

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2007

UNAUDITED

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The Board of Directors
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements
for the three months ended March 31, 2007

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of March 31, 2007, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the 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 45.3% of total consolidated assets as of March 31, 2007, and whose revenues constitute approximately 53.2% of total consolidated revenues for the three months then ended.

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
May 27, 2007

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

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	698,962	92,263	194,221
Short-term investments	92,853	46,055	147,717
Tenants	148,730	134,261	132,817
Accounts receivable	264,798	212,975	210,697
Rental properties held for sale	132,912	1,313,566	130,739
	<u>1,338,255</u>	<u>1,799,120</u>	<u>816,191</u>
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	1,773,347	764,807	1,429,340
Long-term investments	716,758	956,345	1,151,209
Long-term loans and receivables	50,587	*) 55,557	*) 47,937
Investment property	26,580,909	*) 18,023,645	*) 18,753,177
Investment property under development	1,432,311	*) 1,104,623	*) 1,658,594
	<u>30,553,912</u>	<u>20,904,977</u>	<u>23,040,257</u>
FIXED ASSETS:			
Cost	356,862	*) 234,547	315,429
Less - accumulated depreciation	37,629	*) 29,212	*) 35,115
	<u>319,233</u>	<u>205,335</u>	<u>280,314</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>52,313</u>	*) <u>54,220</u>	*) <u>54,268</u>
	<u><u>32,263,713</u></u>	<u><u>22,963,652</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

	<u>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	784,882	1,085,247	966,558
Trade payables	189,484	134,926	195,594
Other accounts payable	459,459	383,390	402,194
Dividend declared	31,813	25,419	29,457
	<u>1,465,638</u>	<u>1,628,982</u>	<u>1,593,803</u>
LONG-TERM LIABILITIES:			
Debentures	8,578,654	5,245,458	8,024,421
Convertible debentures redeemable into shares of subsidiary	461,277	346,202	468,134
Liabilities to financial institutions and others	8,082,537	8,959,199	7,014,366
Tenants' security deposits	70,430	69,303	67,084
Accrued severance pay, net	256	164	259
Deferred taxes, net	1,231,485	97,552	168,176
	<u>18,424,639</u>	<u>14,717,878</u>	<u>15,742,440</u>
RECEIPTS FROM CONVERSION OF OPTION IN SUBSIDIARY	<u>19,545</u>	<u>10,757</u>	<u>19,762</u>
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN SUBSIDIARIES	<u>10,653</u>	<u>-</u>	<u>5,909</u>
MINORITY INTEREST	<u>7,515,331</u>	<u>4,507,514</u>	<u>3,963,738</u>
SHAREHOLDERS' EQUITY	<u>4,827,907</u>	<u>2,098,521</u>	<u>2,865,378</u>
	<u><u>32,263,713</u></u>	<u><u>22,963,652</u></u>	<u><u>24,191,030</u></u>

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

<u>May 27, 2007</u>	<u>Chaim Katzman</u>	<u>Dori Segal</u>	<u>Gil Kotler</u>
Date of approval of the financial statements	Chairman of the Board	President and Director	Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
	(except per share amounts)		
Rental income	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
Appreciation of investment property	353,598	-	-
General and administrative expenses	98,859	54,820	283,418
Operating income	681,447	267,509	947,781
Financial expenses, net	177,080	171,087	757,617
Other income (expenses), net	504,367 (8,000)	96,422 7,726	190,164 514,101
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 earnings of affiliates	73,493	37,672	270,566
Minority interest in earnings of subsidiaries	(252,359)	(77,258)	(529,242)
Net income	<u>235,297</u>	<u>40,288</u>	<u>361,378</u>
Net earnings per share (in reported NIS):			
Basic net earnings	<u>1.99</u>	<u>0.40</u>	<u>3.34</u>
Diluted net earnings	<u>1.93</u>	<u>0.38</u>	<u>3.17</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended March 31, 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
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	(50,409)	-	-	-	-	(50,409)
Revaluation of derivatives in affiliate to market value	-	-	4,738	-	-	-	-	-	4,738
Measurement of investment property at the cost model (1)	-	-	-	-	1,802,764	-	-	-	1,802,764
Net income	-	-	-	-	235,297	-	-	-	235,297
Cost of share-based payment	-	-	1,295	-	-	-	-	-	1,295
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	574	574
Revaluation of loans for purchase of shares	-	-	-	-	(22)	-	-	22	-
Dividend declared	-	-	-	-	-	(31,813)	-	-	(31,813)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,860)	31,860	-	-	-
Balance at end of period	<u>171,414</u>	<u>2,071,226</u>	<u>40,901</u>	<u>32,211</u>	<u>2,514,117</u>	<u>31,860</u>	<u>(24,574)</u>	<u>(9,248)</u>	<u>4,827,907</u>

(1) See Note 2b(1).

