

**GAZIT-GLOBE LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2007**

**UNAUDITED**

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The Board of Directors  
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements  
for the six and three months ended June 30, 2007

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At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of June 30, 2007, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 46.83% of total consolidated assets as of June 30, 2007, and whose revenues constitute approximately 53.5% and 53.76% of total consolidated revenues for the six and three months then ended, respectively.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants, as above, we are not aware of any material modifications that should be made to these statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
August 16, 2007

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**CONSOLIDATED BALANCE SHEETS**

	<b>June 30,</b>		<b>December 31,</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in thousands</b>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	356,656	167,522	194,221
Short-term investments	82,393	264,193	147,717
Tenants	146,335	98,890	132,817
Accounts receivable	281,219	222,970	210,697
Rental properties held for sale	113,850	88,735	130,739
	<u>980,453</u>	<u>842,310</u>	<u>816,191</u>
<b>LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:</b>			
Investments in affiliates	2,150,915	1,034,718	1,429,340
Long-term investments	841,329	969,251	1,151,209
Long-term loans and receivables	54,711	*) 34,946	*) 47,937
Investment property	29,547,810	*) 17,964,559	*) 18,753,177
Investment property under development	1,599,833	*) 1,321,352	*) 1,658,594
	<u>34,194,598</u>	<u>21,324,826</u>	<u>23,040,257</u>
<b>FIXED ASSETS:</b>			
Cost	355,873	*) 272,531	*) 315,429
Less - accumulated depreciation	42,029	*) 31,084	*) 35,115
	<u>313,844</u>	<u>241,447</u>	<u>280,314</u>
<b>OTHER ASSETS AND DEFERRED CHARGES, NET</b>	<u>60,884</u>	*) <u>59,456</u>	*) <u>54,268</u>
	<u><u>35,549,779</u></u>	<u><u>22,468,039</u></u>	<u><u>24,191,030</u></u>

\*) Reclassified, as a result of the initial adoption of Accounting Standard No. 16.

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

	<b>June 30,</b>		<b>December 31,</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>Unaudited</b>		<b>Audited</b>
<b>Reported NIS in thousands</b>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks and others	959,908	968,584	966,558
Trade payables	202,042	140,687	195,594
Other accounts payable	628,143	392,539	402,194
Dividend declared	31,860	27,113	29,457
	<u>1,821,953</u>	<u>1,528,923</u>	<u>1,593,803</u>
<b>LONG-TERM LIABILITIES:</b>			
Debentures	10,425,592	4,976,411	8,024,421
Convertible debentures redeemable into shares of subsidiary	511,304	344,015	468,134
Liabilities to financial institutions and others	7,682,580	8,629,799	7,014,366
Tenants' security deposits	78,425	66,507	67,084
Accrued severance pay, net	222	164	259
Deferred taxes, net	1,426,470	107,449	168,176
	<u>20,124,593</u>	<u>14,124,345</u>	<u>15,742,440</u>
RECEIPTS FROM CONVERSION OPTION IN SUBSIDIARY	<u>28,824</u>	<u>10,683</u>	<u>19,762</u>
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN SUBSIDIARIES	<u>15,708</u>	<u>3,277</u>	<u>5,909</u>
MINORITY INTEREST	<u>8,048,933</u>	<u>4,314,960</u>	<u>3,963,738</u>
SHAREHOLDERS' EQUITY	<u>5,509,768</u>	<u>2,485,851</u>	<u>2,865,378</u>
	<u><u>35,549,779</u></u>	<u><u>22,468,039</u></u>	<u><u>24,191,030</u></u>

The accompanying notes are an integral part of the interim consolidated financial statements.

