

GAZIT-GLOBE LTD.

Directors' Report to Shareholders **For the period ended March 31, 2007**

The Board of Directors of Gazit-Globe Ltd. (hereinafter – “the Company”) is pleased to present the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2007:

1. A. General

The Company – directly and through its subsidiaries (hereinafter, collectively – “the Group”) and an affiliate – is engaged in the acquisition, development and management of income-producing properties in North America, Europe and Israel, focusing mainly on supermarket-anchored shopping centers. In addition, the Company is active in the senior housing communities and the medical office buildings sectors in the U.S.A. and continues to seek and realize opportunities within its core business and similar asset classes, both in regions where it operates and also in new territories.

B. Properties

As of the date of the financial statements, the Group owns 462 properties, as follows:

- 419 shopping centers and stores
- 25 shopping centers under development
- 12 senior housing communities (with approx. 1,231 units)
- 2 senior housing communities under development
- 2 medical office buildings and a multi-story parking garage
- 2 office buildings

The above properties have a gross leasable area (“G.L.A.”) of approximately 4.5 million square meters. They are recorded in the Company’s books and in the affiliate's books at their fair value of NIS 37 billion and generate annual rental revenue of NIS 3.3 billion (annual rental revenue data is based on the gross annual rent from the properties currently owned at the exchange rate on the signing date of the financial statements).

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – “EQY”), a public company listed on the New York Stock Exchange (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for U.S. tax purposes. As of the signing date of the financial statements, the Company owns, directly and indirectly (through the subsidiary, First Capital Realty Inc., as described below), 42.1% of EQY. EQY’s properties are located primarily in growing

metropolitan areas in the southeastern United States mainly in Florida and Georgia and in the Boston, Massachusetts metropolitan area. EQY owns 171 operating shopping centers, with a G.L.A. of 1.7 million square meters, as well as five land parcels for future development.

The Company is also active in the United States through Royal Senior Care (hereinafter – “RSC”) and ProMed Properties Inc. (hereinafter – “ProMed”). RSC, in which the Company holds a 50% interest, is active in the senior housing communities sector in the southeastern United States. RSC owns 12 senior housing communities, encompassing approximately 1,231 units, as well as two senior housing communities that are currently under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings sector. ProMed owns two medical office buildings, with a G.L.A. of 64,400 square meters and a multi-story parking garage.

In Canada, the Company operates through First Capital Realty Inc. (“FCR”), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the signing date of the financial statements, the Company holds 53.6% of FCR. FCR’s properties are located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 154 properties in Canada, with a G.L.A. of approximately 1.7 million square meters and seven shopping centers under development. In addition, FCR owns 13.9 million shares in EQY.

In Israel, the Company operates through Gazit-Globe Israel (Development) Ltd. (hereinafter – “Gazit Development”), which is 75% owned by the Company. Gazit Development is an owner, developer and operator of shopping centers in Israel and Bulgaria. It owns eight shopping centers in Israel, with a G.L.A. of approximately 100,000 square meters and has seven shopping centers under development. In addition, the Company owns an office building in Tel-Aviv, part of which serves [as the Group’s headquarters].

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – “Citycon”), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (OMX). As of the signing date of the financial statements, the Company owns approximately 39.5% of Citycon’s share capital. Citycon is active in northern Europe (as of the signing date of the financial statements, in Finland, Sweden, Estonia and Latvia) and owns 81 shopping centers and retail properties. These properties are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.8 million square meters, and two shopping centers that are currently under development. The Company also operates in the European shopping centers sector (in Germany, as of the signing date of the financial statements) through wholly owned subsidiaries (hereinafter – “Gazit Europe”) and owns four shopping centers with a G.L.A. of approximately 40,000 square meters and two shopping centers under development. The Company is also active in Bulgaria, through wholly owned subsidiaries of Gazit Development (hereinafter – “Gazit Development (Bulgaria)”), where it owns a shopping center with a G.L.A. of approximately 7,000 square meters, two plots of land for the future development of shopping centers and offices, with an

area of approximately 153,000 square meters and also an office building that is used by the Group.

Other publicly accessible data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets, liabilities and other information (it is hereby clarified that such information does not constitute part of this report and is also not included as an invitation), can be found on the Group's Internet website and the Internet websites of the Group's companies:

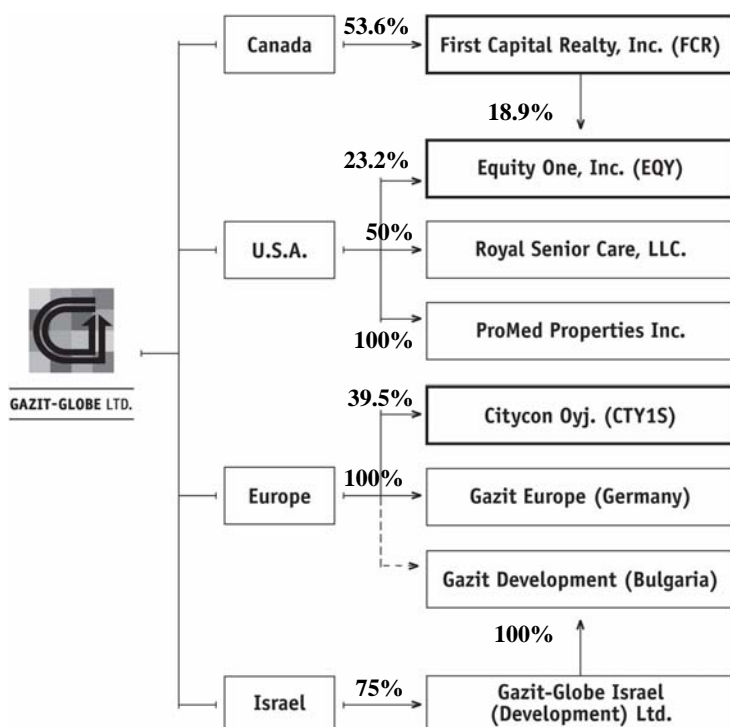
www.gazit-globe.com

www.equityone.net

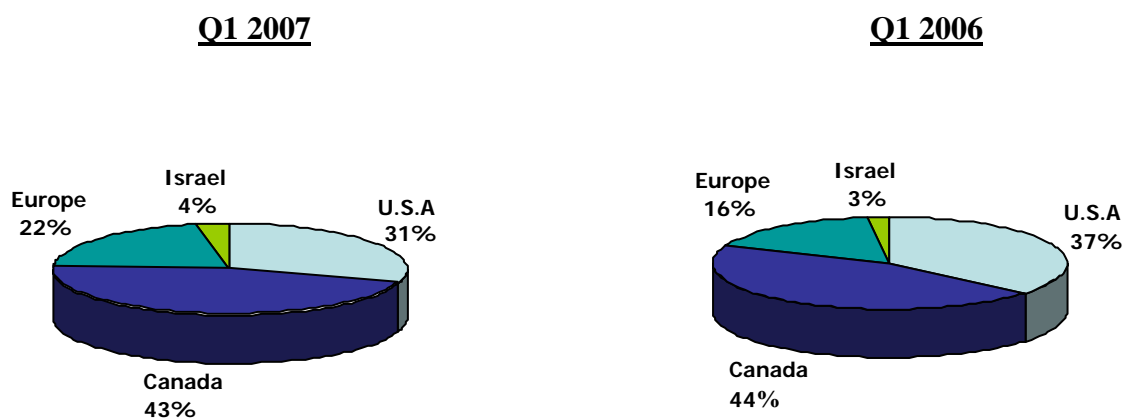
www.firstcapitalrealty.ca

www.citycon.fi

C. The Company’s Major Holdings are Shown Below (Ownership Percentages are as of the Date of the Financial Statements):



D. Breakdown of Net Operating Income (“NOI”)⁽¹⁾, According to the Company’s Operating Regions:



⁽¹⁾ The Company’s share (“by proportionate consolidation”), including its equity in an affiliate - see section E.2 below.

