

GAZIT-GLOBE LTD.

Directors' Report to Shareholders **For the periods ended September 30, 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 periods ended September 30, 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 an owner and operator of senior housing communities and the medical office buildings in North America and, since September 2007, is also active in Israel and Eastern Europe in the development and construction of residential and commercial buildings and the performance of contract work in the infrastructure field. The Company also continues to seek and realize opportunities within its core business and similar asset classes, both in regions where it operates and also in new geographical areas.

B. Properties

As of the date of the financial statements, the Group owns 477 properties, as follows:

- 429 shopping centers and stores
- 21 shopping centers under development
- 13 senior housing communities (with approx. 1,306 units)
- 2 senior housing communities under development
- 7 medical office buildings and a multi-story parking garage
- 5 office buildings

The above properties have a gross leasable area (“G.L.A.”) of approximately 4.7 million square meters. They are recorded in the Company’s books and in the affiliate’s books at their fair value of NIS 44 billion and generate annual rental revenue of NIS 3.7 billion (annual rental revenue data is based on the gross annual rental revenue 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 its subsidiary 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), 45% 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 173 operating shopping centers, with a G.L.A. of 1.7 million square meters, as well as three 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 sector in the southeastern United States. RSC owns 13 senior housing communities, encompassing approximately 1,306 units, as well as two that are currently under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings. ProMed owns seven medical office buildings in North America (the U.S.A. and Canada), with a G.L.A. of 69,000 square meters and a multi-story parking garage.

In Canada, the Company operates primarily through First Capital Realty Inc. (“FCR”), a public company listed on the Toronto Stock Exchange (TSX: FCR). As at the signing date of the financial statements, the Company holds 54.7% 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 157 properties in Canada, with a G.L.A. of approximately 1.8 million square meters and six shopping centers under development. In addition, FCR owns 14 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 income-producing shopping centers in Israel, with a G.L.A. of approximately 110,000 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 addition, since September 2007, the Company also operates in Israel through Acad Building & Investments Ltd. (hereinafter – “Acad”), 50% of whose shares had been acquired as of the above date, and which is consolidated according to the proportionate consolidation method. Acad’s main activity is the holding, directly and indirectly, of 73.8% (54.4% on a fully diluted basis) of the share capital and voting rights of U. Dori Engineering Works Corp. Ltd. (hereinafter – “U. Dori”), a public company that is listed on the Tel Aviv Stock Exchange and that is primarily engaged in the development and construction (both for itself and for third parties) of residential and commercial buildings and the performance of contract work in the infrastructure field. U. Dori also operates in developing residential projects in Eastern Europe; additionally, U. Dori (together with others) is involved in the construction of an electricity generating power station in Israel. Apart from its holdings in U. Dori, Acad also operates as a contractor in Nigeria and is the part-owner of rights in an income-producing property in Israel.

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – “Citycon” or “the affiliate”), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (OMX:CTYIS). As of the signing date of the financial statements, the Company owns approximately 39.4% 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 85 shopping centers and retail properties. These properties are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.9 million square meters, and a shopping center that is 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 five shopping centers with a G.L.A. of approximately 48,000 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 (please note that such information is not intended to and does not constitute part of this report nor a recommendation of such securities), 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. Highlights – Third quarter of 2007:

- **The Group and the affiliate's investments totaled NIS 2.8 billion, a similar amount as in the corresponding quarter last year.**
- **Property rental revenue totaled NIS 727 million, an increase of 18% compared to the corresponding quarter last year. The increase is due to the enlargement of the property portfolio as a result of the net acquisition of new properties, development properties coming on-line and the increase in the average rent per square meter received on the Group's properties.**
- **Property Net Operating Income ("NOI")⁽¹⁾ totaled NIS 492 million, compared to NIS 412 million in the corresponding quarter last year, an increase of 19%.**
- **Funds from Operations ("FFO")⁽²⁾ totaled NIS 79.6 million or NIS 0.67 per share, compared to NIS 71.7 million or NIS 0.66 per share, for the corresponding quarter last year, an increase of 11%.**
- **Gross profit totaled NIS 490 million, compared to NIS 298 million in the corresponding quarter last year, an increase of 64%, which is mainly due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.**
- **Cash inflows from operating activities totaled NIS 164 million, a similar amount as in the corresponding quarter last year.**
- **Net income totaled NIS 101 million or NIS 0.81 per share, compared to NIS 50.1 million or NIS 0.39 per share, in the corresponding quarter last year, an increase of 102%.**
- **At the end of the quarter, the Group and the affiliate had 23 properties under development with a gross area of approximately 306,000 square meters, 30 properties being redeveloped and additional land reserves, costing approximately NIS 2.2 billion, which have been earmarked for future development. The additional cost to complete such properties approximates NIS 3.2 billion.**

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

⁽²⁾ See section 3D below/

- Capital reserves⁽¹⁾ (included within the line item “shareholders’ equity”) fell by NIS 92.2 million (NIS 0.78 per share), compared to a fall of NIS 101.4 million (NIS 0.93 per share) in the corresponding quarter last year. The decrease in the capital surpluses is due to the weakening of the U.S. dollar, the Canadian dollar, and the euro against the NIS (an “appreciation” of the NIS) in the aforesaid periods.
- As of September 30, 2007, debt to market capitalization (derived from the market value of the Group’s holdings) was 54.8%, compared to 51.5% and 49.4% as of September 30, 2006 and December 31, 2006, respectively.
- 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 this standard, the Company’s shareholders’ equity as of December 31, 2006 increased from approximately NIS 2.9 billion to approximately NIS 4.6 billion. Moreover, in the third quarter of 2007, the Company recognized income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 44 million (approximately NIS 33 million after providing for taxes).

D. Highlights – First nine months of 2007 (hereinafter – “the reporting period”):

- The Group and the affiliate’s investments totaled NIS 6.3 billion, a similar amount as in the corresponding period last year.
- Property rental revenue totaled NIS 2.1 billion, an increase of 8% compared to the corresponding period last year. The increase is due to the enlargement of the property portfolio as a result of the net acquisition of new properties, development properties coming on-line and the increase in the average rent per square meter received on the Group’s properties.
- NOI totaled NIS 1.4 billion, compared to NIS 1.3 billion in the corresponding period last year, an increase of 10%.
- FFO totaled NIS 210 million or NIS 1.77 per share, compared to NIS 205.7 million or NIS 1.95 per share, for the corresponding period last year.

The decrease in FFO per share (NIS 0.18) as referred to above, is due to the following reasons:

1. The appreciation in the exchange rates between the aforementioned periods (the U.S. dollar – 8%, the Canadian dollar – 5.4%, and the euro – 0.5%), which has a NIS 9.2 million effect (NIS 0.08 per share).

⁽¹⁾ Capital reserves resulting from translation of the financial statements of foreign operations.

2. A NIS 6.1 million (NIS 0.05 per share) increase in non-recurring administrative expenses, mainly due to transactions that did not ultimately take place.

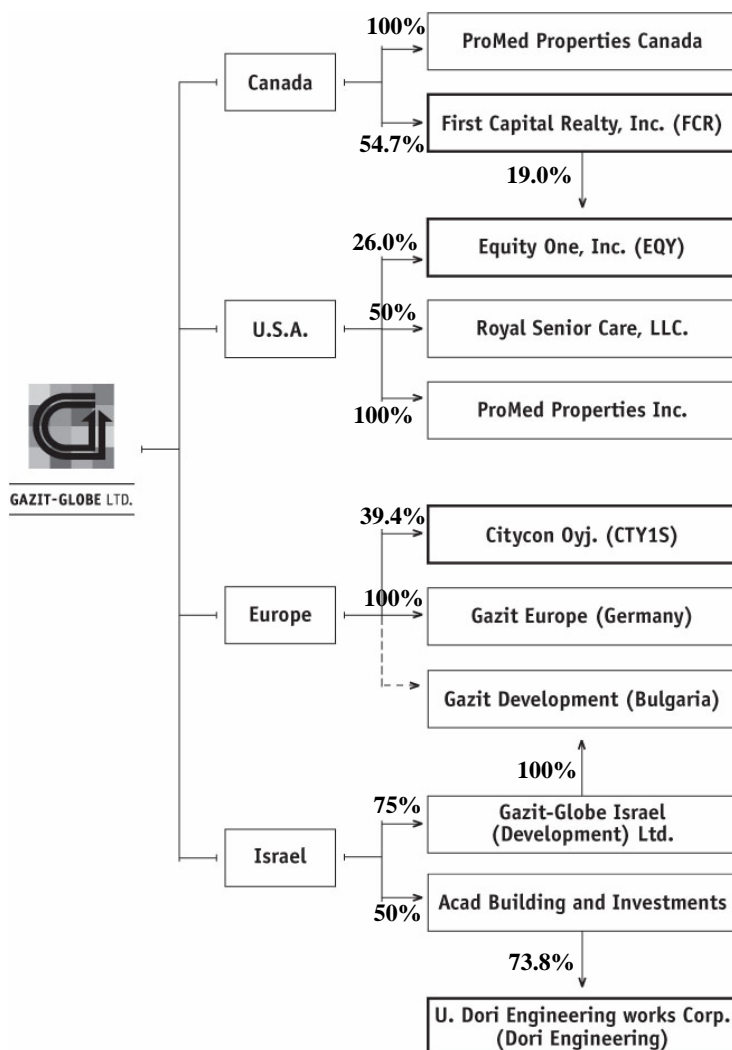
3. Sale of the Texas property portfolio in April 2006.

