

**GAZIT-GLOBE LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2007**

**UNAUDITED**

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The Board of Directors  
Gazit-Globe Ltd.

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

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

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 49.3% of total consolidated assets as of September 30, 2007, and whose revenues constitute approximately 54.4% and 56% of total consolidated revenues for the nine and three months then ended, respectively.

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

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

Tel-Aviv, Israel  
November 25, 2007

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

**CONSOLIDATED BALANCE SHEETS**

	<b>September 30,</b>		<b>December 31,</b>
	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>Reported NIS in thousands</b>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	906,343	184,860	194,221
Short-term investments	37,265	96,302	147,717
Trade receivables and accrued income	267,854	134,942	132,817
Other accounts receivable	406,470	279,742	210,697
Inventories of apartments, buildings and land for sale	451,169	-	-
Real estate held for sale	253,242	545,988	130,739
	<u>2,322,343</u>	<u>1,241,834</u>	<u>816,191</u>
<b>LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:</b>			
Investments in affiliates	2,415,200	1,336,149	1,429,340
Long-term investments	779,498	938,769	1,151,209
Long-term loans and receivables	55,827	*) 47,567	*) 47,937
Investment property	29,140,245	*) 18,200,950	*) 18,753,177
Investment property under development	1,750,006	*) 1,269,902	*) 1,658,594
Inventories of real estate	20,073	-	-
	<u>34,160,849</u>	<u>21,793,337</u>	<u>23,040,257</u>
<b>FIXED ASSETS:</b>			
Cost	431,904	*) 310,170	*) 35,429
Less - accumulated depreciation	43,760	*) 33,522	*) 35,115
	<u>388,144</u>	<u>276,648</u>	<u>280,314</u>
<b>OTHER ASSETS AND DEFERRED CHARGES, NET</b>	<u>138,849</u>	*) 48,195	*) 54,268
	<u>37,010,185</u>	<u>23,360,014</u>	<u>24,191,030</u>

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

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

**CONSOLIDATED BALANCE SHEETS**

	<u>September 30,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Credit from banks and others	1,468,927	786,834	966,558
Trade payables	281,719	187,911	195,594
Other accounts payable	721,469	439,246	402,194
Advances from customers and buyers of apartments	26,008	-	-
Dividend declared	31,866	28,134	29,457
	<u>2,529,989</u>	<u>1,442,125</u>	<u>1,593,803</u>
<b>LONG-TERM LIABILITIES:</b>			
Debentures	11,180,435	6,811,800	8,024,421
Convertible debentures redeemable into shares of investees	517,441	332,246	468,134
Liabilities to financial institutions and others	8,043,666	7,815,893	7,014,366
Tenants' security deposits	69,167	66,594	67,084
Accrued severance pay, net	1,115	237	259
Deferred taxes, net	1,538,461	118,990	168,176
	<u>21,350,285</u>	<u>15,145,760</u>	<u>15,742,440</u>
RECEIPTS FROM CONVERSION OPTION IN INVESTEES	<u>27,597</u>	<u>10,314</u>	<u>19,762</u>
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN INVESTEES	<u>25,492</u>	<u>4,918</u>	<u>5,909</u>
MINORITY INTEREST	<u>7,593,483</u>	<u>4,100,096</u>	<u>3,963,738</u>
SHAREHOLDERS' EQUITY	<u>5,483,339</u>	<u>2,656,801</u>	<u>2,865,378</u>
	<u>37,010,185</u>	<u>23,360,014</u>	<u>24,191,030</u>

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

<u>November 25, 2007</u>			
Date of approval of the financial statements	<u>Chaim Katzman</u> Chairman of the Board	<u>Dori Segal</u> President and Director	<u>Gil Kotler</u> Chief Financial Officer