E. The Company's Assets

1. The following table presents a summary of the Company's assets as of March 31, 2007, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions) ⁽¹⁾	Market value as of March 31, 2007 (NIS in millions)
EQY ⁽²⁾	Shares (NYSE)	17.1	23.2	1,508	1,884
FCR	Shares (TSX)	40.9	53.6	3,354	4,029
FCR	Convertible debentures (TSX)	66.8	33.4	233	248
Citycon	Shares (OMX)	76.0	39.5	1,555	2,465
Citycon	Convertible debentures	37	33.6	207	303
RSC	Income-producing property	-	-	261	-
Property in Europe	Income-producing property	-	-	611	-
ProMed	Income-producing property	-	-	472	-
Property in Israel	Income-producing property	-	-	1,297	-6
Total				9,498	-

⁽¹⁾ According to the fair value of the assets in conformance with Israel Accounting Standard No. 16 and at depreciated cost in conformance with Israel Accounting Standard No. 27.

⁽²⁾ Represents only the Company's direct interest in EQY. (In addition, FCR owns 13.9 million shares of EQY).

Below are the Company's monetary balances (including balances of subsidiaries that are not public companies) as of March 31, 2007 (NIS in millions):

Debentures and debts to financial institutions *	5,554
Monetary liabilities, other than debentures and debts to financial institutions	<u>286</u>
Total monetary liabilities	5,840
Less – monetary assets	<u>1,170</u>
Monetary liabilities, net	<u>4,670</u>

* Below are the annual repayments of the debentures and debts to other financial institutions (NIS in millions):

<u>Year</u>	<u>Total</u>	<u>%</u>
2007	208	4
2008	104	2
2009	374	7
2010	191	3
2011	586	11
2012	435	8
2013	407	7
2014	519	9
2015	461	8
2016	445	8
2017	200	4
2018	412	7
2019	327	6
2020	328	6
2021	434	8
2022 and after	<u>123</u>	<u>2</u>
Total	<u>5,554</u>	<u>100</u>

2. Additional information is presented below concerning the Company's share in the income-producing properties owned by the Group as of March 31, 2007, based on capitalized net operating income ("NOI")⁽¹⁾ methodology. The presentation of this information is intended to provide additional information, based on methodology that is generally accepted in the regions in which the Company operates, which might serve as an additional method in analyzing the value of the Company's properties on the basis of the Company's financial results for the reporting period. It is emphasized that this information does not represent the Company's present or future value of its assets.

The sensitivity analyses shown in the table below describe the implied value of the income-producing properties⁽²⁾ owned by the Group according to the range of different cap rates generally accepted in the regions in which the Group operates, as of the date of publishing the financial statements. It should be noted that this presentation does not take into account existing building rights potential in respect of the Company's properties.

In calculating the NOI, the following assumptions were made:

- a. The NOI for the period for each of the Group companies.
- b. The Company's proportionate share in the NOI of the Group companies:

	For the three months ended March 31		For the year ended December 31,	
	2007	2006	2006	
NIS in millions				
Property rental revenue	644	661	2,552	
Property operating expenses	(215)	(226)	(868)	
NOI for the period	429	435	1,684	
Less – minority interests' share in NOI	(225)	(242)	(893)	
Add – Company's share in Citycon's NOI	51	41	180	
NOI for the period	<u>255</u>	<u>234</u>	<u>971</u>	
NOI for the year	<u>⁽³⁾1,021</u>	<u>⁽³⁾937</u>	<u>971</u>	
 Cap Rate:	 <u>5.50%</u>	 <u>5.75%</u>	 <u>6.00%</u>	 <u>6.25%</u>
Value of proportionately consolidated income-producing property (NIS in millions) ⁽⁴⁾	<u>18,558</u>	<u>17,751</u>	<u>17,012</u>	<u>16,331</u>

⁽¹⁾ NOI - Property rental revenue, net of property operating expenses.

⁽²⁾ NOI divided by the cap rate.

⁽³⁾ NOI for the first quarter of 2007 multiplied by 4.

⁽⁴⁾ In accordance with the NOI for the first quarter of 2007.

New properties and properties under development, which have not yet come on line and which are presented at their carrying values in the Company's books (according to the proportionate consolidation method) as of March 31, 2007, amounted to NIS 955 million.

The Group's liabilities, net of monetary assets (by the proportionate consolidation method) as of March 31, 2007, amounted to NIS 11,233 million.

3. As of March 31, 2007, the Company's issued share capital comprises 117.8 million shares (excluding treasury stock held by the Company).

F. Highlights - First Quarter 2007 (hereinafter – “the reporting period”):

- **The Group's investments totaled NIS 1.5 billion, compared to NIS 2 billion in the corresponding quarter last year. In addition, Citycon invested NIS 0.5 billion in acquiring and developing properties, a similar amount as in the corresponding quarter last year.**
- **Property rental revenue totaled NIS 644 million, a decrease of 3% compared to the corresponding quarter last year. The decrease is due to the weakening of the U.S. dollar and the Canadian dollar against the shekel (an “appreciation” of the shekel) by an average rate of approximately 10%, and to the sale of the Texas property portfolio in April 2006.**
- **NOI⁽¹⁾ totaled NIS 429 million, compared to NIS 435 million in the corresponding quarter last year, a decrease of 2%, which is due to the changes in exchange rates and the sale of the Texas property portfolio, as referred to above.**
- **FFO⁽²⁾ totaled NIS 65 million, NIS 0.55 per share, compared to NIS 70 million, NIS 0.69 per share, for the corresponding quarter last year, a decrease of 7%.**

The decrease in FFO and FFO per share as stated is due to the following reasons:

- 1. The appreciation in the exchange rates between the aforementioned periods, which has a NIS 7 million effect (NIS 0.06 per share).**
- 2. Expenses relating to The Mills Corporation (“MLS”) shares, which were sold at the end of the quarter, in the amount of NIS 9 million (NIS 0.07 per share).**
- 3. Sale of the Texas property portfolio in April 2006.**

⁽¹⁾ NOI – Property rental revenue, net of property operating expenses.

⁽²⁾ See section 3C below.

- Neutralizing the effect of the appreciation, as referred to above, the principal operating items are as follows:

	For the three months ended March 31		Rate of change between the periods
	2007 ⁽¹⁾	2006	
	NIS in millions		
Property rental revenue	<u>716</u>	<u>661</u>	<u>8%</u>
NOI.	<u>746</u>	<u>435</u>	<u>9%</u>
FFO	<u>72</u>	<u>70</u>	<u>3%</u>

- Gross profit totaled NIS 427 million, compared to NIS 322 million in the corresponding quarter last year, an increase of 32%, which is due to the first-time implementation of Israel Accounting Standard No. 16, see section G. below.
- Cash inflows from operating activities totaled NIS 170 million, compared to NIS 155 million for the corresponding quarter last year, an increase of 10%.
- Net income totaled NIS 235 million, NIS 1.93 per share, compared to NIS 40 million, NIS 0.38 per share, for the corresponding quarter last year.
- At the end of the quarter, the Group had 27 properties under development with a gross area of approximately 300 thousand square meters, 15 properties being redeveloped and additional land reserves, which have been earmarked for future development. The additional cost to complete of these properties under development and redeveloped totals NIS 2 billion.
- Capital reserves ⁽²⁾ (included within the line item “shareholders’ equity”) fell by NIS 50 million (NIS 0.43 per share), compared to a rise of NIS 44 million (NIS 0.44 per share) in the corresponding quarter last year. The reduction in the capital surpluses is due to the weakening of the Canadian dollar, the U.S. dollar and the euro against the shekel (an “appreciation” of the shekel), compared to the strengthening of the Canadian dollar, the U.S. dollar and the euro against the shekel (a “devaluation” of the shekel) in the corresponding quarter last year.
- Debt to market capitalization (derived from the market value of the Group’s holdings) was 50.6% as of March 31, 2007, compared to 52.0% and 49.4% as of March 31, 2006 and December 31, 2006, respectively.