- Certain principal operating line items, calculated according to the average exchange rates for the first nine months of 2006, are as follows:

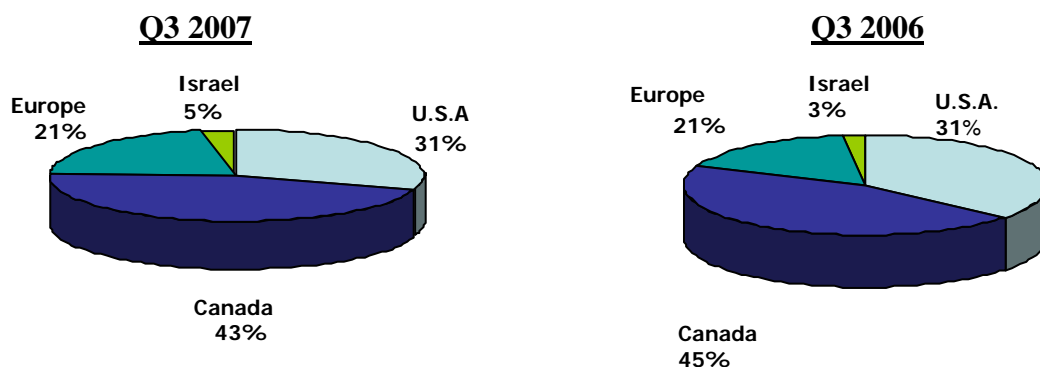
	For the 9 months ended September 30		Rate of change between the periods
	2007	2006	
	NIS in millions		
Property rental revenue	<u>2,190</u>	<u>1,905</u>	<u>15%</u>
NOI	<u>1,478</u>	<u>1,259</u>	<u>17%</u>
FFO	<u>219</u>	<u>206</u>	<u>6%</u>
FFO per share	<u>1.85</u>	<u>1.95</u>	<u>(5%)</u>

- Gross profit totaled NIS 1,378 million, compared to NIS 919 million in the corresponding period last year, an increase of 50%, which is due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.
- Cash inflows from operating activities totaled NIS 569 million, compared to NIS 505 million for the corresponding period last year, an increase of 13%.
- Net income totaled NIS 704.2 million or NIS 5.80 per share, compared to NIS 216.8 million or NIS 1.97 per share, for the corresponding period last year, an increase of 225%.
- 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 this standard, the Company recognized, in the reporting period, income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 321 million (approximately NIS 261 million after providing for taxes).

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



F. 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 G.2 below.

G. The Company's Assets:

1. The following table presents a summary of the Company's assets as of September 30, 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 September 30, 2007 (NIS in millions)
EQY ⁽²⁾	Shares (NYSE)	19.2	26.0	1,589	2,097
FCR	Shares (TSX)	42.5	53.9	3,906	4,375
FCR	Convertible debentures (TSX)	107.6	45.2	446	445
Citycon	Shares (OMX)	86.7	39.4	2,180	2,205
Citycon	Convertible debentures (OMX)	37	33.6	215	261
U. Dori ⁽³⁾	Shares	42.5	37.9	188	151
RSC	Income-producing property	-	-	279	-
Property in Europe	Income-producing property	-	-	771	-
ProMed	Income-producing property	-	-	1,023	-
Property in Israel	Income-producing property	-	-	1,395	-
Total				11,992	-

⁽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 14 million shares of EQY).

⁽³⁾ Represents linked holding in U. Dori.

Below are the Company's monetary balances (including balances of subsidiaries that are not public companies) as of September 30, 2007 (NIS in millions):

Debentures and debts to financial institutions *	7,585
Monetary liabilities, other than debentures and debts to financial institutions	<u>402</u>
Total monetary liabilities	7,987
Less – monetary assets	<u>1,478</u>
Monetary liabilities, net	<u><u>6,509</u></u>

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

<u>Year</u>	<u>Total</u>	<u>%</u>
2007	71	1
2008	158	2
2009	446	6
2010	347	4
2011	561	7
2012	499	7
2013	497	7
2014	947	12
2015	521	7
2016	502	7
2017	691	9
2018	452	6
2019	532	7
2020	533	7
2021	708	9
2022 and after	<u>120</u>	<u>2</u>
Total	<u><u>7,585</u></u>	<u><u>100</u></u>

2. Additional information is presented below concerning the Company's share in the income-producing properties owned by the Group as of September 30, 2007, based on capitalized NOI methodology. This information is intended to provide additional details, based on methodology that is generally accepted in the regions in which the Company operates, which might serve as an additional method of estimating the value of the Group's properties on the basis of the Group'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 an implied value of the income-producing properties⁽¹⁾ 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 additional building rights that exist in respect of the Group's income-producing properties.

In calculating the NOI, the following assumptions were made:

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

	For the 3 months ended September 30		For the year ended December 31,
	2007	2006	2006
N I S i n m i l l i o n s			
Property rental revenue	727	618	2,552
Property operating expenses	(235)	(206)	(868)
NOI for the period	492	412	1,684
Less – minority interest's share of NOI	(241)	(213)	(893)
Add – Company's share of Citycon's NOI	61	47	180
NOI for the period	<u>312</u>	<u>246</u>	<u>971</u>
NOI, annualized	<u>⁽²⁾1,246</u>	<u>⁽³⁾982</u>	<u>971</u>
Cap Rate:	<u>5.75%</u>	<u>6.00%</u>	<u>6.25%</u> <u>6.50%</u>
Value of proportionately consolidated income-producing property (NIS in millions) ⁽³⁾	<u>21,667</u>	<u>20,764</u>	<u>19,933</u> <u>19,167</u>

⁽¹⁾ NOI divided by the cap rate.

⁽²⁾ NOI for the third quarter multiplied by 4.

⁽³⁾ In accordance with the NOI for the third quarter of 2007.

Newly acquired properties⁽¹⁾ and properties under development, which have not yet come on line and which are presented at their carrying values in the Company's books (by the proportionate consolidation method) as of September 30, 2007, amounted to NIS 2,029 million.

The Group's liabilities, net of monetary assets (by the proportionate consolidation method) as of September 30, 2007, amounted to NIS 14,524 million.

3. **Net Asset Value (EPRA NAV and EPRA NNAV)**

As is customary in the European countries in which the Group is active, and in line with the position paper of the European Public Real Estate Association ("EPRA"), the objective of which is to promote greater transparency, uniformity and comparability of the financial information reported by property companies, the Company publishes net asset value data ("EPRA NAV"). EPRA NAV is an index that reflects the net asset value of the Company, with certain adjustments, e.g., the neutralization of the fair value revaluation adjustments in respect of derivative financial instruments, which are treated as hedging instruments from an economic perspective, but which do not meet the criteria for hedge accounting, and deferred taxes in respect of the revaluation of assets to their fair value. The Company also publishes EPRA NNAV data, which is another index reflecting net asset value (EPRA NAV), adjusted for the fair value of financial instruments of the kind referred to above and for the fair value of financial liabilities, and also with certain adjustments to the provision for deferred taxes.

The Company considers that presentation of EPRA NAV and EPRA NNAV data enables the Company's results to be compared with those of other European property companies. At the same time, these data do not constitute a valuation of the Company and do not replace the other data presented in the financial statements; rather, they provide additional information to assist investors in understanding the Company's results in accordance with the recommendations of EPRA.