(2) See Note 4f.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended March 31, 2006 (unaudited)								Total
	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	
	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	2,274	69,883	-	-	-	-	-	-	72,157
Sale of shares held by the Company	-	26,854	-	-	-	-	22,103	-	48,957
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	44,287	-	-	-	-	44,287
Revaluation of derivatives in affiliate to market value	-	-	9,412	-	-	-	-	-	9,412
Net income	-	-	-	-	40,288	-	-	-	40,288
Cost of share-based payment	-	-	498	-	-	-	-	-	498
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	85	85
Revaluation of loans for purchase of shares	-	-	-	-	41	-	-	(41)	-
Dividend declared	-	-	-	-	-	(25,419)	-	-	(25,419)
Dividend declared subsequent to the balance sheet date	-	-	-	-	(27,107)	27,107	-	-	-
Balance at end of period	<u>163,055</u>	<u>1,506,422</u>	<u>15,809</u>	<u>301,647</u>	<u>276,311</u>	<u>27,107</u>	<u>(181,056)</u>	<u>(10,774)</u>	<u>2,098,521</u>

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	171,412	2,071,145	-	34,868	82,620	507,938	31,813	(24,574)	(9,844)	2,865,378

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income	235,297	40,288	361,378
Adjustments to reconcile net income to net cash provided by operating activities (a)	(64,828)	114,282	228,579
Net cash provided by operating activities	170,469	154,570	589,957
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated companies (b)	-	-	(198,077)
Investment in investees	(325,938)	(9,742)	(550,365)
Investments in fixed assets, investment property and investment property under development	(1,478,154)	(1,965,069)	(5,008,411)
Repayment of loans to partners in property under development, net	-	13,004	14,454
Proceeds from sale of fixed assets, investment property and investment property under development	65,851	29,564	1,825,338
Long-term loans granted	(1,722)	-	(42,295)
Repayment of long-term loans granted	933	5,077	26,122
Short-term investments, net	220	1,951	(7,291)
Purchase of marketable securities and long-term investments	(257,548)	(348,817)	(1,121,793)
Proceeds from realization of long-term investments	731,584	68,443	474,880
Withdrawal of long-term deposits	-	1,039	822
Net cash used in investing activities	(1,264,774)	(2,204,550)	(4,586,616)
<u>Cash flows from financing activities:</u>			
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	-	48,957	421,210
Issuance of stock options	-	-	7,658
Issuance of shares to minorities in subsidiaries, net	54,170	62,968	338,396
Dividend paid	(29,457)	(22,610)	(103,268)
Dividend paid to minorities in subsidiary	(92,465)	(103,034)	(582,649)
Receipt of long-term loans	694,405	1,057,289	1,897,398
Repayment of long-term loans	(243,653)	(484,116)	(2,081,351)
Withdrawal (repayment) of long-term credit lines from banks, net	630,302	263,279	(254,764)
Repayment and early redemption of debentures and convertible debentures	(11,876)	(133,484)	(681,011)
Sale of Company's debentures by subsidiaries	-	114,911	300,622
Short-term bank credit, net	(63,616)	(10,871)	(80,101)
Issuance of debentures and convertible debentures	651,101	990,479	4,615,639
Purchase of subsidiary's shares by subsidiary	-	-	(301,935)
Net cash provided by financing activities	1,589,568	1,856,010	3,918,227
Effect of exchange rate differences from cash balances of foreign autonomous entities	9,478	4,021	(9,559)
Increase (decrease) in cash and cash equivalents	504,741	(189,949)	(87,991)
Cash and cash equivalents at beginning of period	194,221	282,212	282,212
Cash and cash equivalents at end of period	698,962	92,263	194,221