⁽¹⁾ According to the average exchange rates for the three-month period ended March 31, 2006.

⁽²⁾ Capital reserves deriving from translation of the financial statements of foreign operations.

- **The Company is applying Israel Accounting Standard No. 16, “Investment Property”, for the first time commencing from January 1, 2007. As a result of implementing the standard as stated, the Company’s shareholders’ equity as of December 31, 2006 increased from approximately NIS 2.9 billion to approximately NIS 4.7 billion. Moreover, in the reporting period, the Company recognized income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 190 million (approximately NIS 154 million after providing for taxes).**

G. Change in Shareholders’ Equity and Reported Income Due to Changes in Accounting Standards

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16, “Investment Property” (hereinafter – “the Standard”), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements with regard to investment property.

Investment property is defined as 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 which is not held for use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

The main changes prescribed by the Standard as compared to the accounting principles that were applied prior to January 1, 2007, are:

Investment property is to be presented according to the cost model or at fair value. The Company has opted to apply the fair value model as its accounting policy for the presentation of investment property. The Company has reported the effect of adopting the Standard from January 1, 2007 as an adjustment to the opening balance of the retained earnings at that date.

Property rights held by a lessee under an operating lease from the Israel Lands Administration are classified as investment property. The Company will apply the fair value model in respect thereto.

Presented below are details of the effect of the Standard, which has been carried directly to shareholders equity:

	Company’s share	Minority’s share	Total
	N I S i n m i l l i o n s		
Increase in balance of investment property	2,527	3,722	6,249
Increase in provision for deferred taxes	(724)	(285)	(1,009)
Increase in minority interest	-	(3,437)	(3,437)
Total increase in balance of retained earnings	1,803	-	1,803

H. Disclosure Concerning Adoption of International Financial Reporting Standards

1. The Company prepares its financial statements in accordance with generally accepted accounting principles (“GAAP”) in Israel. The Company is at an advanced stage in the process of preparing for the transition to reporting in accordance with International Financial Reporting Standards (“IFRS”). The Company is intending to make the transition to adopting IFRS during 2007.

The Company intends to issue audited financial statements for 2006 (including comparative figures for 2005) pursuant to Section 36 of IFRS 1, drawn up in accordance with IFRS. Accordingly, the date for the Company’s transition to IFRS (hereinafter – “the transition date”) is January 1, 2005.

Presented below are the reconciliations for the transition to reporting in accordance with IFRS as of January 1, 2005, December 31, 2005 and December 31, 2006 and for each of the two years ended December 31, 2006.

2. Reconciliations of shareholders equity

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents		52,807	-	52,807	282,212	-	282,212	194,221	118,397	312,618
Short-term investments		56,021	-	56,021	68,691	(143)	68,548	147,717	-	147,717
Derivative financial instruments	5.j	-	-	-	-	-	-	-	2,365	2,365
Tenants		103,123	-	103,123	110,732	-	110,732	132,817	5,642	138,459
Accounts receivables		125,811	(2,859)	122,952	188,952	(6,260)	182,692	210,697	33,301	243,998
Rental properties held for sale	5.f	54,888	9,215	64,103	1,298,902	487,394	1,786,296	130,739	3,346	134,085
Current tax assets	5.k	-	3,592	3,592	-	4,799	4,799	-	18,977	18,977
		<u>392,650</u>	<u>9,948</u>	<u>402,598</u>	<u>1,949,489</u>	<u>485,790</u>	<u>2,435,279</u>	<u>816,191</u>	<u>182,028</u>	<u>998,219</u>
NON-CURRENT ASSETS:										
Long-term investments	5.i	216,105	(180,001)	36,104	650,056	(616,277)	33,779	1,151,209	(1,118,556)	32,653
Long-term loans and receivables	5.a	88,687	(35,206)	53,481	116,503	(61,760)	54,743	151,432	(97,813)	53,619
Investments in available-for-sale financial assets	5.i	-	216,710	216,710	-	642,772	642,772	-	986,746	986,746
Derivative financial instruments	5.j	-	12,306	12,306	-	21,160	21,160	-	55,252	55,252
Investments in affiliates	5.e.g	533,867	2,479	536,346	721,864	630	722,494	1,429,340	(1,427,286)	2,054
Investment property	5.a	-	17,192,360	17,192,360	-	20,633,124	20,633,124	-	33,160,546	33,160,546
Investment property under development	5.a	-	317,711	317,711	-	793,902	793,902	-	1,566,790	1,566,790
Property, plant and equipment, net	4.c	14,613,735	(14,225,572)	388,163	17,045,266	(16,807,998)	237,268	20,419,451	(20,137,790)	281,661
Goodwill	5.e	60,516	10,033	70,549	44,652	20,408	65,060	44,199	70,086	114,285
Other intangible assets, net	5.a.i	196,579	(196,225)	354	273,894	(273,502)	392	179,208	(178,787)	421
Deferred taxes	5.a,d,k	50,356	(35,529)	14,827	-	15,135	15,135	-	67,868	67,868
		<u>15,759,845</u>	<u>3,079,066</u>	<u>18,838,911</u>	<u>18,852,235</u>	<u>4,367,594</u>	<u>23,219,829</u>	<u>23,374,839</u>	<u>12,947,056</u>	<u>36,321,895</u>
<u>Total assets</u>		<u>16,152,495</u>	<u>3,089,014</u>	<u>19,241,509</u>	<u>20,801,724</u>	<u>4,853,384</u>	<u>25,655,108</u>	<u>24,191,030</u>	<u>13,129,084</u>	<u>37,320,114</u>

(*) Including in respect of the full consolidation of Citycon – see section 5.g below.

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands								
EQUITY AND LIABILITIES										
CURRENT LIABILITIES:										
Credit from banks and others	5.i	755,391	(3,469)	751,922	1,291,091	(290,267)	1,000,824	966,558	449,982	1,416,540
Trade payables		152,474	-	152,474	207,621	-	207,621	195,594	25,156	220,750
Other accounts payable		256,216	(17,987)	238,229	345,404	(16,186)	329,218	402,194	168,615	570,809
Dividend declared		-	-	-	22,610	-	22,610	29,457	-	29,457
Liabilities associated with the rental properties held for sale	5.f	-	-	-	-	250,610	250,610	-	-	-
Derivative financial instruments	5.l	-	6,869	6,869	-	377	377	-	18,236	18,236
Current tax liability	5.k	-	11,262	11,262	-	9,051	9,051	-	43,084	43,084
		<u>1,164,081</u>	<u>(3,325)</u>	<u>1,160,756</u>	<u>1,866,726</u>	<u>(46,415)</u>	<u>1,820,311</u>	<u>1,593,803</u>	<u>705,073</u>	<u>2,298,876</u>

(*) Including in respect of the full consolidation of Citycon – see section 5.g below.