⁽¹⁾ Includes the property in Finland acquired by Citycon in September 2007 at an investment of €329 million.

Presented below is the calculation⁽¹⁾ of the EPRA NAV and EPRA NNNAV:

	As of September 30, 2007
	<u>NIS in thousands</u>
a. <u>EPRA NAV</u>	
Shareholders' equity per financial statements	5,483,339
Adjustments for neutralization of fair value of financial instruments	(21,245)
Add – Provision for tax on revaluation of investment property to fair value (net of minority's share)	<u>982,070</u>
Net asset value - EPRA NAV	<u>6,444,164</u>
EPRA NAV per share (in NIS)	<u>54.6</u>
b. <u>EPRA NNNAV</u>	
EPRA NAV	6,444,164
Adjustment for addition of fair value of financial instruments	(98,184)
Adjustments of financial liabilities to fair value	(14,873)
Other adjustments to provision for deferred taxes	<u>-</u>
“Adjusted” net asset value - EPRA NNNAV	<u>6,331,107</u>
EPRA NNNAV per share (in NIS)	<u>53.6</u>

4. As of September 30, 2007, the Company's issued share capital comprises 118 million shares (excluding treasury stock held by the Company).

⁽¹⁾ Comparative data are not relevant for this index, since - in the financial statements - the comparative data for the investment property are not presented on the basis of fair value.

H. 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 as of January 1, 2007:

	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	(780)	(285)	(1,065)
Increase in minority interest	-	(3,437)	(3,437)
Total increase in balance of retained earnings	1,747	-	1,747

I. Disclosure Concerning Adoption of International Financial Reporting Standards:

The Company prepares its financial statements in accordance with generally accepted accounting principles (“GAAP”) in Israel. The Company has made arrangements to adopt International Financial Reporting Standards (“IFRS”) and is at an advanced stage in the process of preparing for the transition to reporting in accordance with IFRS. The Company is intending to make the transition to applying IFRS by early adoption, in accordance with Israel Accounting Standard No. 29, in the financial statements as of December 31, 2007; comparative data for 2006 and 2005 will be presented in the aforesaid financial statements and, hence the Company’s transition date to IFRS (hereinafter - “the transition date”) will be January 1, 2005. .

Attached in Appendix A are the reconciliations for the transition to reporting in accordance with IFRS, with regard to:

1. Effect on shareholders’ equity as of January 1, 2005, December 31, 2005 and December 31, 2006.
2. Effect on statements of income for each of the two years ended December 31, 2006.
3. Effect of transition to IFRS on the balance of retained earnings on the transition date.
4. Effect as of September 30, 2007 and for the nine and three months ended on September 30, 2007.
5. Exemptions that the Company will take advantage of in the transition to IFRS.
6. The main differences between the accounting principles that will be applied under IFRS and the accounting principles that are applied under Israeli GAAP.

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 3.2 billion, with a further NIS 0.2 billion being invested in other investments. In addition, Citycon invested NIS 3.1 billion in acquiring and developing properties during the reporting period. The effect of these investments on the operating results will be reflected in the remainder of the year and in 2008.

A. Property Activities

1. During the reporting period, the Group acquired 22 income-producing properties, with a total G.L.A. of approximately 222,000 square meters and seven plots of land for future development. The aggregate consideration for these acquisitions totaled NIS 2.4 billion.
2. During the reporting period, the Group invested a total of NIS 0.8 billion in developing new properties and in the redevelopment of existing properties.
3. As of September 30, 2007, EQY and FCR had nine properties of approximately 56,300 square meters under development, 22 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 1.2 billion. The cost to complete these development, redevelopment and expansion projects is expected to amount to a further NIS 0.7 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 1.8 billion. These properties and land did not generate any rental revenue during the reporting period.

4. As of September 30, 2007, EQY and FCR's average basic monthly rental revenue was US\$ 11.53 per square meter. During the third quarter of 2007, EQY and FCR renewed leases on 32,000 square meters, while increasing the average basic monthly rent on these leases by 14.3% to an average monthly rent of US\$ 15.25 per square meter. Additionally, the companies signed new leases on 33,200 square meters at a basic average monthly rent of US\$ 14.2 per square meter. The same properties NOI (ie, those properties operated continuously since January 1, 2006) increased by an average of 2.7% and 4%, compared to the corresponding quarter last year and compared to the first nine months of last year, respectively.

EQY's and FCR's core properties had an average occupancy rate of 94.5% as of September 30, 2007 (the rate was 95.3% as of September 30, 2006).

5. As of September 30, 2007, RSC's properties had an occupancy rate of 90% (the rate was 94.9% as of September 30, 2006). The average monthly rental revenue was US\$ 3,086 per unit and the NOI margin for the reporting period was 28%.

RSC has land reserves of two parcels for the construction of additional senior housing communities for a total investment of US\$ 17 million (approximately NIS 67 million). The latter will consist of approximately 471 units and the additional investment to bring them to completion is expected to be US\$ 62 million (approximately NIS 249 million).

6. As of September 30, 2007, ProMed's properties had an occupancy rate of 99%, average monthly rental revenues of US\$ 28.4 per square meter and a NOI margin of 76%.
7. As of September 30, 2007, Gazit Development's properties had an occupancy rate of 93.3% and yielded average monthly rental revenues of NIS 79.0 per square meter.

As of September 30, 2007, Gazit Development owns 15 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 in thousands)
Income-producing properties	8	1,003,729	-	110
Properties and land parcels under development	7	360,663	450,000	103

* In accordance with Israel Accounting Standard No. 16, see section 1H above.

In addition, as of September 30, 2007, Gazit Development owns in Bulgaria an income-producing property with a G.L.A. of approximately 7,000 square meters and an office building. It also owns two land parcels 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 €25 million (approximately NIS 143 million). The expected additional cost of bringing the first stage to completion is €20 million (approximately NIS 115 million), with this expected to add approximately 40,000 square meters out of the total of approximately 200,000 square meters which is entitled.

8. As of September 30, 2007, Gazit Europe's properties in Germany had an occupancy rate of 96.6% and yielded average monthly rental revenues of €10.7 per square meter

As of September 30, 2007, Gazit Europe owns 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 in thousands)
Income-producing properties	4	85,725	-	41
Properties and land parcels under development	2	15,848	81,250	45

* In accordance with Israel Accounting Standard No. 16, see section 1H above.

9. In the reporting period, Citycon invested €519 million (approximately NIS 2.9 billion) in the acquisition of income-producing properties and in increasing its stake in existing shopping centers, and also in the development and redevelopment activities at additional cost of €41 million (approximately NIS 231 million)

The same properties NOI increased by 9.1%, compared to the corresponding period last year.

As of September 30, 2007, Citycon's properties had an occupancy rate of 96.3% (the rate was 96.7% as of September 30, 2006).

As of September 30, 2007, Citycon had a property under development at an investment of €17 million (approximately NIS 95 million), which is expected to be completed by the time of its delivery to the company by the end of 2007 and to comprise approximately 12,000 square meters. It also has eight properties that are being redeveloped and expanded at an investment of €69 million (approximately NIS 393 million); the expected additional cost of bringing these properties to completion is €188 million (approximately NIS 1.1 billion).

- B.** As to the issuance of capital by the Company – see note 3a to the financial statements.
- C.** As to the public debt financing by the Company by way of a shelf prospectus – see notes 3g and 3h to the financial statements.
- D.** As to the placement of debentures by EQY – see note 3i to the financial statements.
- E.** As to the issuance of debentures and convertible debentures by FCR – see notes 3j and 3k to the financial statements.
- F.** As to an agreement for the provision of an unsecured credit line to FCR – see note 3l to the financial statements.