**CONSOLIDATED STATEMENTS OF INCOME**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	2,053,961	1,904,647	727,226	617,825	2,552,296
Rental property operating expenses	668,572	645,155	234,936	205,413	867,838
Rental property 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
Appreciation of investment property, net	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
Financial expenses, net	657,408	575,209	247,345	196,342	757,617
Other income (expenses), net	981,318 (7,670)	158,495 338,606	203,794 (2,456)	36,867 13,629	190,164 514,101
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	<u>704,208</u>	<u>216,835</u>	<u>101,048</u>	<u>50,083</u>	<u>361,378</u>
Net earnings per share (in reported NIS):					
Basic net earnings	<u>5.95</u>	<u>2.06</u>	<u>0.84</u>	<u>0.45</u>	<u>3.34</u>
Diluted net earnings	<u>5.80</u>	<u>1.97</u>	<u>0.81</u>	<u>0.39</u>	<u>3.17</u>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2007 (unaudited)									
	Share capital	Share premium	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period (audited)	171,412	2,071,145	34,868	82,620	507,938	31,813	(24,574)	(9,844)	2,865,378
Exercise of stock options into shares	25	231	(715)	-	-	-	-	-	(459)
Sale of shares held by the Company	-	5,854	-	-	-	-	3,520	-	9,374
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	226,318	-	-	-	-	226,318
Revaluation of derivatives in affiliate to market value	-	-	18,436	-	-	-	-	-	18,436
Measurement of investment property using the fair value model (1)	-	-	-	-	1,746,772	-	-	-	1,746,772
Net income	-	-	-	-	704,208	-	-	-	704,208
Cost of share-based payment	-	-	2,779	-	-	-	-	-	2,779
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	6,072	6,072
Revaluation of loans for purchase of shares	-	-	-	-	200	-	-	(200)	-
Dividend paid	-	-	-	-	(31,860)	(31,813)	-	-	(63,673)
Dividend declared	-	-	-	-	(31,866)	-	-	-	(31,866)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,866)	31,866	-	-	-
Balance at end of period	<u>171,437</u>	<u>2,077,230</u>	<u>55,368</u>	<u>308,938</u>	<u>2,863,526</u>	<u>31,866</u>	<u>(21,054)</u>	<u>(3,972)</u>	<u>5,483,339</u>

(1) See Note 2c(1).

(2) See Note 4d.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Nine months ended September 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of period (audited)	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,295	69,862	-	-	-	-	-	-	-	72,157
Issue of Company shares	6,488	249,955	-	-	-	-	-	-	(194)	256,249
Sale of shares held by the Company	-	209,476	-	-	-	-	-	157,731	-	367,207
Issue of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(100,754)	-	-	-	-	(100,754)
Revaluation of derivatives in investees to market value	-	-	-	5,887	-	-	-	-	-	5,887
Net income	-	-	-	-	-	216,835	-	-	-	216,835
Cost of share-based payment	-	-	-	3,658	-	-	-	-	-	3,658
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	314	314
Revaluation of loans for purchase of shares	-	-	-	-	-	50	-	-	(50)	-
Dividend paid	-	-	-	-	-	(27,113)	(25,419)	-	-	(52,532)
Dividend declared	-	-	-	-	-	(28,134)	-	-	-	(28,134)
Dividend declared subsequent to the balance sheet date	-	-	-	-	-	(28,859)	28,859	-	-	-
Balance at end of period	<u>169,564</u>	<u>1,938,978</u>	<u>7,658</u>	<u>15,444</u>	<u>156,606</u>	<u>395,868</u>	<u>28,859</u>	<u>(45,428)</u>	<u>(10,748)</u>	<u>2,656,801</u>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended September 30, 2007 (unaudited)								
	Share capital	Share premium	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period	171,414	2,077,080	64,403	401,185	2,794,190	31,860	(21,054)	(9,310)	5,509,768
Exercise of stock options into shares	23	150	(715)	-	-	-	-	-	(542)
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	(92,247)	-	-	-	-	(92,247)
Revaluation of derivatives in affiliate to market value	-	-	(8,777)	-	-	-	-	-	(8,777)
Net income	-	-	-	-	101,048	-	-	-	101,048
Cost of share-based payment	-	-	457	-	-	-	-	-	457
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	5,498	5,498
Revaluation of loans for purchase of shares	-	-	-	-	160	-	-	(160)	-
Dividend declared	-	-	-	-	(6)	(31,860)	-	-	(31,866)
Dividend declared subsequent to the balance sheet date (1)	-	-	-	-	(31,866)	31,866	-	-	-
Balance at end of period	<u>171,437</u>	<u>2,077,230</u>	<u>55,368</u>	<u>308,938</u>	<u>2,863,526</u>	<u>31,866</u>	<u>(21,054)</u>	<u>(3,972)</u>	<u>5,483,339</u>