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	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	(21,829)	(5,058)	(44,890)
Appreciation of investment property	(353,598)	-	-
Minority interest in earnings of subsidiaries	252,359	77,258	529,242
Equity in earnings of affiliates, net of dividend received	(22,819)	2,078	(225,617)
Depreciation	3,386	103,782	462,661
Deferred taxes, net	69,759	11,973	42,821
Gain from early redemption of debentures and convertible debentures	-	-	(2,887)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(2,139)	7,052	27,737
Write-down of long-term investments	9,821	-	16,923
Amortization of other assets and deferred charges	-	6,077	25,002
Capital gain from sale of fixed assets, investment property and investment property under development	(6,695)	(3,367)	(447,326)
Increase (decrease) in accrued severance pay, net	(3)	-	95
Loss (gain) from issuance to third party, net	5,076	(3,275)	(33,535)
Cost of share-based payment	1,705	1,144	9,898
Bad debts	1,269	-	3,203
Changes in asset and liability items:			
Increase in tenants and accounts receivable	(76,394)	(71,003)	(208,485)
Increase (decrease) in trade payables and other accounts payable	70,958	(15,751)	65,930
Increase in tenants' security deposits, net	4,316	3,372	7,807
	<u>(64,828)</u>	<u>114,282</u>	<u>228,579</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
(b) <u>Investment in newly consolidated companies:</u>			
Consolidated companies' assets and liabilities at date of purchase:			
Working capital (excluding cash and cash equivalents):			
Current assets	-	-	(1,898)
Current liabilities	-	-	90,679
	-	-	88,781
Fixed assets, long-term investments and loans (mainly real estate)	-	-	(511,056)
Long-term liabilities	-	-	224,198
	-	-	(286,858)
	-	-	(198,077)
(c) <u>Significant non-cash operations:</u>			
Dividend declared	31,813	25,419	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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of March 31, 2007, and for the 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 falls within the scope of Accounting Standard No. 16 and is 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	(724)	(285)	(1,009)
Increase in minority interest	-	(3,437)	(3,437)
Total increase in retained earnings	<u>1,803</u>	<u>-</u>	<u>1,803</u>

In accordance with the transitional provisions of the Standard, comparative data for March 31, 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.

No significant valuation for the Group is included as part of the above valuations, 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

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 Transitional Provisions of Accounting Standard No. 27, "Fixed Assets":

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 27, "Fixed Assets" and No. 28, "Amendment to the Transitional 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 Standard 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

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 retroactive 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 at an advanced stage in the 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 March 31, 2007, which is attached to these financial statements, includes in section 1H 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.

- 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 <u>Points *)</u>	<u>Representative exchange rate of</u>		
		<u>U.S.\$</u>	<u>C\$</u>	<u>Euro</u>
<u>As of</u>			<u>NIS</u>	
March 31, 2007	184.4	4.155	3.6008	5.5343
March 31, 2006	186.1	4.665	4.020	5.6619
December 31, 2006	184.9	4.225	3.6408	5.5643
<u>Change during the period</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
March 2007 (3 months)	(0.2)	(1.6)	(1.1)	(0.5)
March 2006 (3 months)	0.6	1.3	1.4	3.9
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. 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.
- b. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

- c. 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.
- d. In March 2007, FCR signed an unsecured credit facility 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.
- e. 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 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 May 9, 2007, ProMed Properties Inc. ("ProMed"), a wholly owned subsidiary, completed the acquisition of a medical and research office building comprising about 40 thousand sq.m. situated in the center of the life science campus in the University City district in the center of Philadelphia, U.S.

The overall cost of acquisition amounted to approximately U.S.\$ 113 million (approximately NIS 470 million) whereby ProMed financed the acquisition of the property by non-recourse loans in the amount of approximately U.S.\$ 85 million (approximately NIS 353 million) and the remainder was financed by the company's independent sources.

- c. 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 interest 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.

- d. 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 interest of 5.32% and are redeemable in one sum in October 2014.
- e. In April 2007, the Company issued NIS 400 million par value of debentures (series D) in consideration of approximately NIS 421 million.
- f. In May 2007, the Company declared a dividend in the amount of NIS 0.27 per share, to be paid in July 2007. The record date is June 19, 2007.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Three months ended March 31, 2007 (unaudited)				Total - consolidated
	U.S.	Canada	Israel	Europe	
	Reported NIS in thousands				
Rental income	<u>292,176</u>	<u>325,491</u>	<u>16,994</u>	<u>9,137</u>	<u>643,798</u>
Segment results	<u>202,501</u>	<u>560,983</u>	<u>11,474</u>	<u>5,348</u>	<u>780,306</u>
	Three months ended March 31, 2006 (unaudited)				Total - consolidated
	U.S.	Canada	Israel	Europe	
	Reported NIS in thousands				
Rental income		<u>335,532</u>	<u>315,197</u>	<u>10,556</u>	<u>661,285</u>
Segment results		<u>179,121</u>	<u>138,333</u>	<u>4,875</u>	<u>322,329</u>
	Year ended December 31, 2006 (audited)				Total - consolidated
	U.S.	Canada	Europe	Israel	
	Reported NIS in thousands				
Rental income	<u>1,199,161</u>	<u>1,277,487</u>	<u>20,793</u>	<u>54,855</u>	<u>2,552,296</u>
Segment results	<u>615,627</u>	<u>587,467</u>	<u>6,517</u>	<u>21,588</u>	<u>1,231,199</u>

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

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