- G. As to issuances of capital by Citycon and the Company's participation in these issuances, and the acquisition of Citycon shares from the public – see note 3c to the financial statements.
- H. As to the sale of MLS common and preferred stock – see note 3b to the financial statements.
- I. As to the acquisition of EQY shares by a wholly owned subsidiary of the Company - see note 3d to the financial statements.
- J. In July 2007, the international rating company “DBRS” raised FCR's credit rating from BBB(Low) to BBB.
- K. As to the acquisition of 50% of the share capital and voting rights of Acad – see section 1B above and note 3f to the financial statements.
- L. As to the investment by a wholly owned subsidiary of the Company in a real estate investment fund in India – see note 3e to the financial statements.
- M. The Company's Board of Directors, at its meeting in September 2007, resolved to examine the making of initial investments in the energy sector, including renewable energy in particular, both by means of investing in companies operating in this sector and also by means of directly acquiring and developing income-producing energy properties. The Company also resolved to examine acquiring the shares of Ormat Industries Ltd. (a company in the renewable energy business) held by Gazit Inc., the Company's controlling shareholder. As of the approval date of the financial statements, the Company had not yet completed the process of examining its entry into the energy sector, as referred to above, and it is continuing to review investments in this sector.
- N. With regard to the issuance of stock options to employees and officers, who are not interested parties of the Company – see note 3m to the financial statements.

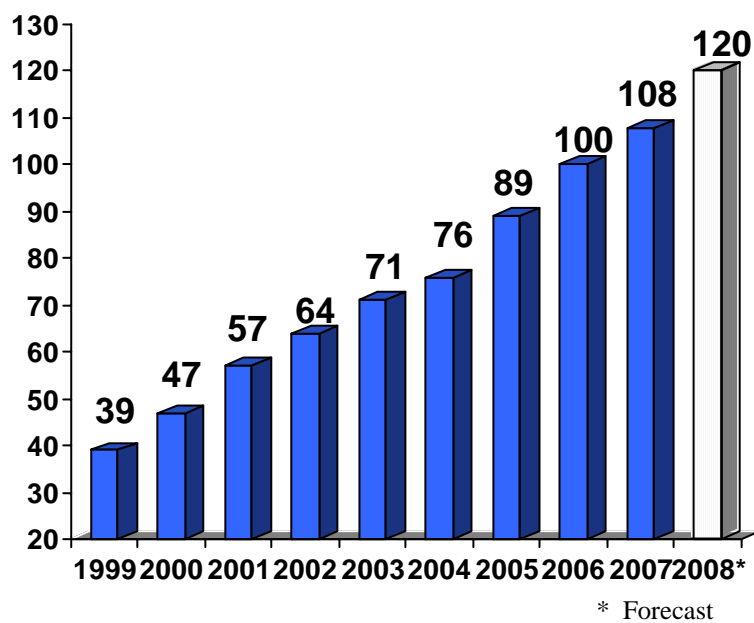
O. Dividend Distribution Policy:

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be declared in 2008 will not be less than NIS 0.30 per share per quarter (NIS 1.20 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 1999-2008 is shown in the graph below:

Agurot per share
(100 Agurot = NIS 1)



3. A. Results of Operations:

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31,
	2007	2006	2007	2006	2006
	NIS in thousands (other than net earnings per share data)				
Property rental revenue	2,053,961	1,904,647	727,226	617,825	2,552,296
Property rental operating expenses	668,572	645,155	234,936	205,413	867,838
Property rental depreciation	6,986	340,203	2,227	113,996	453,259
Gross profit	1,378,403	919,289	490,063	298,416	1,231,199
Increase in fair value of investment property	551,834	-	49,525	-	-
General and administrative expenses	291,511	185,585	88,449	65,207	283,418
Operating income	1,638,726	733,704	451,139	233,209	947,781
Financing expenses, net	657,408	575,209	247,345	196,342	757,617
	981,318	158,495	203,794	36,867	190,164
Other income (expenses), net	(7,670)	338,606	(2,456)	13,629	514,101
Income before taxes on income	973,648	497,101	201,338	50,496	704,265
Taxes on income	191,444	58,368	59,638	9,775	84,211
Income after taxes on income	782,204	438,733	141,700	40,721	620,054
Equity in earnings of affiliates	420,776	209,739	53,551	56,940	270,566
Minority interest in earnings of subsidiaries	(498,772)	(431,637)	(94,203)	(47,578)	(529,242)
Net income	704,208	216,835	101,048	50,083	361,378
Fully diluted net earnings per share (in NIS)	5.80	1.97	0.81	0.39	3.17
Number of shares used in computing fully diluted earnings per share (thousands of shares)	118,387	105,330	118,397	109,348	108,334

B. Analysis of Results of Operations for the First Nine Months of 2007:

Property rental revenue

The 8% increase compared to the corresponding period last year is due to the expansion of the property portfolio as a result of the acquisition of new properties, net of properties sold, development properties coming on-line and the increase in the average rent per square meter received on the Group's properties. This increase was partially offset by the changes in the average exchange rates of the Canadian dollar and the U.S. dollar between the periods.

Property operating expenses

The decrease in rental operating expenses, compared to the corresponding period last year, is mainly due to the changes in the average exchange rates. Rental property operating expenses, as a percentage of property rental revenue, fell to 32.6% from 33.9% for the corresponding period last year. This is mainly due to an improvement in this percentage in FCR and also to EQY's reclassification of certain general property operating expenses in the amount of NIS 8.3 million to administrative expenses.

Property depreciation

Effective 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 1H above.

Gross profit

Gross profit totaled NIS 1,378 million (67.1% of property rental revenue); this compares to NIS 919 million (48.3% of property rental revenue) for the corresponding period last year – an increase of 50%. 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

Effective 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, in the reporting period, to the fair value of its properties in the gross amount of NIS 552 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 321 million, (approximately NIS 261 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 9.7%, compared to 7.6% 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 in-line with the growth in the Group's operations, salary expenses in respect of certain EQY employees that, in the past, were classified as general property operating expenses, 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 with respect to 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 14.7 billion in the first nine months of 2006 to an average balance of NIS 18.4 billion in the first nine months of 2007. Interest expenses reflect an average nominal interest rate of approximately 5.9% on the Group's indebtedness, compared to 6.1% in the corresponding period last year.
- 2) The financing expenses are net of gross income of NIS 102.8 million from investments in marketable securities, which includes NIS 37.9 million from dividends, compared to NIS 59.1 million received in the corresponding period last year, which included NIS 34.6 million from dividends.

Other income (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 and also the conversion of debentures redeemable into shares), the Company recorded a loss of NIS 5.8 million, compared to a gain of NIS 31 million in the corresponding period last year.

Additionally, EQY sold two income-producing properties and four land parcels, which produced a gross gain for the Group of NIS 7.6 million (the Company's share being NIS 2.6 million), compared to the gain of NIS 403 million (the Company's share being NIS 133 million) in the corresponding period last year, which was mainly due to the sale of the Texas property portfolio by EQY.

Furthermore, in the corresponding period last year, the Company wrote-down its long-term investment in MLS by a gross amount of NIS 99 million, to a price that reflected the quoted price of the shares as of June 30, 2006.

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon totaling NIS 416.8 million, compared to NIS 202.3 million in the corresponding period last year.

In the first nine months of 2007, Citycon revalued its investments in income-producing properties to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of €212.7 million (approximately NIS 1,177 million) in their gross value (the Company's share, net of related taxes, is approximately NIS 374 million (approximately NIS 160 million in the corresponding period last year)).

Minority interest in earnings of subsidiaries

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

C. Analysis of Results of Operations for the Third Quarter of 2007:

Property rental revenue

The 18% increase compared to the corresponding period last year is due to the expansion of the property portfolio as a result of the acquisition of new properties, net of properties sold, development properties coming on-line and the increase in the average rent per square meter received on the Group's properties. This increase was partly offset by the changes in the average exchange rates of the Canadian dollar and the U.S. dollar between the periods.

Property operating expenses

The decrease in rental operating expenses, compared to the corresponding period last year, is mainly due to the changes in exchange rates. Rental property operating expenses, as a percentage of property rental revenue, fell to 32.3% from 33.2% for the corresponding period last year. This is mainly due to an improvement in this percentage in FCR and also to EQY's reclassification of general property operating expenses in the amount of NIS 2.9 million to administrative expenses.

Property depreciation

Effective 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 1H above.