(1) See Note 4d.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended September 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
					Reported NIS in thousands					
Balance at beginning of period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851
Issue of Company shares	6,488	249,955	-	-	-	-	-	-	(194)	256,249
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(101,375)	-	-	-	-	(101,375)
Revaluation of derivatives in investees to market value	-	-	-	(7,268)	-	-	-	-	-	(7,268)
Net income	-	-	-	-	-	50,083	-	-	-	50,083
Cost of share-based payment	-	-	-	1,166	-	-	-	-	-	1,166
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	229	229
Revaluation of loans for purchase of shares	-	-	-	-	-	(10)	-	-	10	-
Dividend paid	-	-	-	-	-	27,113	(27,113)	-	-	-
Dividend declared	-	-	-	-	-	(28,134)	-	-	-	(28,134)
Dividend declared subsequent to the balance sheet date	-	-	-	-	-	(28,859)	28,859	-	-	-
Balance at end of period	<u>169,564</u>	<u>1,938,978</u>	<u>7,658</u>	<u>15,444</u>	<u>156,606</u>	<u>395,868</u>	<u>28,859</u>	<u>(45,428)</u>	<u>(10,748)</u>	<u>2,656,801</u>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
<u>Cash flows from operating activities:</u>					
Net income	704,208	216,835	101,048	50,083	361,378
Adjustments to reconcile net income to net cash provided by operating activities (a)	(135,689)	288,011	63,061	117,048	228,579
Net cash provided by operating activities	568,519	504,846	164,109	167,131	589,957
<u>Cash flows from investing activities:</u>					
Investment in initially consolidated companies (b)	-	(198,077)	-	(177,652)	(198,077)
Investment in company consolidated by the proportionate consolidation method (c)	(124,765)	-	(124,765)	-	-
Investment in investees	(817,871)	(464,838)	(474,098)	(296,956)	(550,365)
Investments in fixed assets, investment property and investment property under development and investment land	(3,214,162)	(3,763,604)	(708,486)	(1,090,701)	(5,008,411)
Repayment (receipt) of loans to partners in property under development, net	22,479	15,254	1,288	(255)	14,454
Proceeds from sale of fixed assets, investment property and investment property under development	75,815	1,751,722	2,408	58,142	1,825,338
Long-term loans granted	(17,183)	(40,187)	(15,139)	(37,594)	(42,295)
Repayment of long-term loans granted	20,846	26,096	19,913	329	26,122
Short-term investments, net	5,741	(29,617)	(9)	167,796	(7,291)
Purchase of marketable securities and long-term investments	(596,066)	(742,637)	(91,391)	(172,374)	(1,121,793)
Proceeds from realization of long-term investments	1,127,095	297,288	203,278	192,580	474,880
Withdrawal of long-term deposits, net	-	1,611	-	48	822
Net cash used in investing activities	(3,518,071)	(3,146,989)	(1,187,001)	(1,356,637)	(4,586,616)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
<u>Cash flows from financing activities:</u>					
Repayment of loans granted for the purchase of Company and subsidiary's shares	6,072	314	5,498	229	1,148
Issue of share capital, net	-	256,249	-	256,249	256,249
Exercise of stock options into shares	256	72,157	173	-	164,986
Sale of shares held by the Company	9,374	367,207	-	-	421,210
Issue of stock options	-	7,658	-	-	7,658
Issue of shares to minorities in subsidiaries, net	186,126	289,354	48,543	32,620	338,396
Dividend paid	(93,136)	(75,142)	(31,866)	(27,113)	(103,268)
Dividend paid to minorities in subsidiary	(284,171)	(488,392)	(94,123)	(97,935)	(582,649)
Receipt of long-term loans	1,898,336	1,848,160	705,811	166,032	1,897,398
Repayment of long-term loans	(1,017,761)	(1,957,344)	(302,752)	(707,225)	(2,081,351)
Withdrawal (repayment) of long-term credit lines from banks, net	110,045	(191,554)	353,853	(37,511)	(254,764)
Repayment and early redemption of debentures and convertible debentures	(76,246)	(681,011)	(64,370)	(328,551)	(681,011)
Sale of Company's debentures by subsidiaries	-	300,622	-	-	300,622