August 16, 2007

Date of approval of the  
financial statements

Chaim Katzman  
Chairman of the Board

Dori Segal  
CEO and Director

Gil Kotler  
Chief Financial Officer

**CONSOLIDATED STATEMENTS OF INCOME**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	1,326,735	1,286,822	682,937	625,537	2,552,296
Rental property operating expenses	433,636	439,742	218,430	213,717	867,838
Rental property depreciation	4,759	226,207	2,875	113,276	453,259
Gross profit	888,340	620,873	461,632	298,544	1,231,199
Appreciation of investment property	502,309	-	148,711	-	-
General and administrative expenses	203,062	120,378	104,203	65,558	283,418
Operating income	1,187,587	500,495	506,140	232,986	947,781
Financial expenses, net	410,063	378,867	232,983	207,780	757,617
Other income (expenses), net	777,524 (5,214)	121,628 324,977	273,157 2,786	25,206 317,251	190,164 514,101
Income before taxes on income	772,310	446,605	275,943	342,457	704,265
Taxes on income	131,806	48,593	49,602	24,319	84,211
Income after taxes on income	640,504	398,012	226,341	318,138	620,054
Equity in earnings of affiliates	367,225	152,799	293,732	115,127	270,566
Minority interest in earnings of subsidiaries	(404,569)	(384,059)	(152,210)	(306,801)	(529,242)
Net income	603,160	166,752	367,863	126,464	361,378
Net earnings per share (in reported NIS):					
Basic net earnings	5.10	1.65	3.11	1.20	3.34
Diluted net earnings	5.02	1.59	3.06	1.15	3.17

The accompanying notes are an integral part of the interim consolidated financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30, 2007 (unaudited)								
	Share capital	Share premium	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period (audited)	171,412	2,071,145	34,868	82,620	507,938	31,813	(24,574)	(9,844)	2,865,378
Exercise of stock options into shares	2	81	-	-	-	-	-	-	83
Sale of shares held by the Company	-	5,854	-	-	-	-	3,520	-	9,374
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	318,565	-	-	-	-	318,565
Revaluation of derivatives in affiliate to market value	-	-	27,213	-	-	-	-	-	27,213
Measurement of investment property at the fair value model (1)	-	-	-	-	1,746,772	-	-	-	1,746,772
Net income	-	-	-	-	603,160	-	-	-	603,160
Cost of share-based payment	-	-	2,322	-	-	-	-	-	2,322
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	574	574
Revaluation of loans for purchase of shares	-	-	-	-	40	-	-	(40)	-
Dividend paid	-	-	-	-	-	(31,813)	-	-	(31,813)
Dividend declared	-	-	-	-	(31,860)	-	-	-	(31,860)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,860)	31,860	-	-	-
Balance at end of period	<u>171,414</u>	<u>2,077,080</u>	<u>64,403</u>	<u>401,185</u>	<u>2,794,190</u>	<u>31,860</u>	<u>(21,054)</u>	<u>(9,310)</u>	<u>5,509,768</u>

(1) See Note 2b(1).

(2) See Note 4d.

The accompanying notes are an integral part of the interim consolidated financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of period (audited)	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,295	69,862	-	-	-	-	-	-	-	72,157
Sale of shares held by the Company	-	209,476	-	-	-	-	-	157,731	-	367,207
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	621	-	-	-	-	621
Revaluation of derivatives in affiliate to market value	-	-	-	13,155	-	-	-	-	-	13,155
Net income	-	-	-	-	-	166,752	-	-	-	166,752
Cost of share-based payment	-	-	-	2,492	-	-	-	-	-	2,492
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	85	85
Revaluation of loans for purchase of shares	-	-	-	-	-	60	-	-	(60)	-
Dividend paid	-	-	-	-	-	-	(25,419)	-	-	(25,419)
Dividend declared	-	-	-	-	-	(27,113)	-	-	-	(27,113)
Dividend declared	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at end of period	<u>163,076</u>	<u>1,689,023</u>	<u>7,658</u>	<u>21,546</u>	<u>257,981</u>	<u>375,675</u>	<u>27,113</u>	<u>(45,428)</u>	<u>(10,793)</u>	<u>2,485,851</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2007 (unaudited)								
	Share capital	Share premium	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period	171,414	2,071,226	40,901	32,211	2,514,117	31,860	(24,574)	(9,248)	4,827,907
Sale of shares held by the Company	-	5,854	-	-	-	-	3,520	-	9,374
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	368,974	-	-	-	-	368,974
Revaluation of derivatives in affiliate to market value	-	-	22,475	-	-	-	-	-	22,475
Measurement of investment property at the fair value model (1)	-	-	-	-	(55,992)	-	-	-	(55,992)
Net income	-	-	-	-	367,863	-	-	-	367,863
Cost of share-based payment	-	-	1,027	-	-	-	-	-	1,027
Revaluation of loans for purchase of shares	-	-	-	-	62	-	-	(62)	-
Dividend declared	-	-	-	-	-	(31,860)	-	-	(31,860)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,860)	31,860	-	-	-
Balance at end of period	<u>171,414</u>	<u>2,077,080</u>	<u>64,403</u>	<u>401,185</u>	<u>2,794,190</u>	<u>31,860</u>	<u>(21,054)</u>	<u>(9,310)</u>	<u>5,509,768</u>

(1) See Note 2b(1).