Gross profit

Gross profit totaled NIS 490 million (67.4% of property rental revenue); this compares to NIS 298 million (48.3% of property rental revenue) for the corresponding period last year – an increase of 64%. 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, in the third quarter of 2007, to the fair value of its properties in the gross amount of NIS 49.5 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 44 million, (approximately NIS 33 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 10.7%, compared to 9.5% 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 adding staff to cope accommodate the growth in the Group's operations, salary expenses in respect of certain EQY employees that, in the past, were classified as general property operating expenses, 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 15.1 billion in the third quarter of 2006 to an average balance of NIS 20 billion in the third quarter of 2007. Interest expenses reflect an average nominal interest rate of approximately 6.3% on the Group's indebtedness, similar to that in the corresponding period last year.
- 2) The financing expenses are net of gross income of NIS 46.4 million from investments in marketable securities, which includes NIS 7.4 million from dividends, compared to NIS 21.1 million received in the corresponding period last year, which included NIS 5.4 million from dividends.
- 3) The 2.5% rise in the "known" Israeli consumer price index (which reflects an annual inflation rate of 10%) caused a NIS 10.9 million increase in financing expenses in respect of the revaluation of loans that are linked to changes in the consumer price index, compared to NIS 2.4 million in the corresponding period last year.

Other income (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 a result of the dilution of holdings in investee companies (primarily in respect of the issuance of shares and stock options), the Company recorded a loss of NIS 3.6 million, compared to a gain of NIS 1.8 million in the corresponding period last year.

Additionally, EQY sold a land parcel, which produced a gross gain for the Group of NIS 1 million (the Company's share being NIS 0.4 million), compared to the gain of NIS 9 million (the Company's share being NIS 3 million) in the corresponding period last year.

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon totaling NIS 52.2 million, compared to NIS 56.9 million in the corresponding period last year.

In the third quarter of 2007, Citycon revalued its investments in income-producing properties to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of €21 million (approximately NIS 122 million) in their gross value (the Company's share, net of related taxes, is approximately NIS 39 million (approximately NIS 35 million in the corresponding period last year).

Minority interest in earnings of subsidiaries

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

D. FFO 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 ⁽¹⁾ 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 ⁽²⁾ 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 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 therefore considers that the presentation of FFO and FFO per share data, after neutralizing expenses and income in respect of deferred taxes (i.e. tax income and expenses that are not on a cash flow basis) provides a better comparison of the Company's operating results with those of REIT companies in Israel and overseas.

According to the NAREIT position paper, the FFO (Funds from Operations) measure 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, FFO is not part of the data audited by the Company's independent auditors.

⁽¹⁾ With regard to those assets that fall within the definition of Israel Accounting Standard No. 16.

⁽²⁾ 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 reconciles FFO to Net income and presents FFO per share for the periods stated:

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31,
	2007	2006	2007	2006	2006
NIS in thousands (other than FFO per share data)					
Net income	704,208	216,835	101,048	50,083	361,378
Adjustments to net income:					
Increase in fair value of investment property	(320,905)	-	(44,436)	-	-
Depreciation and amortization	34,429	⁽¹⁾ 257,935	5,677	55,095	⁽¹⁾ 231,644
Gains from dilution in holdings of consolidated subsidiaries	5,768	(30,529)	3,636	(1,849)	(33,301)
Losses (gains) from the sale of properties	30	(118,918)	-	-	(147,197)
Deferred tax expenses	107,372	19,217	44,462	3,603	34,863
Equity in earnings of affiliates ⁽²⁾	(420,776)	(209,739)	(53,551)	(56,940)	(270,566)
Equity in FFO of affiliates	62,031	59,244	18,475	19,867	82,190
Other adjustments ⁽³⁾	37,796	11,684	4,298	2,262	21,473
Total adjustments to FFO net income	(494,255)	(11,106)	(21,439)	22,038	(80,894)
FFO	209,953	205,729	79,609	72,121	240,484
Primary FFO per share (in NIS)	1.78	1.96	0.67	0.66	2.60
Fully diluted FFO per share (in NIS)	1.77	1.95	0.67	0.66	2.59
Number of shares used in computing fully diluted earnings per share (thousands of shares)	118,387	105,330	118,397	109,348	108,334

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

⁽²⁾ Includes the Company's equity in the revaluation of Citycom'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.

The sources of the Group's liquid assets are its cash reserves (a result of its income-producing properties), credit facilities, mortgages and long-term loans and issuing of convertible debentures and equity. As stated, these liquid assets can be 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 September 30, 2007, the liquid assets available to the Group, including short-term investments, totaled NIS 944 million, compared to NIS 342 million as of December 31, 2006. In addition, as of September 30, 2007, the Group had unutilized credit facilities available for immediate drawdown of NIS 4 billion, compared to NIS 3.8 billion as of December 31, 2006.

Furthermore, as of September 30, 2007, the Group had unpledged investment property, which is carried in the books at NIS 16.1 billion.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown totaling NIS 4.9 billion.

Current Assets

Current assets, as of September 30, 2007, totaled NIS 2.3 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 issuance of debentures at the end of the quarter and to the first-time consolidation of Acad in the amount of NIS 0.7 billion (see section 1B above and note 3f to the financial statements).

Investments in Affiliates

Investments in affiliates, totaling NIS 2.4 billion as of September 30, 2007, relate primarily to the investment in 86.7 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 1.4 billion. 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 545 million.

Long-Term Investments

Long-term investments, as of September 30, 2007, totaled NIS 779 million, compared to NIS 1,151 million as of December 31, 2006. The long-term investments include marketable securities of companies that operate in the same business sector as the Company or in sectors that are complementary to the Company's business sector.

The decrease in this item is due mainly to the sale of the MLS shares at the end of the first quarter of 2007.

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

Investment property, investment property under development and fixed assets, net, as of September 30, 2007, totaled NIS 31.3 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 1H above.

During the reporting period, the Group acquired income-producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 3.2 billion. In addition, the strengthening of the Canadian dollar and the euro against the NIS at the end of the reporting period, net of the weakening of the U.S. dollar against the dollar at the end of the reporting period, caused an increase of NIS 0.8 billion in these items.

Current Liabilities

Current liabilities, as of September 30, 2007, totaled NIS 2.5 billion, compared to NIS 1.6 billion at the end of 2006. The balance mainly consists of the line item “credit from banks and others”, which mainly consists of the current maturities of long-term liabilities in the amount of NIS 1.2 billion, compared to NIS 0.9 billion at the end of 2006, as well items from the first-time consolidation of Acad in the amount of NIS 0.4 billion (see section 1B above and note 3f to the financial statements).

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 September 30, 2007, totaled NIS 21.4 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 taking of new loans, which primarily financed investments in real estate, the acquisition of long-term investments and investments in investee companies, as well as from the increase in net deferred taxes, which rose by an amount of NIS 1.1 billion as a result of the fair value adjustment to the Company’s investment property.

Minority Interests

Minority interests, as of September 30, 2007, mainly consist of the interests of EQY’s other shareholders, who, as of September 30, 2007, accounted for 55% of EQY’s equity, and also the interests of FCR’s other shareholders. At the above date, FCR’s other shareholders accounted for 46% of FCR’s equity.

The increase in this item is due to the effect of the initial 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. Another factor affecting the increase is the devaluation of the Canadian dollar against the NIS at the end of the reporting period, which increased the NIS amount of FCR's shareholders' equity, net of the decrease in the NIS amount of EQY's shareholders' equity due to the appreciation of the U.S. dollar against the NIS at the end of the reporting period.

Shareholders' Equity

The change in shareholders' equity, from NIS 2,865 million as of December 31, 2006, to NIS 5,483 million as of September 30, 2007, results mainly from the effect of the first-time implementation of Israel Accounting Standard No. 16, totaling NIS 1,747 million, from the income for the reporting period, totaling NIS 704 million, from the increase in the item "other capital surpluses", totaling NIS 247 million, from the sale of treasury stock by the Company, totaling NIS 9 million, and the repayment of loans for the acquisition of shares, totaling NIS 6 million. These were partly offset by the dividends of NIS 95 million paid and declared by the Company.

Shareholders' equity per share, as of September 30, 2007, totaled NIS 46.5 per share, compared to NIS 24.3 per share as of December 31, 2006. This is after a dividend distribution of NIS 0.81 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 accumulated depreciation in respect of fixed assets) stood at 56% as of September 30, 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 54.8% as of September 30, 2007, compared to 49.4% as of December 31, 2006.

The Company considers that the fair value of its assets (derived from the market value of the Group's shares) 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 and the third quarter totaled NIS 569 million and NIS 164 million, respectively, compared to NIS 505 million and NIS 167 million, respectively, for the corresponding periods last year.

In the reporting period, the Group's activities were funded by means of capital raised by the Company and its consolidated subsidiaries totaling NIS 196 million, long-term debentures and convertible debentures issued in a net amount of NIS 2,968 million, loans received and credit facilities drawn on in a net amount of NIS 944 million and long-term investments sold for a net amount of NIS 531 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets and investment property, which totaled NIS 3,214 million and for further investments in the affiliate and the acquisition of shares from the minority shareholders in subsidiaries amounting in total to NIS 943 million.