Short-term bank credit, net	(46,981)	42,290	18,183	28,359	(80,101)
Issue of debentures and convertible debentures	3,044,402	3,045,710	988,131	1,986,692	4,615,639
Purchase of subsidiary's shares by subsidiary	-	(289,132)	-	(63,697)	(301,935)
Net cash provided by financing activities	<u>3,736,316</u>	<u>2,547,146</u>	<u>1,627,081</u>	<u>1,208,149</u>	<u>3,918,227</u>
Effect of exchange rate differences from cash balances of foreign autonomous entities	(74,642)	(2,355)	(54,502)	(1,305)	(9,559)
Increase (decrease) in cash and cash equivalents	712,122	(97,352)	549,687	17,338	(87,991)
Cash and cash equivalents at beginning of period	194,221	282,212	356,656	167,522	282,212
Cash and cash equivalents at end of period	<u>906,343</u>	<u>184,860</u>	<u>906,343</u>	<u>184,860</u>	<u>194,221</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>					
Income and expenses not involving cash flows:					
Gain from realization and revaluation of marketable securities, net	(64,884)	(24,638)	(39,020)	(15,680)	(44,890)
Appreciation of investment property, net	(551,834)	-	(49,525)	-	-
Minority interest in earnings of subsidiaries	498,772	431,637	94,203	47,578	529,242
Equity in earnings of affiliates, net of dividend received	(370,102)	(165,999)	(53,551)	(56,079)	(225,617)
Depreciation	13,310	309,864	5,130	103,789	462,661
Deferred taxes, net	160,945	33,621	56,577	13,847	42,821
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(2,887)
Adjustment differences on monetary assets and long-term monetary liabilities, net	21,804	47,700	28,102	19,662	27,737
Write-down of long-term investments	10,056	98,840	-	-	16,923
Amortization of other assets and deferred charges	-	41,569	-	15,372	25,002
Capital gain from sale of fixed assets, investment property and investment property under development	(8,809)	(383,574)	(1,064)	(8,215)	(447,326)
Increase in accrued severance pay, net	48	73	85	73	95
Loss (gain) from issuance to third party, net	7,798	(31,004)	4,197	(1,813)	(33,535)
Cost of share-based payment	16,837	7,406	11,243	2,901	9,898
Bad debts	3,623	720	(644)	(92)	3,203
Changes in asset and liability items:					
Increase in trade receivables, accrued income and other accounts receivable	(136,678)	(164,363)	(47,189)	(105,789)	(208,485)
Increase in trade payables and other accounts payable	262,055	81,009	61,271	99,305	65,930
Increase (decrease) in tenants' security deposits, net	1,370	5,150	(6,754)	2,189	7,807
	<u>(135,689)</u>	<u>288,011</u>	<u>63,061</u>	<u>117,048</u>	<u>228,579</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	*) 2006	2007	*) 2006	*) 2006
	Unaudited				Audited
	Reported NIS in thousands				
<b>(b) Investment in initially consolidated companies:</b>					
Consolidated companies' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	-	(1,898)	-	-	(1,898)
Current liabilities	-	90,679	-	65,985	90,679
	-	88,781	-	65,985	88,781
Fixed assets, long-term investments and loans (mainly real estate)					
Long-term liabilities	-	(511,056)	-	(325,477)	(511,056)
	-	224,198	-	81,840	224,198
	-	(286,858)	-	(243,637)	(286,858)
	-	(198,077)	-	(177,652)	(198,077)
<b>(c) Investment in company consolidated by the proportionate consolidation method:</b>					
Consolidated companies' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(633,167)	-	(633,167)	-	-
Current liabilities	445,557	-	445,557	-	-
	(187,610)	-	(187,610)	-	-
Fixed assets, long-term investments and loans					
Other assets	(78,670)	-	(78,670)	-	-
Long-term liabilities	(20,766)	-	(20,766)	-	-
Receipts from issuance of stock options in subsidiary	130,162	-	130,162	-	-
Minority interest	6,024	-	6,024	-	-
Goodwill	33,253	-	33,253	-	-
	(7,158)	-	(7,158)	-	-
	62,845	-	62,845	-	-
	(124,765)	-	(124,765)	-	-
<b>(d) Significant non-cash operations:</b>					
Dividend declared	31,866	28,134	31,866	28,134	29,457