(2) See Note 4d.

The accompanying notes are an integral part of the interim consolidated financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of period	163,055	1,506,422	-	15,809	301,647	276,311	27,107	(181,056)	(10,774)	2,098,521
Exercise of stock options into shares	21	(21)	-	-	-	-	-	-	-	-
Sale of shares held by the Company	-	182,622	-	-	-	-	-	135,628	-	318,250
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(43,666)	-	-	-	-	(43,666)
Revaluation of derivatives in affiliate to market value	-	-	-	3,743	-	-	-	-	-	3,743
Net income	-	-	-	-	-	126,464	-	-	-	126,464
Cost of share-based payment	-	-	-	1,994	-	-	-	-	-	1,994
Revaluation of loans for purchase of shares	-	-	-	-	-	19	-	-	(19)	-
Dividend paid	-	-	-	-	-	27,107	(27,107)	-	-	-
Dividend declared	-	-	-	-	-	(27,113)	-	-	-	(27,113)
Dividend declared	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at end of period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851

The accompanying notes are an integral part of the interim consolidated financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2006 (audited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of year	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	4,143	165,454	(4,232)	(379)	-	-	-	-	-	164,986
Issuance of share capital	6,488	249,955	-	-	-	-	-	-	(194)	256,249
Sale of shares held by the Company	-	246,051	(3,426)	-	-	-	-	178,585	-	421,210
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	1,148	1,148
Revaluation of loans for purchase of shares	-	-	-	-	-	(20)	-	-	20	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(174,740)	-	-	-	-	(174,740)
Revaluation of derivatives in investees to market value	-	-	-	19,243	-	-	-	-	-	19,243
Cost of share-based payment	-	-	-	4,825	-	-	-	-	-	4,825
Net income	-	-	-	-	-	361,378	-	-	-	361,378
Waive of salary by controlling shareholder, net	-	-	-	5,280	-	-	-	-	-	5,280
Dividend paid	-	-	-	-	-	(55,239)	(25,419)	-	-	(80,658)
Dividend declared	-	-	-	-	-	(29,457)	-	-	-	(29,457)
Dividend declared subsequent to the balance sheet date	-	-	-	-	-	(31,813)	31,813	-	-	-
Balance at end of year	<u>171,412</u>	<u>2,071,145</u>	<u>-</u>	<u>34,868</u>	<u>82,620</u>	<u>507,938</u>	<u>31,813</u>	<u>(24,574)</u>	<u>(9,844)</u>	<u>2,865,378</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
<u>Cash flows from operating activities:</u>					
Net income	603,160	166,752	367,863	126,464	361,378
Adjustments to reconcile net income to net cash provided by operating activities (a)	(198,750)	170,963	(133,922)	56,681	228,579
Net cash provided by operating activities	404,410	337,715	233,941	183,145	589,957
<u>Cash flows from investing activities:</u>					
Investment in initially consolidated companies (b)	-	(20,425)	-	(20,425)	(198,077)
Investment in investees	(343,773)	(167,882)	(17,835)	(158,140)	(550,365)
Investments in fixed assets, investment property and investment property under development	(2,505,676)	(2,672,903)	(1,027,522)	(707,834)	(5,008,411)
Repayment of loans to partners in property under development, net	21,191	15,509	21,191	2,504	14,454
Proceeds from sale of fixed assets, investment property and investment property under development	73,407	1,693,580	7,556	1,664,016	1,825,338
Long-term loans granted	(2,044)	(2,593)	(322)	(2,593)	(42,295)
Repayment of long-term loans granted	933	25,767	-	20,690	26,122
Short-term investments, net	5,750	(197,413)	5,530	(199,364)	(7,291)
Purchase of marketable securities and long-term investments	(504,675)	(570,263)	(247,127)	(221,446)	(1,121,793)
Proceeds from realization of long-term investments	923,817	104,708	192,233	36,265	474,880
Withdrawal of long-term deposits, net	-	1,563	-	525	822
Net cash provided by (used in) investing activities	(2,331,070)	(1,790,352)	(1,066,296)	414,198	(4,586,616)