In the third quarter of 2007, the Group's activities were funded by means of capital raised by the Company and its consolidated subsidiaries totaling NIS 49 million, the issuance of long-term debentures and convertible debentures totaling NIS 924 million, loans received and credit facilities drawn on in a net amount of NIS 775 million, and long-term investments sold for a net amount of NIS 112 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets and investment property, which totaled NIS 708 million and for further investments in the affiliate and the acquisition of shares from the minority shareholders in subsidiaries amounting in total to NIS 599 million.

5. Donations

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

The Company makes donations to Tel-Aviv University, which 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\$ 150,000 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, who come 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.

Furthermore, the Company recently adopted a battalion of front-line conscripts within the framework of the "Adopt a Front-Line Soldier" Project. Within the framework of this project, the Company has pledged to make an annual donation of NIS 100,000 for three years.

During the reporting period, the Group's donations amounted to NIS 1.995 million.

6. Additional Information and Subsequent Events:

- A.** From the balance sheet date through the signing date of the financial statements, the Group and the affiliate invested a total of NIS 113 million in acquiring new properties and plots of land for future development.
- B.** As to the offering made by a subsidiary of a subsidiary of U. Dori on the Warsaw Stock Exchange in Poland – see note 4a to the financial statements.
- C.** As to the approval by the Board of Directors of the appointment of a new President for the Company – see note 4b to the financial statements.
- D.** As to the shelf offering for the rights issue and listing of stock options – see note 4c to the financial statements.

7. Critical Accounting Estimates

The following is an addition to section 7 of the Directors' Report for the year ended December 31, 2006:

Changes in fair value of investment property

The Group assesses the fair value of its investment property in accordance with the provisions of Standard No. 16 of the Israel Accounting Standards Board. In determining the fair value, the Company's management relies on the valuations of independent external appraisers. Among the considerations that these appraisers take into account in making their valuations are the capitalization rates used in calculating the future cash flows from the property, the length of the lease period, the financial strength of the tenants, the amount of vacant space in the property, the length of time it takes to lease out the buildings after they become vacant, the pertinence of the rentals in properties where the rent level is above or below market rates, and the implications arising from the investments that will be required for future development.

Changes in the assumptions employed by the above external experts and by the Company's management could result in a change in the fair value, which is carried to the statement of income, and could thus affect the Company's financial position and its operating results.

8. 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 B is the Company's linkage bases balance sheet as of September 30, 2007.

9. Disclosure Regarding Financial Statements Approval Process

The Board of Directors is the organ responsible for the overall control over the Company.

Within the framework of the process of the Company's financial statements being approved by the Board of Directors, drafts of the financial statements, directors' report, revisions to the annual periodic report and the presentation reviewing the periods' operations are sent for the perusal of the members of the Board several days before the date of the Board meeting at which the financial statements are to be approved.

During the Board meeting, the CFO, Mr. Gil Kotler, provides a review of the Company's financial position, its operating results and its cash flows, and presents data concerning the Company's activities and their comparison with prior periods. A discussion takes place during which the Company's management (including the Chairman of the Board of Directors, the President of the Company and the CFO of the Company) reviews the major financial reporting issues that have arisen in the course of preparing the financial statements (including a review of transactions, if any, not within the normal course of business, the significant assessments and critical estimates used in the financial statements and the accounting policies applied and the changes thereto, if any) and responds to questions from the directors. The Company's independent auditors are present at Board meetings at which the financial statements are discussed and approved in order to both respond to questions, if any, raised in connection with the financial statements, and also to bring up other matters that they wish to place before the Board of Directors.

At the meeting of the Board of Directors held on November 25, 2007, at which the financial statements were approved, all members of the Board of Directors serving at that time were present (for their names and other particulars, see the immediate report from August 1, 2007, reference number 2007-01-344086, containing details of the senior officers; the information contained therein is hereby presented by means of this reference). Among others, the CFO and representatives of the independent auditors, as referred to above, were also present.

Following the aforementioned discussion, a vote is taken to approve the financial statements.

November 25, 2007

Date of Approval
of Directors' Report

Chaim Katzman

Chairman of the Board of Directors

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President and Director

Appendix A to the Directors' Report – Disclosure Concerning Adoption of International Financial Reporting Standards (IFRS)

1. 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
		N I S i n m i l l i o n s								
CURRENT ASSETS:										
Cash and cash equivalents		53	-	53	282	-	282	194	119	313
Short-term investments		56	-	56	68	-	68	148	-	148
Tenants		103	-	103	111	-	111	133	5	138
Accounts receivables	6.j,k	126	(3)	123	189	(6)	183	210	36	246
Rental properties held for sale	6.f	55	9	64	1,299	487	1,786	131	3	134
Current tax assets	6.k	-	4	4	-	5	5	-	19	19
Total current assets		393	10	403	1,949	486	2,435	816	182	998
NON-CURRENT ASSETS:										
Long-term investments	6.i	216	(188)	28	650	(624)	26	1,151	(1,127)	24
Long-term loans and receivables	6.a	89	(38)	51	117	(65)	52	152	(99)	53
Investments in available-for-sale financial assets	6.i	-	217	217	-	643	643	-	987	987
Derivative financial instruments	6.j	-	12	12	-	21	21	-	55	55
Investments in affiliates	6.e,g	534	2	536	722	1	723	1,429	(1,427)	2
Investment property	6.a	-	17,192	17,192	-	20,633	20,633	-	33,160	33,160
Investment property under development	6.a	-	318	318	-	794	794	-	1,567	1,567
Fixed assets, net	6.a	14,613	(14,225)	388	17,045	(16,808)	237	20,420	(20,138)	282
Goodwill	6.e	60	10	70	45	19	64	44	70	114
Other intangible assets, net	6.a,i	197	(197)	-	274	(274)	-	179	(179)	-
Deferred taxes	6.a,d,k	50	(35)	15	-	15	15	-	68	68
Total non-current assets		15,759	3,068	18,827	18,853	4,355	23,208	23,375	12,937	36,312
TOTAL ASSETS		16,152	3,078	19,230	20,802	4,841	25,643	24,191	13,119	37,310

(*) Including in respect of the full consolidation of Citycon with effect from March 31, 2006 – see section 6.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
N I S i n m i l l i o n s										
CURRENT LIABILITIES:										
Credit from banks and others	6.i	755	(3)	752	1,291	(291)	1,000	967	450	1417
Trade payables		152	-	152	208	-	208	196	25	221
Other accounts payable	6.j,k	257	(12)	245	345	(16)	329	402	187	589
Dividend declared		-	-	-	23	-	23	29	-	29
Liabilities associated with rental properties held for sale	6.f	-	-	-	-	251	251	-	34	34
Current tax liabilities	6.k	-	11	11	-	9	9	-	43	43
Total current liabilities		1,164	(4)	1,160	1,867	(47)	1,820	1,594	739	2333

(*) Including in respect of the full consolidation of Citycon with effect from March 31, 2006 – see section 6.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
N I S i n m i l l i o n s										
NON-CURRENT LIABILITIES:										
Liabilities to financial institutions and others	6.i	7,183	(40)	7,143	7,952	(9)	7,943	7,014	3,524	10,538
Convertible debentures redeemable into shares of subsidiary	6.c	479	3	482	352	(30)	322	468	303	771
Debentures	6.i	2,298	(9)	2,289	4,176	(29)	4,147	8,025	53	8,078
Linked stock options	6.b	-	13	13	-	15	15	-	1	1
Receipts from issuance of stock options in subsidiaries	6.b	-	-	-	1	(1)	-	6	(6)	-
Equity component of convertible debentures redeemable into shares of subsidiary	6.c	-	-	-	-	-	-	20	(20)	-
Deposits from lessees and tenants		267	-	267	65	-	65	67	-	67
Derivative financial instruments	6.j	-	-	-	-	23	23	-	72	72
Employee benefits liability		1	-	1	-	-	-	-	-	-
Deferred taxes	6.a.d	-	671	671	86	883	969	168	1,378	1,546
Minority interest	6.h	3,458	(3,458)	-	4,395	(4,395)	-	3,964	(3,964)	-
Total non-current liabilities		13,686	(2,820)	10,866	17,027	(3,543)	13,484	19,732	1,341	21,073
EQUITY:										
Issued capital		144	-	144	161	-	161	171	-	171
Share premium	6.b	923	(2)	921	1,410	31	1,441	2,071	53	2,124
Capital reserve for translation differences on foreign operations	5.b	125	(125)	-	257	(71)	186	83	(198)	(115)
Loans for purchase of shares		(10)	-	(10)	(11)	-	(11)	(10)	-	(10)
Treasury stock		(116)	-	(116)	(203)	-	(203)	(25)	-	(25)
Retained earnings		237	615	852	288	1,100	1,388	540	1,677	2,217
Other capital reserves	6.i,j	(1)	6	5	6	15	21	35	55	90
Total equity attributable to equity holders of the Company		1,302	494	1,796	1,908	1,075	2,983	2,865	1,587	4,452
Minority interest	6.h	-	5,408	5,408	-	7,356	7,356	-	9,452	9,452
Total equity		1,302	5,902	7,204	1,908	8,431	10,339	2,865	11,039	13,904
TOTAL LIABILITIES AND EQUITY		16,152	3,078	19,230	20,802	4,841	25,643	24,191	13,119	37,310