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

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

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

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

- b. Addendum to the Company's accounting policy as a result of the initial consolidation of a jointly controlled entity:

1. Buildings for sale and advances from buyers:

Buildings for sale are stated at cost including direct identifiable costs and indirect joint costs. Direct costs are reported in contracts in an identifiable manner, as above, whereas joint indirect costs are allocated between contracts based on the ratio of direct costs. The costs includes the direct cost of land, development, materials, labor, subcontractors and other costs. The cost of buildings includes capitalization of selling expenses only to the extent that they can be clearly and exclusively identified with an individual project.

Joint construction transactions are included in the Company's statements by the proportionate consolidation method.

Inventories of buildings for sale and contracts in progress are stated at the lower of cost or market value. Market value was computed based on the Company's estimate as to the anticipated revenues. The value of inventories is examined on an individual basis for each project separately.

2. Construction contracts in progress and customer advances:

The construction contracts are stated at cost including direct identifiable costs and indirect joint costs, less the full amount of the expected loss (if any). Direct costs are reported in contracts in an identifiable manner, as above, whereas joint indirect costs are allocated between contracts based on the ratio of costs.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The balance of costs presented in the balance sheet as part of current assets is net of these accumulated costs included in the statement of income based on the percentage of completion, loss provision and net of excess of payments from customers over revenues reported in the statement of income.

3. Capitalization of borrowing costs:

The Company capitalizes borrowings in accordance with Accounting Standard No. 3 regarding capitalization of borrowing costs. According to this Standard, costs of specific borrowing and costs of nonspecific borrowing are capitalized to cost of qualifying assets, as defined by the standard.

4. The operating cycle period:

The operating cycle period for the contractual activity may last two to three years and, accordingly, inventories include items that are expected to be used during that operating cycle period.

c. Initial adoption of new accounting standards:

1. Accounting Standard No. 16 - Investment Property:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

4. Accounting Standard No. 30 - Intangible Assets:

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

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

- d. Disclosure of the effect of a new accounting standard in the period prior to its adoption:

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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

The Company is at an advanced stage in the preparation process of the transition to reporting according to IFRS, but has not yet completed all examinations of the implications of the transition to IFRS. Management's discussion as of September 30, 2007, which is attached to these financial statements, includes in section II and in Appendix A the Company's description of the effect of the adoption of IFRS as of January 1, 2005 and December 31, 2005 and 2006 and for the years 2005 and 2006 and as of September 30, 2007 and for the nine and three months then ended.

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

	Israeli CPI Points *)	Representative exchange rate of		
		U.S.\$	C\$ NIS	Euro
<b><u>As of</u></b>				
September 30, 2007	189.1	4.013	4.0174	5.6898
September 30, 2006	186.5	4.302	3.8689	5.4552
December 31, 2006	184.9	4.225	3.6408	5.5643
<b><u>Change during the period</u></b>				
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
September 2007 (9 months)	2.3	(5.0)	10.3	2.2
September 2007 (3 months)	1.3	(5.6)	(0.1)	(0.4)
September 2006 (9 months)	0.8	(6.5)	(2.4)	0.1
September 2006 (3 months)	(0.7)	(3.1)	(3.3)	(3.3)
December 2006 (12 months)	(0.1)	(8.2)	(8.2)	2.2

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

**NOTE 3:- ADDITIONAL INFORMATION**

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

Further, in August 2007, the Company's wholly owned subsidiary sold its investment in 4 series of preferred stock of MLS in consideration for approximately U.S.\$ 12.5 million (approximately NIS 53 million).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- c. In February 2007, Citycon Oyj. ("Citycon") issued 25 million shares to international and Finnish institutional entities for the total consideration of approximately €134 million (approximately NIS 746 million). The Company has acquired 10 million shares in the context of this issuance with an investment of approximately €54 million (approximately NIS 294 million).