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
<b>Cash flows from financing activities:</b>					
Repayment of loans granted for the purchase of Company and subsidiary's shares	574	85	-	-	1,148
Issuance of share capital, net	-	-	-	-	256,249
Exercise of stock options into shares	83	72,157	-	-	164,986
Sale of shares held by the Company	9,374	367,207	9,374	318,250	421,210
Issuance of stock options	-	7,658	-	7,658	7,658
Issuance of shares to minorities in subsidiaries, net	137,583	256,734	83,413	193,766	338,396
Dividend paid	(61,270)	(48,029)	(31,813)	(25,419)	(103,268)
Dividend paid to minorities in subsidiary	(190,048)	(390,457)	(97,583)	(287,423)	(582,649)
Receipt of long-term loans	1,192,525	1,682,128	498,120	624,839	1,897,398
Repayment of long-term loans	(715,009)	(1,250,119)	(471,356)	(766,003)	(2,081,351)
Repayment of long-term credit lines from banks, net	(243,808)	(154,043)	(874,110)	(417,322)	(254,764)
Repayment and early redemption of debentures and convertible debentures	(11,876)	(352,460)	-	(218,976)	(681,011)
Sale of Company's debentures by subsidiaries	-	300,622	-	185,711	300,622
Short-term bank credit, net	(65,164)	13,931	(1,548)	24,802	(80,101)
Issuance of debentures and convertible debentures	2,056,271	1,059,018	1,405,170	68,539	4,615,639
Purchase of subsidiary's shares by subsidiary	-	(225,435)	-	(225,435)	(301,935)
Net cash provided by (used in) financing activities	2,109,235	1,338,997	519,667	(517,013)	3,918,227
Effect of exchange rate differences from cash balances of foreign autonomous entities	(20,140)	(1,050)	(29,618)	(5,071)	(9,559)
Increase (decrease) in cash and cash equivalents	162,435	(114,690)	(342,306)	75,259	(87,991)
Cash and cash equivalents at beginning of period	194,221	282,212	698,962	92,263	282,212
Cash and cash equivalents at end of period	356,656	167,522	356,656	167,522	194,221

The accompanying notes are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>					
Income and expenses not involving cash flows:					
Gain from realization and revaluation of marketable securities, net	(25,864)	(8,958)	(4,035)	(3,900)	(44,890)
Appreciation of investment property	(502,309)	-	(148,711)	-	-
Minority interest in earnings of subsidiaries	404,569	384,059	152,210	306,801	529,242
Equity in earnings of affiliates, net of dividend received	(316,551)	(109,920)	(293,732)	(111,998)	(225,617)
Depreciation	8,180	206,075	4,794	102,293	462,661
Deferred taxes, net	104,368	19,774	34,609	7,801	42,821
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(2,887)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(6,298)	28,038	(4,159)	20,986	27,737
Write-down of long-term investments	10,056	98,840	235	98,840	16,923
Amortization of other assets and deferred charges	-	26,197	-	20,120	25,002
Capital gain from sale of fixed assets, investment property and investment property under development	(7,745)	(375,359)	(1,050)	(371,992)	(447,326)
Increase (decrease) in accrued severance pay, net	(37)	-	(34)	-	95
Loss (gain) from issuance of shares to third party, net	3,601	(29,191)	(1,475)	(25,916)	(33,535)
Cost of share-based payment	5,594	4,505	3,889	3,361	9,898
Bad debts	4,267	812	2,998	812	3,203
Changes in asset and liability items:					
Decrease (increase) in tenants and accounts receivable	(89,489)	(58,574)	(13,095)	12,429	(208,485)
Increase (decrease) in trade payables and other accounts payable	200,784	(18,296)	129,826	(2,545)	65,930
Increase (decrease) in tenants' security deposits, net	8,124	2,961	3,808	(411)	7,807
	<u>(198,750)</u>	<u>170,963</u>	<u>(133,922)</u>	<u>56,681</u>	<u>228,579</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	*) 2006	2007	*) 2006	*) 2006
	Unaudited				Audited
	Reported NIS in thousands				
(b) <u>Investment in initially consolidated companies:</u>					
Consolidated companies' assets and liabilities at date of purchase:					
Working capital (excluding cash and cash equivalents):					
Current assets	-	(1,898)	-	(1,898)	(1,898)
Current liabilities	-	24,694	-	24,694	90,679
	-	22,796	-	22,796	88,781
Fixed assets, long-term investments and loans (mainly real estate)	-	(185,579)	-	(185,579)	(511,056)
Long-term liabilities	-	142,358	-	142,358	224,198
	-	(43,221)	-	(43,221)	(286,858)
	-	(20,425)	-	(20,425)	(198,077)
(c) <u>Significant non-cash operations:</u>					
Dividend declared	31,860	27,113	31,860	27,113	29,457