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands								
NON-CURRENT LIABILITIES:										
Liabilities to financial institutions and others	5.i	7,182,308	(39,582)	7,142,726	7,951,227	(8,462)	7,942,765	7,014,366	3,558,104	10,572,470
Convertible debentures redeemable into shares of subsidiaries	5.c	479,220	2,552	481,772	351,827	(29,328)	322,499	468,134	303,117	771,251
Debentures	5.i	2,298,157	(21,150)	2,277,007	4,176,037	(49,784)	4,126,253	8,024,421	37,214	8,061,635
Indexed stock options	5.b	-	13,418	13,418	-	14,693	14,693	-	1,188	1,188
Receipts from issuance of stock options in subsidiaries	5.b	-	-	-	1,284	(1,284)	-	5,909	(5,909)	-
Equity component of convertible debentures redeemable into shares of subsidiaries	5.c	-	-	-	-	-	-	19,762	(19,762)	-
Deposits from lessees and tenants		267,416	-	267,416	65,068	-	65,068	67,084	-	67,084
Derivative financial instruments	5.j	-	11,800	11,800	-	43,642	43,642	-	87,839	87,839
Employee benefits liability		1,042	-	1,042	164	-	164	259	-	259
Deferred taxes	5.a,d,k	-	672,179	672,179	85,981	874,995	960,976	168,176	1,321,507	1,489,683
Minority interest	5.h	3,458,056	(3,458,056)	-	4,395,154	(4,395,154)	-	3,963,738	(3,963,738)	-
Total non-current liabilities:		13,686,199	(2,818,839)	10,867,360	17,026,742	(3,550,682)	13,476,060	19,731,849	1,319,560	21,051,409
EQUITY:										
Issued capital		144,014	-	144,014	160,781	-	160,781	171,412	-	171,412
Share premium	5.b	922,900	(2,140)	920,760	1,409,685	31,726	1,441,411	2,071,145	52,886	2,124,031
Dividend declared subsequent to the balance sheet date		17,200	-	17,200	25,419	-	25,419	31,813	-	31,813
Foreign currency translation reserve	4.b	124,974	(124,974)	-	257,360	(71,637)	185,723	82,620	(201,076)	(118,456)
Loans for purchase of shares	5.l	(9,418)	9,418	-	(10,818)	10,818	-	(9,844)	9,844	-
Treasury stock		(116,004)	-	(116,004)	(203,159)	-	(203,159)	(24,574)	-	(24,574)
Retained earnings		219,573	614,191	833,764	263,089	1,107,903	1,370,992	507,938	1,736,060	2,243,998
Other capital reserves	5.i,j	(1,024)	6,402	5,378	5,899	15,796	21,695	34,868	54,788	89,656
Total equity attributable to equity holder of the Company		1,302,215	502,897	1,805,112	1,908,256	1,094,606	3,002,862	2,865,378	1,652,502	4,517,880
Minority interest	5.h	-	5,408,281	5,408,281	-	7,355,875	7,355,875	-	9,451,949	9,451,949
Total equity		1,302,215	5,911,178	7,213,393	1,908,256	8,450,481	10,358,737	2,865,378	11,104,451	13,969,829
Total liabilities and equity		16,152,495	3,089,014	19,241,509	20,801,724	4,853,384	25,655,108	24,191,030	13,129,084	37,320,114

(*) Including in respect of the full consolidation of Citycon – see section 5.g below.

3. Reconciliation of profit and loss:

	Note	Year ended December 31, 2005			Year ended December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
NIS in thousands (except per share amounts)							
Rental income	5.a	2,195,821	(18,717)	2,177,104	2,552,296	502,039	3,054,335
Rental property operating expenses	5.a	717,762	(4,179)	713,583	867,838	156,220	1,024,058
Rental property depreciation	5.a	360,800	(349,743)	11,057	453,259	(442,724)	10,535
Gross profit		1,117,259	335,205	1,452,464	1,231,199	788,543	2,019,742
Increase in fair value of investment property	5.a	-	1,187,642	1,187,642	-	2,678,091	2,678,091
General and administrative expenses		189,102	1,511	190,613	283,418	55,291	338,709
Operating income		928,157	1,521,336	2,449,493	947,781	3,411,343	4,359,124
Financial expenses	5.b,j,k	(622,058)	(128,908)	(750,966)	(757,617)	(303,698)	(1,061,315)
Financial income	5.k	-	75,304	75,304	-	114,400	114,400
Other income (expenses), net	5.a	306,099	1,467,732	1,773,831	190,164	3,222,045	3,412,209
		122,353	(61,031)	61,322	514,101	(684,221)	(170,120)
Income before taxes on income		428,452	1,406,701	1,835,153	704,265	2,537,824	3,242,089
Taxes on income	5.a,d	74,545	160,872	235,417	84,211	415,121	499,332
Income after taxes on income		353,907	1,245,829	1,599,736	620,054	2,122,703	2,742,757
Equity in earnings of affiliates	5.g	129,960	686	130,646	270,566	(234,152)	36,414
Minority interest in earnings of subsidiaries	5.g,h	(295,965)	295,965	-	(529,242)	529,242	-
Income before cumulative effect as of the beginning of the year of change in accounting principles		187,902	1,542,480	1,730,382	361,378	2,417,793	2,779,171
Cumulative effect as of the beginning of the year of change in accounting principles	5.d	(56,525)	56,525	-	-	-	-
Net income		<u>131,377</u>	<u>1,599,005</u>	<u>1,730,382</u>	<u>361,378</u>	<u>2,417,793</u>	<u>2,779,171</u>
Attributable to:							
Equity holders of the parent				625,347			989,532
Minority interest				1,105,035			1,789,639
				<u>1,730,382</u>			<u>2,779,171</u>
Net earnings per share attributable to ordinary equity holders of the Company (in NIS):							
Basic net earnings		<u>1.48</u>	<u>5.47</u>	<u>6.95</u>	<u>3.34</u>	<u>5.85</u>	<u>9.19</u>
Diluted net earnings		<u>1.40</u>	<u>5.36</u>	<u>6.76</u>	<u>3.17</u>	<u>5.71</u>	<u>8.88</u>

(*) Including in respect of the full consolidation of Citycon with effect from March 31, 2006 – see section 5.g below.

4. Exemptions to be adopted by the Company on transition to IFRS

IFRS 1, which deals with the first-time adoption of IFRS, permits twelve exemptions whose restatement in all reporting periods prior to the transition date to IFRS is not required. The Company has elected to adopt the following exemptions:

a. Business combinations

Business combinations (IFRS 3) that took place prior to the transition date with regard to the acquisition of subsidiaries, affiliates and jointly controlled entities will not be restated.

b. Translation differences

The Company will not recognize cumulative translation differences prior to transition date for any foreign operations.

c. Deemed cost

The Company will present fixed assets, investment property under development and deferred charges, as of the transition date, on the basis of “deemed” cost as defined in IFRS 1. In other words, these items are presented at the reported amounts in which they were presented in the financial statements to December 31, 2004. Investment property will be presented at transition date at its fair value.

d. Embedded financial instruments

The Company does not split embedded financial instruments into their equity and liability components, with regard to liabilities that did not exist as of the transition date.

e. Share-based payment

IFRS 2, which deals with share-based payment transactions, will not be applied with regard to equity instruments granted subsequent to November 7, 2002 and which had vested by the transition date.

5. The principle differences between the accounting policies to be applied in the financial statements drawn-up in accordance with IFRS and the accounting principles applied under Israeli GAAP are as follows:

a. Investment property

Under Israeli GAAP, until Accounting Standard No.16 of the Israel Accounting Standards Board (hereinafter – “the IASB”) went into effect in January 2007, investment property was presented as part of the fixed assets according to the cost model. Pursuant to International Accounting Standard No. 40 (“IAS 40”), investment property that is held by the owner or by the lessee under a finance lease for the purpose of generating rental revenue or for capital appreciation (or for both objectives) may be presented according to the fair value model.

Furthermore, under IAS 40, a property held under an operating lease can be presented as investment property, but only if the property otherwise complies with the definition of investment property and the company applies the fair value model. Investment property under development is presented at its deemed cost until ready to generate rental revenue. Once it is ready, it is classified as investment property and measured at fair value.

The Company will apply the fair value model in its IFRS statements. The fair value has been assessed mainly on the basis of valuations performed by independent external appraisers and includes the long-term receivables and intangible assets that stem from the investment property; these balances are thus classified as part of the fair value of the investment property. The amortization of incentives granted to tenants is recorded as a set-off against rental revenue. With effect from 2007, the transition to IFRS will not affect the financial statements since the Company is applying Accounting Standard No. 16.

b. Stock options

Under Israeli GAAP, stock options that have an exercise price that is linked to a foreign currency (other than the company's functional currency) or to the consumer price index are presented in shareholders' equity. Under IFRS, such equity instruments are to be classified as liabilities that are measured at their fair value in each reporting period with changes in fair value being carried to the financial item in the statement of income. When the stock options are exercised, the balance is carried to shareholders' equity.