In March 2007, the Company acquired additional number of approximately 1.1 million shares of Citycon from the public with an investment of approximately €5.7 million (approximately NIS 32 million).

Further, in September and October 2007, Citycon issued approximately 27.6 million shares by way of issuance of rights for a total consideration of approximately € 99.3 million (approximately NIS 566 million). The Company acquired approximately 11 million shares in the context of the issuance with an investment of approximately € 39.5 million (approximately NIS 225 million).

- d. In July and August 2007, the Company's wholly owned subsidiary acquired during trade on the New York Stock Exchange (NYSE) 2.1 million of EQY shares in consideration of approximately U.S.\$ 50.7 million (approximately NIS 216 million). As a result of these acquisitions, the Group's holding in EQY increased from 42.2% to 45%.
- e. In August 2007, the Company's wholly owned subsidiary entered into an investment agreement with Hiref International LLC, an Indian real estate investment fund registered in Mauritius ("the Fund"). The Fund was set up on the initiative and with the sponsorship of HDFC group which is one of the largest financial entities in India. According to the investment agreement, the subsidiary will be one of the four anchor investors in the Fund. According to the Fund's foundation documents and investment agreements, the Fund will invest, directly and indirectly, in real estate companies active in development and construction, as well as in synergetic fields. The Fund has received commitments in the scope of U.S.\$ 750 million and the Company's has undertaken to invest in the Fund a total amount of approximately U.S.\$ 110 million; of this, the Company had invested U.S.\$ 10 million (approximately NIS 42 million) through September 30, 2007.

HDFC group will make a co-investment of approximately U.S.\$ 50 million alongside the Fund.

The life period of the fund will be nine years, with two one-year options to extend.

- f. On August 20, 2007, the Company's wholly owned subsidiary ("the subsidiary") and private companies controlled by Mr. Uri Dori ("the sellers") signed an agreement to acquire 50% of the share capital and voting rights of Acad Building & Investments Ltd. ("Acad") in consideration of approximately U.S.\$ 44.4 million (approximately NIS 184 million). The agreement was signed in parallel and in addition to the signing of another agreement pursuant to which the sellers would acquire these shares from a third party in such a manner that the subsidiary and the sellers would hold after the closing 50% of the share capital and voting rights of Acad. On September 18, 2007, upon the fulfillment of the suspending conditions, the transaction was closed. Acad's major activity is the direct and indirect holding in 75.73% of the share capital and voting rights of U. Dori Engineering Works Corp. Ltd. ("U. Dori") (54.36% on a fully diluted basis) at the date of closing.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3:- ADDITIONAL INFORMATION (Cont.)**

U. Dori is a public company that is listed on the Tel Aviv Stock Exchange and is primarily engaged in the development and construction (both for itself and for third parties) of residential and commercial buildings and in the performance of contract work in the infrastructure field. U. Dori also operates in developing residential projects in Eastern Europe; additionally, U. Dori acts (together with others) is involved in the construction of an electricity generating power station in Israel. Besides 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.

Concurrently with said agreement, the subsidiary and the sellers signed a shareholders agreement to settle the relations between them as to the management of Acad and its subsidiaries. According to the agreement, Mr. Uri Dori will continue as the CEO and chairman of U. Dori until reaching retirement age. Further, it was determined that the decisions of Acad's Board would be accepted by mutual agreement of both parties and a mechanism for the appointment of officers, the composition of major organizations and restrictions on share transferability were also settled. As a result, the Company includes Acad by the proportionate consolidation method.

Following is the Company's share in the fair value of the identifiable assets and identifiable liabilities of Acad as of September 30, 2007 as included in these financial statements:

	<u>NIS in millions</u> <u>Unaudited</u>
Current assets	692
Non-current inventories of real estate, long-term investments, fixed assets and investment property	79
Other assets *)	28
<u>Total</u> assets	<u>799</u>
Current liabilities	446
Long-term liabilities	130
Stock options in subsidiary	6
Minority interest	33
<u>Total</u> liabilities	<u>615</u>
Fair value of net assets	<u>184</u>
*) Includes goodwill arising on the acquisition	<u>7</u>

Method for allocating the acquisition cost:

The acquisition cost was attributed to the fair value of the identifiable assets and identifiable liabilities at the date of acquisition. The excess of the Company's share in the fair value of the identifiable assets, less its share in the fair value of the identifiable liabilities (net of attribution of taxes), was attributed to goodwill.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- g. In March and September 2007, the Company issued NIS 500 million par value of debentures (Series F), by way of series extension, in consideration of approximately NIS 517 million.

