2018), mainly receipt of a court order approving the Debt Arrangement, receipt of approval of the Tel Aviv Stock Exchange, receipt of a pre-ruling from the Tax Authority, receipt of approval of the Anti-Trust Authority, and other preconditions.