Under Israeli GAAP, stock options issued by subsidiaries are presented between liabilities and shareholders' equity, while, under IFRS, such options are presented within the framework of minority interest.

c. Convertible debentures redeemable into subsidiaries' shares

Under the Israeli GAAP in effect until December 31, 2005, convertible debentures redeemable into a subsidiary's shares were presented in the balance sheet as a quasi-capital instrument between long-term liabilities and shareholders' equity at the higher of their equity or capital values, when their conversion into shares was probable and under long-term liabilities at their liability value, when their conversion into shares was not probable. Under IFRS, debentures convertible into a subsidiary's shares have to be split into their equity component, which is presented within the framework of minority rights and their liability component, which is presented under long-term liabilities. As part of the exemptions granted upon the first-time adoption, the aforementioned split need only be performed for debentures for which there is still a liability balance on the transition date. From January 1, 2006, the date that Accounting Standard No. 22 of the IASB went into effect, the difference between Israeli GAAP and IFRS described above no longer exists.

d. Deferred tax liability in respect of a plot of land acquired in business combinations

Under Israeli GAAP, a deferred tax liability was not recognized for the temporary differences relating to a plot of land, which arose on business combinations prior to January 1, 2005. Under IFRS, the Company recognizes this liability.

e. Goodwill

Under Israeli GAAP, until the Revised Israel Accounting Standard No. 20 of the IASB became effective on January 1, 2006, goodwill that arose on business combinations was systematically amortized over a period of up to 20 years. Since the above date, goodwill is not written down except in the event of its impairment. Under IFRS 3, including the exemption permitted upon its implementation by virtue of IFRS 1, the amortization of goodwill is discontinued with effect from the transition date, subject to review for impairment.

f. Assets held for sale and discontinued operations

Under Israeli GAAP, there is no requirement for assets held for sale to be measured differently. Under IFRS 5, an asset held for sale is presented separately and is to be measured at the lower of its carrying value or its fair value, less costs of sale, and depreciation or amortization is not to be included for such an asset.

g. Consolidation of the financial statements

In the financial statements drawn-up in accordance with IFRS, the Company applies the IASB's statement regarding tests for the existence of effective control. Accordingly, in its financial statements drawn-up in accordance with IFRS, the Company will consolidate both EQY and Citycon (Citycon has been consolidated commencing from the end of the first quarter of 2006 in accordance with when the particular circumstances existed that testify to effective control having been obtained). However, in the financial statements drawn-up in accordance with Israeli GAAP, the Company only consolidates EQY on the basis of effective control, with this being in line with the approach of the Israel Securities Authority, which distinguishes between effective control after dilution of formal control and effective control without there ever having been formal control previously.

Under Israeli GAAP, potential voting rights are not taken into account when assessing whether control is exerted over a company. Pursuant to International Accounting Standard No. 27, the effect of potential voting rights exercisable at balance sheet date has been taken into account.

h. Minority interest

Under Israeli GAAP, the minority interest is presented in the balance sheet outside the framework of shareholders' equity, while under IFRS, the minority interest is presented as part of the equity. Accordingly, under Israeli GAAP,

the minority's share in the results of subsidiaries is included as part of the results in the income statement, while under IFRS, the minority's share in the results is not included in the income statement, but is presented as part of the attribution of earnings to the shareholders.

i. Financial instruments

Under Israeli GAAP, the Company presents its investment in marketable securities that fall within the definition of a "permanent investment" at cost, net of any impairment that is not of a temporary nature, while securities that are included as a "current investment" are presented at their fair value, with changes in the valuation being carried to income. On the other hand, under International Accounting Standard No. 39, the Company presents its investments in financial instruments available for sale at their fair value, with valuation differences being carried to capital reserve, except in the case of an impairment, which is charged to the statement of income.

Financial liabilities – Under Israeli GAAP, the Company applies Israel Accounting Standard No. 22 with effect from January 1, 2006, whereby the discount, premium and deferred expenses relating to obtaining loans, are amortized according to the effective interest method and are presented as a deduction from the balance of the liability. Under International Accounting Standard No. 32, this policy is applied from the date of the assumption of the liability, and thus deferred expenses have been removed from "other assets" and reclassified as a reduction of the balance of liabilities.

j. Derivative financial instruments

Under IFRS, derivative financial instruments are initially recognized at fair value and this is remeasured at each reporting date. Gains or losses during the year arising from changes in the fair value of the derivatives, where these do not meet the criteria for hedge accounting, are carried immediately to income, as explained below:

Cash flow hedges

Under Israeli GAAP, the results of the intrinsic value of a derivative financial instrument that meets the criteria of a hedge instrument are deferred and are recognized in the income statement concurrently with the result of the hedged item. Under International Accounting Standard No. 39, the effective portion of the gain or loss resulting from the change in the fair value of the hedge instrument is recognized directly in shareholders' equity, while the ineffective portion is immediately recognized in the statement of income.

Hedges of a net investment

Under Israeli GAAP, the intrinsic value of an instrument hedging a net investment in a foreign operation is carried to the capital reserve of translation differences for foreign operations. Under International Accounting Standard No. 39, the hedging of a net investment in foreign operations, including a hedge of a monetary item that is reported as part of the net investment, is

reported in a similar fashion to a cash flow hedge. The effective portion of gains or losses resulting from a change in the fair value of the hedge instrument is carried to shareholders' equity, while gains or losses deriving from the ineffective portion of the hedge are charged to the statement of income. In instances where documentation does not exist to assign the derivative to the objectives of the hedge and to examine the effectiveness of the hedge, the derivative cannot be recognized as a hedge instrument.

k. Financial statements presentation

In accordance with the provisions of IFRS 1, the presentation rules will be applied in the financial statements, pursuant to which:

- Liabilities and assets in respect of deferred taxes are recorded only as long-term balances.
- Liabilities and assets in respect of current taxes are presented separately in the balance sheet.
- Financing income and expenses are presented separately in the statement of income.

l. Loans for the acquisition of shares

Under Israeli GAAP, loans granted to the Company's employees for the acquisition of Company shares are presented by being set off against shareholders' equity. Under IFRS, such loans are presented as a long-term receivable.

2. The Group and its Business Environment – Key Events and Changes During the Reporting Period

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 1.5 billion. In addition, Citycon invested NIS 0.5 billion in acquiring and developing properties during the reporting period. The effect of these investments on the operating results will be reflected in during the remainder of the year.

A. Property Activities

1. During the reporting period, the Group acquired 12 income-producing properties, with a total G.L.A. of approximately 149,000 square meters and four plots of land for future development. The total consideration for these acquisitions totaled NIS 1.3 billion.
2. During the reporting period, the Group invested a total of NIS 0.2 billion in developing new properties and in the redevelopment of existing properties.
3. As of March 31, 2007, EQY and FCR had 12 properties under development of approximately 76,000 square meters, 15 properties being redeveloped and expanded and additional land reserves, which have been earmarked for future development. The total cost of these properties and land reserves totals NIS 1 billion. The cost to complete these development, redevelopment and expansion projects is expected to amount to a further NIS 0.6 billion.

The total cost of the properties and land as described above, which are being developed or are intended for future development, as well as the properties of Gazit Development, RSC and Gazit Europe that are being developed, is approximately NIS 1.4 billion. These properties and land did not generate any rental revenue during the reporting period.

4. As of March 31, 2007, EQY's and FCR's average basic monthly rental revenue was US\$ 10.44 per square meter. During the period, EQY and FCR renewed leases on 68,000 square meters, while increasing the average basic monthly rent on these leases by 9.5% to an average monthly rent of US\$ 11.27 per square meter. Additionally, the companies signed new leases on 24,000 square meters at a basic average monthly rent of US\$ 11.99 per square meter. The net operating income from the same properties increased by an average of 4.1%, compared to the corresponding quarter last year.