- \*) Includes a company consolidated for the first time by the Company since the second quarter of 2006, which owns a commercial center in Hamburg, Germany. Also, companies consolidated since the third quarter of 2006 by Gazit Development which own commercial centers, commercial centers under development and land for development.

The accompanying notes are an integral part of the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

These financial statements have been prepared in a condensed format as of June 30, 2007, and for the six and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2006 and for the year then ended.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as described in b below.

- b. Initial adoption of new Accounting Standards:

1. Accounting Standard No. 16 - Investment Property:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 16, "Investment Property" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements for investment property.

An investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation (or both) and not for use in manufacture or the supply of goods or services or for administrative purposes or sale during the ordinary course of business.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2007 are:

Investment property is to be presented using the cost model or the fair value model. The Company has elected to adopt the fair value model in accounting for its investment property. The Company has reported on the effect of the adoption of the Standard as of January 1, 2007 as an adjustment of the opening balance of retained earnings as of that date.

Real estate rights held by a lessee in an operating lease from the Israel Lands Administration are classified as investment property. The Company has adopted the fair value model in the respect of those rights.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Investment property under development is presented at cost and recognized according to Accounting Standard No. 27 (see 3) up to the date of completion of construction or completion of development. From the date of completion of construction or development, the property is in the scope of Accounting Standard No. 16 and accounted for by the fair value model.

Following is the effect of the adoption of the Standard on the consolidated balance sheet as of January 1, 2007:

	<u>Company interest</u>	<u>Minority interest</u>	<u>Total</u>
	<u>Reported NIS in thousands</u>		
Increase in balance of investment property	2,527	3,722	6,249
Increase in deferred tax liability	*) (780)	(285)	(1,065)
Increase in minority interest	-	(3,437)	(3,437)
Total increase in retained earnings	<u>1,747</u>	<u>-</u>	<u>1,747</u>

\*) The balance includes an amount of approximately NIS 56 million which was credited to retained earnings at the beginning of the second quarter of 2007, due to additional information received from a subsidiary as to the tax base of its assets and that was unknown to the Company upon the approval of the financial statements for the first quarter. This information has not been reflected in the financial statements by way of restatement due to immateriality.

According to the transitional provisions of the Standard, comparative data for June 30, 2006 and December 31, 2006 have not been restated. The depreciated cost of the balances in respect of investment property was reclassified (fixed assets, other assets and long-term receivables).

The fair value was determined on the basis of valuations made principally by independent external appraisers with appropriate professional expertise.

The valuations were generally prepared by discounting the cash flow expected to be generated by the property. The capitalization rates used by the appraisers are at the annual rate of 5.25% to 8.5% and they were determined based on the type of property and designation, location of the property and the quality of the tenants.

Among the above valuation, there is no significant valuation for the Group and, accordingly, the valuations were not disclosed as required by regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 1970.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

2. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and its Controlling Shareholder:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" of the Israel Accounting Standards Board ("the Standard"). The Standard is applicable, among others, to transactions involving the transfer of assets, the assumption of liabilities, indemnification, and the waiver of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007 as well as to a loan granted or received from the controlling shareholder prior to January 1, 2007.