Also, in April and September 2007, the Company issued NIS 700 million par value of debentures (Series D), by way of series extension, in consideration of approximately NIS 720 million.

- h. In July 2007, the Company issued NIS 500 million par value of debentures (Series E) in consideration of approximately NIS 496 million. The debentures (Series E) are unlinked, bear annual interest at the Telbor rate (deriving from the average annual interest rates on NIS deposits for a 6-month period) plus a fixed margin of 0.7%. The debentures (Series E) are redeemable in two equal payments in 2017.
- i. In April 2007, EQY issued by private placement a series of debentures in the scope of U.S.\$ 150 million (approximately NIS 623 million). The debentures are unsecured, redeemable in September 2017 and bear interest at a fixed annual rate of 6%.

EQY intends to list said debentures for trade and, if it does not do so, the interest on the debentures will be raised pursuant to the terms of the issuance.

- j. In January 2007, FCR issued debentures (Series E) in the scope of C\$ 100 million (approximately NIS 360 million), bearing annual interest of 5.36%, payable twice a year and redeemable on January 31, 2014.

Also, in April 2007, FCR issued debentures (Series F) in the scope of C\$ 100 million (approximately NIS 360 million). The debentures are unsecured, bear interest at an annual rate of 5.32% and are redeemable in October 2014.

- k. In June 2007, FCR issued C\$ 50 million par value of convertible debentures (Series A), by way of series extension, in consideration of C\$ 54 million (approximately NIS 215 million). The Company's wholly owned subsidiary has acquired approximately C\$ 38 million par value of convertible debentures (Series A) in the context of this issuance, in consideration of approximately C\$ 41 million (approximately NIS 165 million).
- l. In March 2007, FCR signed an unsecured credit line agreement in the amount of C\$ 250 million (approximately NIS 900 million) over a period of three years, which is renewable from time to time, with a consortium of banks and financial institutions headed by RBS Capital Markets.

In October 2007, FCR increased the credit line by an additional C\$ 100 million (approximately NIS 402 million).

- m. On August 12, 2007, the Company's Board approved the allocation to employees and officers, other than related parties in the Company, of 366 thousand stock options representing 0.3% of the Company's equity. Each option is exercisable into one Ordinary share at an exercise price of NIS 50, linked to the Israeli CPI and subject to adjustments in such a manner that the optionees were conferred the choice of regular or cash-less exercise, meaning receiving such number of shares that reflects the monetary value of the benefit underlying the stock options.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The options vest over three years in three equal tranches from the first anniversary of the options. The fair value of each stock option based on a binomial model is approximately NIS 10.52 for officers and NIS 10.25 for other employees. The fair value was computed using average volatility of 27.2%, average risk-free interest rate of 3.3% and share price of NIS 46.2. The options were issued based on Section 102 of the Income Tax Ordinance in the capital gain track (with a trustee).

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

- a. In November 2007, the issuance of Ronson Europe N.V. ("Ronson"), a Dutch company owned by a subsidiary of U. Dori (50%) on the Warsaw Stock Exchange was completed.

The issuance proceeds, less issuance expenses, totaled approximately €38.3 million (approximately NIS 221 million), out of which an amount of approximately €19.4 million (approximately NIS 110 million) was paid to the subsidiary in consideration of shares it held. Further, the issuance underwriters were granted an option to acquire an additional amount of 6 million shares of Ronson out of the shares that the subsidiary held based on the price fixed in the issuance. As a result of the issuance, as above, before the exercise of the option by the underwriters, U. Dori's indirect holdings in Ronson decreased from 40% to 32%.