(*) Including in respect of the full consolidation of Citycon with effect from March 31, 2006 – see section 6.g below.

2. Reconciliations of income:

	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
				N I S i n m i l l i o n s				
Property rental revenue	6.a	2,196	(19)	2,177	2,552	502	3,054	
Property rental operating expenses	6.a	1,079	(354)	725	1,321	(287)	1,034	
Gross profit		1,117	335	1,452	1,231	789	2,020	
Increase in fair value of investment property	6.a	-	1,188	1,188	-	2,678	2,678	
General and administrative expenses		189	2	191	283	56	339	
Operating income		928	1,521	2,449	948	3,411	4,359	
Financing expenses	6.b,j,k	(622)	(128)	(750)	(758)	(530)	(1,288)	
Financing income	6.k	-	75	75	-	114	114	
Other income, net	6.a	306	1,468	1,774	190	2,995	3,185	
		122	(61)	61	514	(455)	59	
Income before taxes on income		428	1,407	1,835	704	2,540	3,244	
Taxes on income	6.a,d	75	170	245	84	466	550	
Income after taxes on income		353	1,237	1,590	620	2,074	2,694	
Equity in earnings of affiliates	6.g	130	1	131	271	(235)	36	
Minority interest in earnings of subsidiaries	6.g,h	(296)	296	-	(529)	529	-	
Income before cumulative effect as of the beginning of the year of change in accounting principles		187	1,534	1,721	362	2,368	2,730	
Cumulative effect as of the beginning of the year of change in accounting principles	6.d	(57)	57	-	-	-	-	
Net income		130	1,591	1,721	362	2,368	2,730	
Attributable to:								
Equity holders of the Company				616			939	
Minority interest				1,105			1,791	
				1,721			2,730	
Net earnings per share attributable to ordinary equity holders of the Company (in NIS):								
Basic net earnings		1.48	5.35	6.83	3.34	5.38	8.72	
Diluted net earnings		1.40	5.24	6.64	3.17	5.24	8.41	

(*) Including in respect of the full consolidation of Citycon with effect from March 31, 2006 – see section 6.g below.

3. Data concerning the effect of the transition to IFRS on the balance of retained earnings at the transition date are presented below:

	<u>NIS in millions</u>	<u>Note</u>
Balance of retained earnings at the transition date ⁽¹⁾ , as presented in the financial statements under Israeli GAAP	220	
Revaluation of investment property to fair value	3,100	6.a
Taxes on revaluation of investment property	(653)	6.a,d
Minority interest in revaluation of investment property, net	(1,895)	6.a,h
Classification of adjustments arising from translation of financial statements of foreign operations	125	5.b
Share-based payments of the Company and subsidiaries	(15)	5.d
Unrealized gain on financial assets available for sale, net	(5)	6.i
Presentation as a long-term liability of options granted at fair value	(10)	6.b
Revaluation of derivative financial instruments to fair value	(*) -	6.j
Gain or loss at acquisition date of convertible debentures redeemable into shares of subsidiaries, net of related taxes	(8)	6.c
Other differences	(24)	
Total effect on the balance of retained earnings at the transition date	<u>615</u>	
Balance of retained earnings at the transition date ⁽¹⁾ under IFRS	<u><u>835</u></u>	

(*) Represents an amount of less than NIS 1 million.

4. Effect of the transition to IFRS for the interim period:

Presented below is an estimate of the effect of the transition to IFRS on the consolidated balance sheet as of September 30, 2007, and on the statement of income for the nine-month period ended on the same date, with regard to items in the financial statements, on which the effect of the transition, in the opinion of the Company's management, is material. It is emphasized that, due to its nature of being an estimate, the information presented below could differ from the data that will actually materialize. Said information has not been reviewed or audited.

⁽¹⁾ The transition date is January 1, 2005.

4.1 Balance sheet items:

<u>Item</u>	<u>Note</u>	As of September 30, 2007			<u>IFRS</u>
		<u>Israeli</u>	<u>Effect of</u>	<u>Other</u>	
		<u>GAAP</u>	<u>consolidation</u>	<u>effects of</u>	
		<u>of Citycon</u>	<u>transition</u>		
			<u>(*)</u>	<u>to IFRS</u>	
		<u>NIS in millions</u>			
Asset items:					
Cash and cash equivalents		906	452	-	1,358
Trade receivables and income receivable		268	14	-	282
Other accounts receivable	6.j	407	70	8	485
Securities available for sale	6.i	-	-	692	692
Long-term investments	6.i	779	-	(737)	42
Derivative financial instruments		-	60	47	107
Investments in affiliates	6.g	2,415	(2,404)	-	11
Investment property		29,140	12,467	-	41,607
Investment property under development		1,750	120	-	1,870
Fixed assets, net		388	7	-	395
Other assets	6.e	140	48	36	224
Total of relevant asset items		36,193	10,834	46	47,073
Liability items:					
Credit from banks and others		1,469	2,382	-	3,851
Trade payables		282	31	-	313
Other accounts payable		721	142	-	863
Liabilities to financial institutions and others		8,044	4,170	-	12,214
Debentures	6.i,j	11,180	-	16	11,196
Convertible debentures		517	352	-	869
Receipts from issuance of convertible options in subsidiaries	6.c	28	-	(28)	-
Receipts from issuance of stock options in subsidiaries	6.b	25	-	(25)	-
Derivative financial instruments	6.j	-	15	156	171
Deferred taxes	6.i	1,539	484	(4)	2,019
Total of relevant liability items		23,805	7,576	115	31,496
Minority interest		7,593	-	(7,593)	-
Equity items:					
Share capital		171	-	-	171
Share premium	6.b	2,077	-	62	2,139
Capital reserve for translation differences on foreign operations	5.b	309	-	(198)	111
Retained earnings		2,864	-	142	3,006
Dividend declared subsequent to balance sheet date		32	-	-	32
Other capital reserves	6.i,j	55	-	(105)	(50)
Loans for purchase of shares		(4)	-	-	(4)
Treasury stock		(21)	-	-	(21)
Equity items attributable to equity holders of the Company		5,483	-	(99)	5,384
Minority interest	6.h	-	3,258	7,623	10,881
Total of relevant equity items		5,483	3,258	7,524	16,265

(*) The consolidation of Citycon, instead of it being included according to the equity method, does not have any effect on the shareholders' equity and net income attributable to the equity holders of the Company – see also section 6.g below.

4.2 Statement of income items:

A.

<u>Item</u>	<u>Note</u>	For the nine-month period ended September 30, 2007			
		Israeli GAAP	Effect of consolidation of Citycon (*)	Other effects of transition to IFRS	IFRS
		NIS in millions			
Property rental revenue	6.a	2,054	605	(13)	2,646
Property rental operating expenses		669	178	-	847
Property rental depreciation		7	-	-	7
Gross profit		1,378	427	(13)	1,792
Increase in fair value of investment property		552	1,177	13	1,742
General and administrative expenses	5.d	291	70	8	369
Operating income		1,639	1,534	(8)	3,165
Financing expenses, net	6.i,j	(657)	(184)	213	(628)
Other expenses, net		(8)	-	-	(8)
Income before taxes on income		974	1,350	205	2,529
Taxes on income	6.i	192	275	70	537
Income after taxes on income		782	1,075	135	1,992
Equity in earnings of affiliates		421	(417)	-	4
Minority interest in earnings of subsidiaries	6.h	(499)	(658)	1,157	-
Net income		704	-	1,292	1,996
Attributable to:					
Equity holders of the Company		704			843
Minority interest		-			1,153

(*) The consolidation of Citycon, instead of it being included according to the equity method, does not have any effect on the shareholders' equity and net income attributable to the equity holders of the Company – see also section 6.g below.