The Standard is not applicable to business combinations involving companies under common control. According to a decision promulgated by the Israel Securities Authority, as of January 1, 2007, business combinations involving entities controlled by the same shareholder will be accounted for similar to a pooling of interests and not based on the use of fair values. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with noncontrolling shareholders in their capacity as shareholders.

The initial adoption of the Standard had no material effect on the interim financial statements.

3. Accounting Standards No. 27 - Fixed Assets and No. 28 - Amendment to the Transition Provisions of Accounting Standard No. 27, "Fixed Assets":

On January 1, 2007, the Company adopted the provisions of Accounting Standards No. 27, "Fixed Assets" and No. 28, "Amendment to the Transition Provisions of Accounting Standard No. 27, 'Fixed Assets'" of the Israel Accounting Standards Board ("the Standards") regarding the accounting treatment of fixed assets in the financial statements.

The initial adoption of the Standards had no material effect on the interim financial statements.

4. Accounting Standard No. 30 - Intangible Assets:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 30, "Intangible Assets" of the Israel Accounting Standards Board ("the Standard") that prescribes the accounting treatment, recognition, measurement and the disclosure requirements regarding intangible assets that are not dealt with in another standard.

The initial adoption of the Standard had no material effect on the interim financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS):

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

Companies that prepare their financial statements for the first time in accordance with IFRS will be required upon transition to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing in 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

The Company is in advance preparation process of transition to report according to IFRS, but has not yet completed all examinations of the implications of the transition to IFRS. Management's discussion as of June 30, 2007, which is attached to these financial statements, includes in section 1i the Company's description of the effect of the adoption of IFRS as of January 1, 2005 and December 31, 2005 and 2006 and for the years 2005 and 2006 and as of June 30, 2007 and for the six months period then ended.

- d. Below are data about the Israeli CPI and the exchange rates of the U.S. dollar, the Canadian dollar and the Euro:

	Israeli CPI Points *)	Representative exchange rate of		
		U.S.\$	C\$ NIS	Euro
<b>As of</b>				
June 30, 2007	186.7	4.249	4.0195	5.7132
June 30, 2006	187.9	4.440	3.9998	5.6435
December 31, 2006	184.9	4.225	3.6408	5.5643
<b>Change during the period</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
June 2007 (6 months)	1.0	0.6	10.4	2.7
June 2007 (3 months)	1.2	2.3	11.6	3.2
June 2006 (6 months)	1.5	(3.5)	0.9	3.6
June 2006 (3 months)	1.0	(4.8)	(0.5)	(0.3)
December 2006 (12 months)	(0.1)	(8.2)	(8.2)	2.2

\*) The index on an average basis of 1993 = 100.

### NOTE 3:- ADDITIONAL INFORMATION

- a. In April 2007, institutional entities exercised 175 thousand non-marketable stock options which they were allocated in May 2006 into 175 thousand shares for the total consideration of approximately NIS 9.4 million.
- b. On March 29, 2007, the Company sold all the Ordinary shares which it had owned in The Mills Corporation ("MLS") (5.5 million Ordinary shares) to a third party for the total consideration of approximately U.S.\$ 139 million (NIS 580 million). As a result of the sale, the Company recorded a capital loss of approximately NIS 10 million. The sale, as above, was made in the context of a proposal made by a third party which addressed all holders of Ordinary shares in MLS.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- ADDITIONAL INFORMATION (Cont.)**

