

## **GAZIT-GLOBE LTD.**

### **Directors' Report to Shareholders** **For the year ended December 31, 2007**

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

#### **Transition to 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)”. This standard provides that companies subject to the Securities Law shall prepare their financial statements according to IFRS for reporting periods commencing from January 1, 2008 (with early adoption being permitted). The Company has opted for early adoption of IFRS, commencing with the annual financial statements for 2007. Accordingly, the financial data in the Directors' Report are presented according to IFRS, unless specifically stated otherwise. For further details regarding the transition to reporting according to IFRS, see notes 2A and 41 to the financial statements.

#### **1. A. General**

The Company – directly and through its consolidated subsidiaries (hereinafter, collectively – “the Group”) is engaged in the acquisition, development and management of income-producing properties in North America, Europe and Israel. Within the framework of its activities in the income-producing property sector, the Group focuses mainly on supermarket-anchored shopping centers. Within this framework, the Group is also active in the medical office buildings sector in North America. In addition, the Company is active in the senior housing communities sector in the U.S.A. Since September 2007, the Company, through a proportionately consolidated subsidiary, is also active in the property sector in Israel and Eastern Europe, in the development, redevelopment, management and construction of projects, primarily for residential, industrial and office buildings. Furthermore, the Group continues to seek and realize opportunities by acquiring properties and/or companies that are active within its core business or similar asset classes, both in regions where it operates and also in new territories. As to the Company's first acquisition of property in Brazil, see note 39 to the financial statements. As to the series of agreements entered into for the purpose of investing in Meinl European Land Ltd. (hereinafter – “MEL”, see section 5G below. As to the investment in property in India, see note 11 to the financial statements.

## **B. Growth Strategy in a Stable Business**

The main characteristics of the Company's business policy are as follows:

- Focusing on activities primarily on countries that have been granted an international investment rating, while examining compatible investment opportunities in new regions.
- Investment in various classes of income-producing properties, primarily shopping centers, which are considered less sensitive to economic cycles (in relation to other real estate classes).
- Operating in growing metropolitan areas, characterized by high barriers to entry for competition.
- Operating through local subsidiaries with experienced local personnel.
- Proactive management motivated by the desire to create value.
- Growth through the acquisition, development and redevelopment of shopping centers.
- Taking advantage of opportunities to merge and acquire, mainly with companies operating in the Group's asset class and/or in complementary business sectors.
- Expanding the Group's existing field of operations into new geographical regions by leveraging the Group's experience and its competitive advantages.

## **C. Properties**

As of December 31, 2007, the Group owns 465 properties, as follows:

- 411 shopping centers and stores
- 21 shopping centers under development
- 13 senior housing communities (with approx. 1,315 units)
- 2 senior housing communities under development
- 7 medical office building and 2 multi-story parking garages
- 11 other properties

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 at their fair value of NIS 44.4 billion and generate annual rental revenue of NIS 3.8 billion. (Annual rental revenue data are based on the gross annual rent from the properties owned and the exchange rates as of December 31, 2007.)

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – "EQY"), a public company listed on the New York Stock Exchange (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for U.S. tax purposes. As of December 31, 2007, the Company owns, directly and indirectly (through the subsidiary, First Capital Realty Inc., as described below), 45.9% 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 162 income-producing properties (156 operating shopping centers and 6 other properties), with a G.L.A. of 1.6 million square meters, as well as 3 shopping centers under development.

The Company is also active in the United States through Royal Senior Care (hereinafter – “RSC”) and ProMed Properties Inc. and ProMed Properties (CA) Inc. (hereinafter, collectively – “ProMed”). RSC, in which the Company holds a 50% interest, is active in the senior housing communities sector in the southeastern United States. RSC owns 13 senior housing communities, encompassing approximately 1,315 units, as well as 2 senior housing communities under development. ProMed, which is wholly (100%) owned, is engaged in the medical office buildings sector. ProMed owns 7 medical office buildings in North America (the U.S.A. and Canada), with a G.L.A. of 73 thousand square meters and 2 multi-story parking garages.

In Canada, the Company mainly operates through First Capital Realty Inc. (“FCR”), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of December 31, 2007, the Company holds 54.6% of FCR. FCR’s properties are located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 155 properties in Canada, with a G.L.A. of approximately 1.8 million square meters and 6 shopping centers under development. In addition, FCR owns 14 million shares of EQY.