B.

**For the three-month period ended
September 30, 2007**

<u>Item</u>	<u>Note</u>	Effect of consolidation of Citycon (*)			IFRS
		Israeli GAAP	Other effects of transition to IFRS	IFRS	
NIS in millions					
Property rental revenue	6.a	727	218	(13)	932
Property rental operating expenses		235	62	-	297
Property rental depreciation		2	-	-	2
Gross profit		490	156	(13)	633
Increase in fair value of investment property		49	122	13	184
General and administrative expenses	5.d	88	22	3	113
Operating income		451	256	(3)	704
Financing expenses, net	6.j	(247)	(77)	(7)	(331)
Other expenses, net		(3)	-	-	(3)
Income before taxes on income		201	179	(10)	370
Taxes on income	6.i	59	43	-	102
Income after taxes on income		142	136	(10)	268
Equity in earnings of affiliates		53	(53)	-	-
Minority interest in earnings of subsidiaries	6.h	(94)	(83)	177	-
Net income		<u>101</u>	<u>-</u>	<u>167</u>	<u>268</u>
Attributable to:					
Equity holders of the Company		<u>101</u>			<u>95</u>
Minority interest		<u>-</u>			<u>173</u>

(*) The consolidation of Citycon, instead of it being included according to the equity method, does not have any effect on the shareholders' equity and net income attributable to the equity holders of the Company – see also section 6.g below.

5. 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. The balance of the capital reserve for translation differences on foreign operations at the transition date, totaling NIS 125 million has been carried to the credit of retained earnings. As of September 30, 2007, the capital reserve will be reduced by an estimated amount of NIS 198 million, as a result of the transition to IFRS.

c. 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.

d. 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, which had vested by the transition date.

6. 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 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. Accordingly, the amount charged to investment property on the transition date totals NIS 3,100 million; against this, NIS 653 million has been added to the provision for taxes and NIS 1,895 million to minority interest, net, with the balance of NIS 552 million being added to retained earnings.

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 financing item in the statement of income. When the stock options are exercised, the balance is carried to shareholders' equity. Accordingly, the balance of the liabilities in respect of linked stock options at transition date, totaling NIS 13 million, have been charged against the balance of retained earnings (NIS 10 million) and against discount on debentures (NIS 3 million), which were issued together with the stock options in a package offering. As of September 30, 2007, the Company has no liabilities in respect of linked stock options and the cumulative increase in the premium amounts to NIS 62 million.

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 the 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 the minority interest, 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. The balance of the equity component that is included as part of the minority interest at transition date amounts to NIS 36.3 million.

The gain or loss arising from the inter-company holding of convertible debentures redeemable into a subsidiary's shares has been charged to the statement of income on the acquisition date, in respect of the liability component of the debentures, net of related taxes.

From January 1, 2006, the date that Accounting Standard No. 22 of the IASB went into effect, the differences between Israeli GAAP and IFRS described above no longer exist.

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 Israel Accounting Standard No. 20 (Revised) 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. As a result of recognizing business combinations in accordance with IFRS 3, pursuant to which investment property is presented at fair value, the balance of goodwill as of September 30, 2007 will increase by an estimated amount of NIS 36 million.

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.

The increase in the minority interest at the transition date, amounting to NIS 1,950 million, stems from the increase in the minority's share in the shareholders' equity of subsidiaries, due primarily to the presentation of investment property at fair value, amounting to NIS 1,895 million (net of related taxes). The increase in the minority interest as of September 30, 2007 is due to the reason explained above and to an additional increase in respect of the consolidation of Citycon (see 6.g above) amounting to NIS 3.3 billion.

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. The increase in the item “securities available for sale”, which is charged against capital reserve, amounted to NIS 13 million at transition date, and includes NIS 5 million in respect of an unrealized gain that has been charged against the balance of retained earnings. As of September 30, 2007, the capital reserve from revaluation is estimated to amount to NIS 20 million in debit, and the balance charged to the debit of retained earnings in respect of the unrealized gain amounts to NIS 1.3 million.

In the financial statements before the application of IFRS, the Company will recognize income of NIS 196 million (NIS 126 million, net of related taxes) in the reporting period, as a result of canceling the impairment allowance in respect of the investment in MLS.

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 for translation differences on 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.

As of September 30, 2007, an amount of NIS 21 million, which had been debited to the debentures, pursuant to Israeli GAAP, as a result of measuring the intrinsic value of the Swap transactions, has been reclassified to the item "derivative financial instruments" in the balance sheet. As of September 30, 2007, the balance of the fair value of the long-term Swap transactions is estimated to amount to NIS 107 million (on the assets side) and to NIS 171 million (on the liabilities side). As a result of recognizing these transactions at fair value, financing expenses have been reduced by an estimated amount of NIS 17 million in the reporting period. The Company's share in the capital reserve for the revaluation of Swap transactions to fair value in the Company and in subsidiaries amounts to NIS 45 million (in debit) as of September 30, 2007.

Through December 31, 2006, the Company recognized changes in the fair value of Swap transactions through the statement of income. Since January 1, 2007, the Company has still to complete its full examination concerning the accounting treatment to be applied under IFRS; thus, in the note describing the adjustments made upon the transition to IFRS, the effect of the changes in fair value in 2007, in the amount of NIS 84 million, is carried to the debit of capital reserves.

k. Financial statements presentation

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

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

Appendix B to the Directors' Report

Linkage Bases Balance Sheet

as of September 30, 2007

	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In un- linked NIS	In euros or linked thereto	Other curr- encies	Un- linked	Total
N I S i n t h o u s a n d s								
Monetary assets								
Cash and cash equivalents	-	189,032	80,149	555,330	39,973	41,859	-	906,343
Short-term investments	-	25,121	5,802	-	-	-	6,342	37,265
Tenants, accounts receivable and other debit balances	29,299	118,957	179,385	179,315	20,739	39,733	106,896	674,324
Investments in affiliates	-	-	-	-	214,621	-	-	214,621
Long-term investments	976	31,325	9,549	-	-	-	737,648	779,498
Long-term loans and debit balances	5,881	39,577	10,369	-	-	-	-	55,827
	36,156	404,012	285,254	734,645	275,333	81,592	850,886	2,667,878
Non-monetary assets⁽¹⁾	-	13,434,453	15,871,160	1,853,968	2,768,821	275,056	138,849	34,342,307
	36,156	13,838,465	16,156,414	2,588,613	3,044,154	356,648	989,735	37,010,185
Liabilities								
Short-term credit from banks and others	-	-	-	65,998	-	72,873	-	138,871
Trade and other payables and other credit balances	45,713	272,821	360,459	297,432	20,354	17,547	20,728	1,035,054
Advances from project customers and apartment buyers	-	-	-	-	-	-	26,008	26,008
Debentures	1,811,257	4,331,765	3,933,216	198,408	1,056,196	-	-	11,330,842
Liabilities to financial institutions and others	213,987	3,183,803	5,095,529	-	723,077	6,919	-	9,223,315
Deposits from tenants	-	42,017	27,150	-	-	-	-	69,167
Liabilities for employee rights upon retirement	-	-	-	1,115	-	-	-	1,115
Deferred taxes	-	-	-	-	-	-	1,538,461	1,538,461
Convertible debentures redeemable for subsidiary's shares	37,213	-	480,228	-	-	-	-	517,441
	2,108,170	7,830,406	9,896,582	562,953	1,799,627	97,339	1,585,197	23,880,274
Receipts in respect of subsidiary's convertible options	-	-	27,475	122	-	-	-	27,597
Receipts from issue of subsidiaries' stock options	5,902	9,315	10,275	-	-	-	-	25,492
Minority interests	-	-	-	-	-	-	7,593,483	7,593,483
Shareholders' equity	-	-	-	-	-	-	5,483,339	5,483,339
	2,114,072	7,839,721	9,934,332	563,075	1,799,627	97,339	14,662,019	37,010,185

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