- b. On November 6, 2007, the Company's Board approved the appointment of Mr. Michael Bar Haim as the Company's new President. Mr. Bar Haim will begin employment as agreed with the Board's chairman but not after February 5, 2008. The main employment conditions of the President are a monthly salary of NIS 140 thousand, including related social benefits, an annual bonus at the rate of 0.75% of the Company's net income less appreciation or impairment of unrealized real estate properties, a vehicle and maintenance of an apartment. The employment term was set at four years.

Also, 20 thousand ordinary shares of the Company (for the par value of which the Company will capitalize NIS 20 thousand of its earnings) and 800 thousand stock options, representing altogether approximately 0.7% of the Company's equity, will be issued to the President without consideration. The Company is entitled to repurchase the shares without consideration in the event that the President retires (except when the retirement is considered under the law a dismissal), or in the event of dismissal of the President "for cause" (as defined in the agreement). The period during which the Company is entitled to repurchase the shares, as above, is four years in four equal tranches in each year.

The stock options are exercisable into one ordinary share with the addition of an indexed exercise price that will be determined based on the average value of the shares during the 30 days preceding the date of grant, subject to adjustments. The options vest over four years in four equal tranches from the first anniversary of the commencement of employment, in such a manner that the President was conferred the choice of regular or cash-less exercise. The fair value of each stock option based on a binomial model is approximately NIS 15.49. The fair value was computed using volatility of 25.1%-36.3%, average risk-free interest rate of 2.5%-3.4% and share price of NIS 50.5. The options were issued based on Section 102 of the Income Tax Ordinance in the capital gain track (with a trustee).

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

- c. In November 2007, the Company published a shelf prospectus that offers for issuance and listing, by way of rights, from 14,753 up to 14,831 thousand stock options (Series 9) (this quantity is under the assumption that all the outstanding non-marketable stock options are exercised until the record date of the issuance of rights). Stock options (Series 9) are offered in such a manner that any holder of eight ordinary shares of the Company of NIS 1 par value each shall be entitled to receive without consideration one stock option (Series 9) that is exercisable into one ordinary share of NIS 1 par value.

If the exercise date is before December 10, 2007, each stock option (Series 9) is exercisable in consideration of NIS 47.61, and if the exercise date is from December 11, 2007 to June 3, 2008 (the end of the exercise period) of the exercise price is NIS 54.

- d. In November 2007, the Company declared a dividend in the amount of NIS 0.27 per share, to be paid in January 2008. The record date is December 24, 2007.

**NOTE 5:- GEOGRAPHIC SEGMENTS**

	<b>Nine months ended September 30, 2007 (unaudited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>907,008</u>	<u>1,059,184</u>	<u>59,589</u>	<u>28,180</u>	<u>2,053,961</u>
Segment results	<u>609,555</u>	<u>1,174,041</u>	<u>130,191</u>	<u>16,450</u>	<u>1,930,237</u>
	<b>Nine months ended September 30, 2006 (unaudited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>907,559</u>	<u>949,233</u>	<u>35,454</u>	<u>12,401</u>	<u>1,904,647</u>
Segment results	<u>468,013</u>	<u>430,500</u>	<u>15,303</u>	<u>5,473</u>	<u>919,289</u>
	<b>Three months ended September 30, 2007 (unaudited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>312,318</u>	<u>385,732</u>	<u>19,520</u>	<u>9,656</u>	<u>727,226</u>
Segment results	<u>213,164</u>	<u>228,287</u>	<u>91,023</u>	<u>7,114</u>	<u>539,588</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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

	<b>Three months ended September 30, 2006 (unaudited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>276,409</u>	<u>319,436</u>	<u>14,089</u>	<u>7,891</u>	<u>617,825</u>
Segment results	<u>142,019</u>	<u>147,421</u>	<u>5,553</u>	<u>3,423</u>	<u>298,416</u>
	<b>Year ended December 31, 2006 (audited)</b>				
	<b>U.S.</b>	<b>Canada</b>	<b>Israel</b>	<b>Europe</b>	<b>Total - consolidated</b>
	<b>Reported NIS in thousands</b>				
Rental income	<u>1,199,161</u>	<u>1,277,487</u>	<u>54,855</u>	<u>20,793</u>	<u>2,552,296</u>
Segment results	<u>615,627</u>	<u>587,467</u>	<u>21,588</u>	<u>6,517</u>	<u>1,231,199</u>

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

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