EQY's and FCR's core properties had an average occupancy rate of 94.6% as of March 31, 2007 (the rate was 94.5% as of March 31, 2006).

5. As of March 31, 2007, RSC's properties had an occupancy rate of 92.2% (the rate was 93.2% as of March 31, 2006).

During the reporting period, RSC acquired two additional senior housing communities, consisting of 202 units, for a total investment of US\$ 21.3 million (approximately NIS 90 million). RSC has land reserves of two plots for the construction of additional senior housing communities for a total investment of US\$ 8 million (approximately NIS 33 million). The latter will consist of 471 units and the additional investment to bring them to completion is expected to be US\$75 million (approximately NIS 312 million).

6. As of March 31, 2007, Gazit Development's properties had an occupancy rate of 93.6% and yielded average monthly rental revenues of NIS 69.5 per square meter. During the reporting period, Gazit Development renewed leases on 1,200 square meters of space, while increasing the average monthly rent on these leases by 7.1%. During the period, leases on 2,500 square meters expired, with an average monthly rent of NIS 53.4 per square meter.

At of March 31, 2007, Gazit Development had a stake in 14 properties in Israel, as detailed below (data presented in thousands of NIS, except for rental areas):

	Qty.	Book value (*)	Additional investment to complete development	Rental area (square meters)
Income-producing properties	7	932,343	-	76,180
Properties and plots of land under development	7	332,572	488,553	102,878

(*) In accordance with Israel Accounting Standard No. 16, see section 1G above.

In addition, as of March 31, 2007, Gazit Development owns in Bulgaria an income-producing property with a G.L.A. of approximately 7 thousand square meters and an office building. It also owns two plots of land in Bulgaria that are intended for the development of shopping centers and offices with an area of approximately 153,000 square meters, representing an investment of €7.8 million (approximately NIS 43 million). The expected additional cost of bringing these properties to completion, in a number of stages, is €14 million (approximately NIS 80 million), with the first stage expected to add approximately 40,000 square meters out of the total of approximately 200,000 square meters, whose development will be completed in a number of stages, as stated.

7. As of March 31, 2007, Gazit Europe's properties in Germany had an occupancy rate of 97.7% and yielded average monthly rental revenues of €11 per square meter.

As of March 31, 2007, Gazit Europe had a stake in properties in Germany, as detailed below (data presented in thousands of euros, except for rental areas):

	Qty.	Book value (*)	Additional investment to complete development	Rental area (square meters)
Income-producing properties	4	85,483		40,214
Properties and plots of land under development	2	7,268	49,300	38,300

(*) In accordance with Israel Accounting Standard No. 16, see section 1G above.

8. In the reporting period, Citycon invested €78.6 million (approximately NIS 435 million) in the acquisition of income-producing properties and in increasing its stake in existing shopping centers, and also in the redevelopment, at a cost of €6.3 million (approximately NIS 35 million), of income-producing properties.

The net operating income from the same properties increased by 12.2%, compared to the corresponding period last year.

As of March 31, 2007, Citycon's properties had an occupancy rate of 96.7% (similar to the rate as of March 31, 2006).

As of March 31, 2007, Citycon had three properties under development at an investment of €19 million (approximately NIS 105 million); the expected additional cost of bringing these properties to completion is €33 million (approximately NIS 183 million) and their completion is expected to add approximately 28 thousand square meters.

- B.** As to the public debt financing by the Company by way of a shelf prospectus - see note 3B to the financial statements.
- C.** As to the issuance of debentures by FCR – see note 3C to the financial statements.
- D.** As to an agreement for the provision of an unsecured credit facility to FCR – see note 3D to the financial statements.
- E.** As to the issuance of capital by Citycon and the Company's participation in this issue – see note 3E to the financial statements.
- F.** As to the sale of MLS shares - see note 3A to the financial statements.

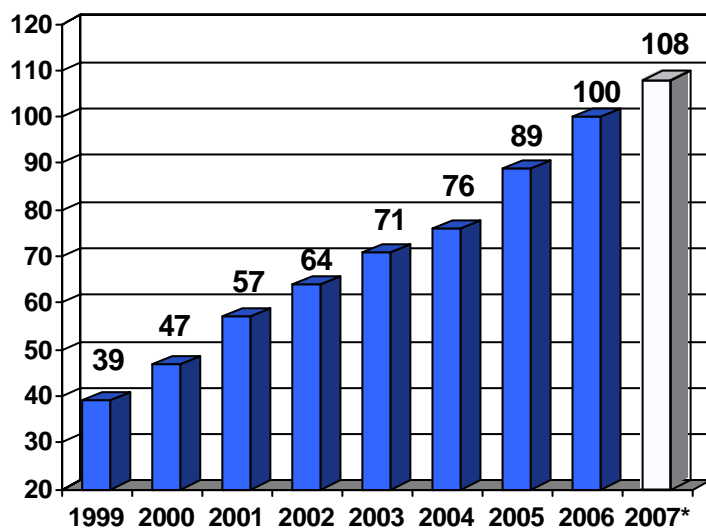
G. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. In November 2006, the Company decided that the dividend to be declared in 2007 would not be less than NIS 0.27 per share per quarter (NIS 1.08 per share on an annualized basis).

The above is subject to the existence of adequate amounts of distributable income at the relevant dates and is subject to the provisions of any law relating to dividend distributions and to decisions that the Company is permitted to take. This includes the appropriation of its income for other purposes and the revision of this policy.

The Company's dividend growth in the years 1999-2007 is shown in the graph below:

Agurot (hundredths of a shekel) per share



* Forecast

3. A. Results of Operations

	For the three months ended March 31		For the year ended December 31,
	2007	2006	2006
NIS in thousands (other than earnings per share data)			
Property rental revenue	643,798	661,285	2,552,296
Rental property operating expenses	215,206	226,025	867,838
Rental property depreciation	1,884	112,931	453,259
Gross profit	426,708	322,329	1,231,199
Increase in fair value of investment property	353,598	-	-
General and administrative expenses	98,859	54,820	283,418
Operating income	681,447	267,509	947,781
Financing expenses, net	177,080	171,087	757,617
	504,367	96,422	190,164
Other income (expenses), net	(8,000)	7,726	514,101
Income before taxes on income	496,367	104,148	704,265
Taxes on income	82,204	24,274	84,211
Income after taxes on income	414,163	79,874	620,054
Equity in earning of affiliates	73,493	37,672	270,566
Minority interest in earnings of subsidiaries	(252,359)	(77,258)	(529,242)
Net income	235,297	40,288	361,378
<u>Net earnings per share</u>			
<u>(in reported NIS)</u>			
<u>Fully diluted earnings per share</u>	<u>1.93</u>	<u>0.38</u>	<u>3.17</u>
Number of shares used in computing fully diluted earnings per share (thousands of shares)			
	<u>118,340</u>	<u>100,722</u>	<u>108,334</u>

B. Analysis of Results of Operations for the First Quarter of 2007

Property rental revenue

The 3% decrease compared to the corresponding quarter last year is due to the weakening of the U.S. dollar and the Canadian dollar against the shekel (an “appreciation” of the shekel) by an average rate of approximately 10%, and to the sale of the Texas property portfolio in April 2006.

Property operating expenses

The decrease in rental operating expenses, compared to the corresponding quarter last year, is due to the changes in exchange rates and the sale of the Texas property portfolio, as referred to above. Rental property operating expenses, as a percentage of property rental revenue, fell to 33.4% from 34.2% for the corresponding quarter last year. This is mainly due to an improvement in this percentage in FCR.

Property depreciation

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company no longer records depreciation expenses for investment property, see also section 1G above.

Gross profit

Gross profit totaled NIS 427 million (66.3% of property rental revenue); this compares to NIS 322 million (48.7% of property rental revenue) for the corresponding quarter last year – an increase of 32%. The increase in gross profit as a percentage of property rental revenue is mainly due to the implementation of Israel Accounting Standard No. 16, as explained above.