- c. In March 2007, the Company issued NIS 290 million par value of debentures (series F), by way of series extension, in consideration of approximately NIS 300 million.
- Also, in April 2007, the Company issued NIS 400 million par value of debentures (series D), by way of series extension, in consideration of approximately NIS 421 million.
- d. In April 2007, EQY issued by private placement a series of debentures in the scope of U.S.\$ 150 million (approximately NIS 623 million). The debentures are non-secured, redeemable in one sum in September 2017 and bear fixed annual interest rate of 6%.
- EQY intends to list for trade said debentures and if it does not do so, the interest on the debentures will be raised pursuant to the terms of the issuance.
- e. In January 2007, FCR issued debentures (series E) in the scope of C\$ 100 million (approximately NIS 360 million), bearing annual interest of 5.36%, payable twice a year and redeemable in one sum on January 31, 2014.
- f. In April 2007, FCR issued debentures (series F) in the scope of C\$ 100 million (approximately NIS 360 million). The debentures are non-secured, bear annual interest rate of 5.32% and are redeemable in one sum in October 2014.
- g. In June 2007, FCR issued C\$ 50 million par value of convertible debentures (series A), by way of series extension, in consideration of C\$ 54 million (approximately NIS 215 million). The Company's wholly owned subsidiary has acquired approximately C\$ 38 million par value of convertible debentures (series A) in the context of this issuance, in consideration of approximately C\$ 41 million (approximately NIS 165 million).
- h. In March 2007, FCR signed an unsecured credit line agreement in the amount of C\$ 250 million (approximately NIS 900 million) over a period of three years which renews from time to time with a consortium of banks and financial institutions headed by RBS Capital Markets.
- i. In February 2007, Citycon Oyj. ("Citycon") issued 25 million shares to international and Finnish institutional entities for the total consideration of approximately € 134 million (approximately NIS 746 million). The Company has acquired 10 million shares in the context of this issuance with an investment of approximately € 54 million (approximately NIS 298 million).

**NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

- a. In July 2007, the Company issued NIS 500 million par value of debentures (series E) in consideration of approximately NIS 496 million. The debentures (series E) are unlinked, bear annual interest at the Telbor rate (deriving from the average annual interest rates on NIS deposits for 6-month period) plus a fixed margin of 0.7%. The debentures (series E) are redeemable in two equal payments in 2017.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

- b. In July and August 2007, the Company's wholly owned subsidiary has acquired during trade on the New York Stock Exchange (NYSE), 2.1 million of EQY shares in consideration of approximately U.S.\$ 50.7 million (approximately NIS 216 million). As a result of these acquisitions, the Group's holding in EQY increased from 42.2% to 45%.
- c. In August 2007, the Company's wholly owned subsidiary sold its investment in 4 series of Preferred shares of MLS in consideration of approximately U.S.\$ 12.5 million (approximately NIS 53 million).
- d. In August 2007, the Company declared a dividend in the amount of NIS 0.27 per share, to be paid in October 2007. The record date is September 24, 2007.

**NOTE 5:- GEOGRAPHIC SEGMENTS**

	<b>Six months ended June 30, 2007 (unaudited)</b>				<b>Total -</b>
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>594,690</u>	<u>673,452</u>	<u>40,069</u>	<u>18,524</u>	<u>1,326,735</u>
Segment results	<u>396,391</u>	<u>945,754</u>	<u>39,168</u>	<u>9,336</u>	<u>1,390,649</u>
	<b>Six months ended June 30, 2006 (unaudited)</b>				<b>Total -</b>
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>631,150</u>	<u>629,797</u>	<u>21,365</u>	<u>4,510</u>	<u>1,286,822</u>
Segment results	<u>325,994</u>	<u>283,079</u>	<u>9,750</u>	<u>2,050</u>	<u>620,873</u>
	<b>Three months ended June 30, 2007 (unaudited)</b>				<b>Total -</b>
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>302,514</u>	<u>347,961</u>	<u>23,075</u>	<u>9,387</u>	<u>682,937</u>
Segment results	<u>193,890</u>	<u>384,771</u>	<u>27,694</u>	<u>3,988</u>	<u>610,343</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 5:- GEOGRAPHIC SEGMENTS (Cont.)**

	<b>Three months ended June 30, 2006 (unaudited)</b>				<b>Total - consolidated</b>
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	
	<b>Reported NIS in thousands</b>				
Rental income	<u>295,618</u>	<u>314,600</u>	<u>10,809</u>	<u>4,510</u>	<u>625,537</u>
Segment results	<u>146,873</u>	<u>144,746</u>	<u>4,875</u>	<u>2,050</u>	<u>298,544</u>
	<b>Year ended December 31, 2006 (audited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>1,199,161</u>	<u>1,277,487</u>	<u>54,855</u>	<u>20,793</u>	<u>2,552,296</u>
Segment results	<u>615,627</u>	<u>587,467</u>	<u>21,588</u>	<u>6,517</u>	<u>1,231,199</u>

**NOTE 6:- DISCLOSURE OF THE INTERIM FINANCIAL STATEMENTS OF AFFILIATES**

The Company discloses to these financial statements the interim financial statements of the affiliate Citycon Oyj.

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