Increase in fair value of investment property

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company made an adjustment to the fair value of its properties in the gross amount of NIS 354 million; the Company’s proportionate share in this adjustment totals a gross amount of NIS 190 million.

General and administrative expenses

General and administrative expenses as a percentage of total revenues totaled 9.3%, compared to 7.8% for the corresponding period last year.

The higher percentage referred to above is mainly due to the following factors:

- 1) An increase in the Group's salary expenses as a result of taking on additional staff to cope with the growth in the Group's operations, which includes, inter alia, FCR's changeover to managing its own properties, EQY's enhanced severance pay expenses resulting from the changes that were made in its executive management and salary expenses linked to the increase in the Company's net income.
- 2) A non-recurring charge relating to the evaluation of transactions that did not ultimately take place.
- 3) An increase in non-recurring fees to professional service providers, mainly in respect of the transition to reporting under IFRS and the valuations of investment property.

Financing expenses, net

The change in financing expenses results from the following factors:

- 1) An increase in the Group's loans from an average balance of NIS 14.4 billion in the first quarter of 2006 to an average balance of NIS 16.8 billion in the first quarter of 2007. Interest expenses reflect an average nominal interest rate of approximately 5.7% on the Group's indebtedness, compared to 5.9% in the corresponding quarter last year.
- 2) The financing expenses are net of income of NIS 48.4 million from investments in marketable securities, which includes NIS 27 million from dividends, compared to NIS 32.1 million received in the corresponding quarter last year, which included NIS 24.9 million from dividends.

Other expenses, net

This item consists mainly of gains and losses in respect of capital transactions, such as the dilution of holdings in investee companies and real estate sales, as well as adjustments to the value of long-term investments.

As a result of the dilution of holdings in investee companies (primarily in respect of the issuance of shares and stock options to the employees of those companies), the Company recorded a loss of NIS 5.1 million, compared to a gain of NIS 3.3 million in the corresponding quarter last year.

Additionally, EQY sold an income-producing property and a plot of land, which produced a gross gain for the Group of NIS 6.7 million (the Company's share being NIS 3 million), compared to the gain of NIS 3.4 million (the Company's share being NIS 1.1 million) from the sale of properties by EQY in the corresponding quarter last year. Furthermore, the Company wrote-off the balance of the expenses relating to its investment in MLS in the gross amount of NIS 9.8 million.

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon totaling NIS 72.2 million, compared to NIS 37.7 million in the corresponding quarter last year.

In the reporting period, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of €31.5 million (approximately NIS 174 million) in their gross value (the Company's share, net of related taxes, is approximately NIS 51 million (approximately NIS 24 million in the corresponding quarter last year)).

Minority interest in earnings of subsidiaries

The increase in this item mainly results from the increase in the subsidiaries' net income in respect of the first-time implementation of Israel Accounting Standard No. 16, as explained above.

C. FFO⁽¹⁾ and FFO per share

The Company's practice is to publish its FFO results, which is the net reported income, after neutralizing income and expenditure of a non-recurring nature (including gains and losses resulting from the sale of properties, the adjustment of the fair value of investment property⁽²⁾ and the changes in the percentage stake held in investee companies) and with the addition of the Company's share of depreciation of rental properties⁽³⁾ and amortization. It also publishes FFO per share results, as is already the accepted practice in those countries in which the Company operates and in accordance with the position paper issued by the NAREIT – the U.S.-based National Association of Real Estate Investment Trusts.

In addition, beginning in 2006, Israel has adopted a REIT tax regime for companies that are real estate investment trusts, similar to that in effect in various other countries throughout the world. Such companies, under certain conditions, do not pay corporate tax. The Company thus considers that the presentation of FFO and FFO per share data, after neutralizing expenses and income in respect of deferred taxes (in other words, tax income and expenses that are not on a cash flows basis) provides a better comparison of the Company's operating results with those of other REIT companies in Israel and overseas.

⁽¹⁾ According to the NAREIT position paper, the FFO (Funds From Operations) index does not represent cash flow from current operations according to accepted accounting principles, nor does it reflect the cash held by a company, or its ability to distribute that cash, and it is not a substitute for the reported net income. Furthermore, the FFO is not part of the data audited by the Company's independent auditors.

⁽²⁾ With regard to those assets that fall within the definition of Israel Accounting Standard No. 16.

⁽³⁾ With regard to those assets that fall within the definition of Israel Accounting Standard No. 27.

The Company is of the opinion that FFO and FFO per share accurately reflect an additional aspect of the Company's operating results, providing a more appropriate basis for comparing the Company's operating results for a given period to those for previous periods and for comparing the Company's operating results to those of other property companies.

The table below presents the breakdown of the Company's FFO and FFO per share for the periods stated:

	For the three months ended March 31		For the year ended December 31,
	2007	2006	2006
	NIS in thousands		
	(other than FFO per share data)		
Net income	235,297	40,288	361,378
Adjustments to net income:			
Increase in fair value of investment property	(190,334)	-	-
Depreciation and amortization	⁽¹⁾ 22,121	51,239	⁽¹⁾ 231,644
Losses (gains) from dilution in holdings of consolidated subsidiaries	3,738	(3,017)	(33,301)
Gains from the sale of properties	(374)	(608)	(147,197)
Deferred tax expenses	36,403	3,999	34,863
Equity in earnings of affiliates ⁽²⁾	(73,493)	(37,672)	(270,566)
Equity in FFO of affiliates	18,802	14,495	82,190
Other adjustments ⁽³⁾	12,948	1,238	21,473
Total adjustments to net income	(170,189)	29,674	(80,894)
FFO	65,108	69,962	280,484
Primary FFO per share	0.55	0.69	2.60
Fully diluted FFO per share	0.55	0.69	2.59
Number of shares used in computing fully diluted earnings per share	118,340	101,628	108,334

⁽¹⁾ Includes the adjustment to the value of a long-term investment.

⁽²⁾ Includes the Company's equity in the revaluation of Citycon's investment in fixed assets to their fair value, in conformity with International Accounting Standard No. 40.

⁽³⁾ Expenses that are directly related to the income and expense items adjusted against the net income for the purpose of calculating FFO.

4. Financial Status

Liquidity

The Group has a policy of maintaining a high level of liquidity that enables the pursuit of business opportunities in its areas of operations.

The sources of the Group's liquid assets are its cash reserves (derived from its income-producing properties), credit facilities, mortgages and long-term loans and raisings of convertible debentures and equity. As stated, these liquid assets are applied in the acquisition, development and redevelopment of income-producing assets, the settlement of liabilities, investments in affiliates, other investments and the payment of dividends.

As of March 31, 2007, the liquid assets available to the Group, including short-term investments, totaled NIS 792 million, compared to NIS 342 million as of December 31, 2006. In addition, as of March 31, 2007, the Group had unutilized credit facilities available for immediate drawdown of NIS 3.7 billion, compared to NIS 3.8 billion as of December 31, 2006.

Furthermore, as of March 31, 2007, the Group had unpledged investment property, which are carried in the books at NIS 13.8 billion.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown totaling NIS 4.5 billion.

Current Assets

Current assets, as of March 31, 2007, totaled NIS 1.3 billion, compared to NIS 0.8 billion as of December 31, 2006. The increase relates mainly to the item, "cash and cash equivalents", which increased due to the sale of the MLS shares at the end of the quarter.

Investments in Affiliates

Investments in affiliates, totaling NIS 1,773 million as of March 31, 2007, relate primarily to the investment in 76 million shares of Citycon and in convertible debentures of Citycon with a nominal value of €37 million; investments in affiliates as of December 31, 2006 totaled NIS 1,429 million. During the reporting period, the Company acquired additional Citycon shares, by means of purchases on the stock exchange and through participation in an issuance of Citycon shares, at an overall cost of NIS 326 million.

Long-Term Investments

Long-term investments, as of March 31, 2007, totaled NIS 717 million, compared to NIS 1,151 million as of December 31, 2006.

The decrease in this item is due mainly to the sale of the MLS shares at the end of the quarter.

Investment Property, Investment Property under Development and Fixed Assets, Net

Investment property, investment property under development and fixed assets, net, as of March 31, 2007, totaled NIS 28.3 billion, compared to NIS 20.7 billion at the end of 2006. The increase is mainly due to the effect of the first-time implementation of Israel Accounting Standard No. 16 totaling NIS 6.2 billion, see also section 1G above.

During the reporting period, the Group acquired income-producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 1.5 billion. On the other hand, the weakening of the U.S. dollar, the Canadian dollar and the euro against the shekel caused a reduction of NIS 0.3 billion in these items.

Current Liabilities

Current liabilities, as of March 31, 2007, totaled NIS 1.5 billion, compared to NIS 1.6 billion at the end of 2006. The balance mainly consists of the line item "credit from banks and other credit granting institutions", which mainly consists of the current maturities of long-term liabilities in the amount of NIS 0.8 billion, compared to NIS 0.9 billion at the end of 2006.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.4 billion (at the end of 2006 - NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, as of March 31, 2007 totaled NIS 18.4 billion, compared to NIS 15.7 billion at the end of 2006.

The increase in this item derives principally from the issuance of debentures and the raking of new loans, as well as from the increase in net deferred taxes, which rose by an amount of NIS 1 billion as a result of the fair value adjustment to the Company's investment property. These primarily financed investments in fixed assets, the acquisition of long-term investments and investments in investee companies.

Minority Interests

Minority interests, as of March 31, 2007, mainly consist of the interests of EQY's other shareholders, who as of March 31, 2007, accounted for both 57.9% of EQY's equity and also the interests of FCR's other shareholders. At the same date, FCR's other shareholders accounted for 46.4% of FCR's equity.

The increase in this item is due to the effect of the first-time implementation of Israel Accounting Standard No. 16, as referred to above, totaling NIS 3.4 billion and FCR's issuance of shares during the reporting period to its shareholders. The effect of these events was partly mitigated by the appreciation of the U.S. and Canadian dollars against the shekel during the reporting period, which reduced the shekel amount of EQY's and FCR's shareholders' equity.

Shareholders' Equity

The change in shareholders' equity from NIS 2,865 million as of December 31, 2006 to NIS 4,828 million as of March 31, 2007 results mainly from the effect of the first-time implementation of Israel Accounting Standard No. 16 totaling NIS 1,803 million, from the income for the reporting period totaling NIS 235 million and from the decrease in the item "other capital surpluses" totaling NIS 44 million. These were partly offset by the dividends of NIS 32 million paid and declared by the Company.

Shareholders' equity per share as of March 31, 2007 totaled NIS 41.0 per share, compared to NIS 24.3 per share as of December 31, 2006. This is after a dividend distribution of NIS 0.27 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 54.2% as of March 31, 2007, compared to 63.1% as of December 31, 2006.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 50.6% as of March 31, 2007, compared to 49.4% as of December 31, 2006.

The Company considers that the fair value of its assets exceeds their carrying value in the Company's books and accordingly, the ratio of debt to total assets more fairly reflects the Group's leverage ratios.

Cash Flows

Cash inflows from operating activities for the reporting period totaled NIS 170 million, compared to NIS 155 million for the corresponding period last year.

In addition, the Group's activities during the reporting period were funded by means of capital raised by consolidated subsidiaries totaling NIS 54 million, debentures issued in a net amount of NIS 639 million, loans received and credit facilities drawn on in a net amount of NIS 1,080 million and long-term investments sold totaling NIS 474 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which, in the reporting period, totaled NIS 1,478 million, for further investments in affiliates in an amount of NIS 326 million and for the build-up of cash reserves and cash equivalents in an amount of NIS 699 million.

5. Donations

The Company customarily makes donations to charities and community welfare and education projects.

The Company makes donations to Tel-Aviv University, which has established and operates an institute focusing on research and studies of all manner of real estate-related topics (The Chaim Katzman – Gazit-Globe Real Estate Institute). In this connection, the Company has pledged to make an annual donation of US\$ 150 thousand for a period of seven years.

The Company donates to the “College for All” charity – a not-for-profit organization working to close the gaps in education by means of creating equal opportunities. The organization strives to realize its vision of excellence through the provision of learning and other tools to students with ability and motivation, from underprivileged neighborhoods. The goal is to encourage such students into academic studies. Within the framework of this organization, the Company has pledged to provide assistance to a group of students for a period of five years.

During the reporting period, the Group’s donations amounted to NIS 1.49 million.

6. Additional Information and Subsequent Events

- A.** From the balance sheet date through the signing date of the financial statements, the Group invested a total of NIS 0.5 billion in acquiring new properties and plots of land for future development.
- B.** As to the exercise of stock options into Company shares – see note 4A to the financial statements.
- C.** As to the issuance of debentures by the Company and its consolidated subsidiaries - see notes 4C, 4D and 4E to the financial statements.

7. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company’s market risks are Mr. Dori Segal, the Company’s President and Mr. Gil Kotler, the Company’s Chief Financial Officer. Since the publication of the Company’s annual report for 2006 on March 25, 2007, there have been no significant changes in the market risks or the way in which they are managed. Attached as Appendix A is the Company’s linkage bases balance sheet as of March 31, 2007.

May 27, 2007
Date of Approval
Of Directors’ Report

Chaim Katzman
Chairman of the Board of Directors

Dori Segal
President and Director

Appendix A to the Directors' Report

Linkage Bases Balance Sheet

as of March 31, 2007

	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In unlinked NIS	In euros	Unlinked	Total
N I S i n t h o u s a n d s							
Monetary assets							
Cash and cash equivalents	-	12,312	167,533	454,275	64,842	-	698,962
Short-term investments	-	-	33,952	4,659	-	54,242	92,853
Tenants, accounts receivable and other debit balances	45,041	5,162	110,586	145,297	29,116	78,326	413,528
Investments in affiliates	-	-	-	-	207,102	-	207,102
Long-term investments	5,471	-	21,436	14,861	-	674,990	716,758
Long-term loans and debit balances	5,302	-	35,912	9,373	-	-	50,587
	55,814	17,474	369,419	628,465	301,060	807,558	2,179,790
Non-monetary assets ⁽¹⁾	-	1,396,881	13,281,699	13,275,272	2,077,758	52,313	30,083,923
	55,814	1,414,355	13,651,118	13,903,737	2,378,818	859,871	32,263,713
Liabilities							
Short-term credit from banks and other credit granting institutions	-	4,305	-	-	-	-	4,305
Trade and other payables and other credit balances	8,617	132,515	215,399	284,945	16,951	22,329	680,756
Debentures	1,351,504	391,367	3,586,795	2,479,341	836,716	-	8,645,723
Liabilities to financial institutions and others	166,327	-	3,494,452	4,642,540	492,726	-	8,796,045
Deposits from tenants	2,228	-	42,485	25,717	-	-	70,430
Liabilities for employee rights upon retirement	-	256	-	-	-	-	256
Deferred taxes	-	-	-	-	-	1,231,485	1,231,485
Convertible debentures redeemable for subsidiary's shares	-	-	-	461,277	-	-	461,277
	1,528,676	528,443	7,339,131	7,893,820	1,346,393	1,253,814	19,890,277
Receipts in respect of subsidiary's convertible options	-	-	-	19,545	-	-	19,545
Receipts from issue of subsidiaries' stock options	-	-	6,323	4,330	-	-	10,653
Minority interests	-	-	-	-	-	7,515,331	7,515,331
Shareholders' equity	-	-	-	-	-	4,827,907	4,827,907
	1,528,676	528,443	7,345,454	7,917,695	1,346,393	13,597,052	32,263,713

⁽¹⁾ Mainly investment property and investment property under development.