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – “Citycon”), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (OMX). As of December 31, 2007, the Company owns approximately 39.4% of Citycon’s share capital. Citycon is active in northern Europe (as of December 31, 2007, in Finland, Sweden, Estonia and Lithuania) and owns 86 shopping centers and retail properties, which are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.9 million square meters. The Company also operates in the European shopping centers sector (only in Germany, as of December 31, 2007) through wholly owned subsidiaries (hereinafter – “Gazit Europe”) and owns 5 shopping centers with a G.L.A. of approximately 64 thousand square meters and 2 shopping centers under development. The Company is also active in Bulgaria, through wholly owned subsidiaries of Gazit-Globe Israel (Development) Ltd. (hereinafter – “Gazit Development (Bulgaria)”), where it owns a shopping center with a G.L.A. of approximately 7 thousand square meters, 3 plots of land for the future development of shopping centers and offices, with an area of approximately 388 thousand square meters and also an office building that is used by the Group.

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 8 income-producing shopping centers in Israel, with a G.L.A. of approximately 93.2 thousand square meters and has 7 shopping centers under development.

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 74% (54% 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. U. Dori is primarily engaged in the development, redevelopment, construction and sale of real estate projects in Israel and Eastern Europe, the management and performance of contract work in the real estate sector, and also the ownership (either wholly or jointly) and management of income-producing properties. In addition, U. Dori also owns 18.75% of the company, Dorad Energy Ltd., which is involved in the construction of a private power station in the Ashkelon region of 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.

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

[www.gazit-globe.com](http://www.gazit-globe.com)  
[www.equityone.net](http://www.equityone.net)  
[www.firstcapitalrealty.ca](http://www.firstcapitalrealty.ca)  
[www.citycon.fi](http://www.citycon.fi)

**The Regions (Marked - ■ ) where the Company Operates are Shown on the Following Map:**



#### **D. Highlights - 2007**

- The Group's investments totaled NIS 7.3 billion, compared to NIS 5.2 billion in 2006.
- Property rental revenue totaled NIS 3.6 billion, an increase of 18% compared to 2006. The increase was due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the development properties coming on-line and the increase in the average rent per square meter received on the Group's properties, as well as to the consolidation of Citycon for the first time, with effect from the second quarter of 2006. As a result of the acquisition of Acad, the Group also had – with effect from fourth quarter of 2007 - revenues totaling NIS 108 million from the sale of land and buildings and the performance of contract work.
- NOI <sup>(1)</sup> totaled NIS 2.4 billion, compared to NIS 2 billion in 2006, an increase of 20%.
- Gross profit totaled NIS 2.5 billion, compared to NIS 2 billion in 2006, an increase of 22%.
- Cash inflows from operating activities totaled NIS 793 million, compared to NIS 687 million in 2006, an increase of 15%.
- FFO <sup>(2)</sup> totaled NIS 305 million, NIS 2.57 per share, compared to NIS 229 million, NIS 2.10 per share, in 2006, an increase of 34%.
- Net income totaled NIS 2,270 million, compared to net income of NIS 2,774 million, a decrease of 18%, which is due to a larger rise in the value of the investment property in 2006.
- Net income attributable to the shareholders of the Company (income net of minority interest) totaled NIS 983 million, NIS 8.32 per share, compared to net income of NIS 983 million, NIS 9.13 per share, in 2006.
- The Group raised a net amount of NIS 1.4 billion in share capital from the public, a similar amount to that in 2006.
- Debt to market capitalization (derived largely from the presentation of investment property at fair value) was 55.8% as of December 31, 2007, compared to 53.9% as of December 31, 2006.
- Shareholders' equity amounted to NIS 5.7 billion as of December 31, 2007 (NIS 45.7 per share), compared to NIS 4.4 billion as of December 31, 2006 (NIS 37.7 per share).

---

<sup>(1)</sup> NOI – Property rental revenue, net of property operating expenses.

<sup>(2)</sup> See section 3D below.

- The Company's net asset value per share (EPRA NAV<sup>(1)</sup>) totaled NIS 54.5 per share as of December 31, 2007, compared to NIS 46.1 per share as of December 31, 2006. The EPRA NNAV<sup>(1)</sup> totaled NIS 52.5 per share as of December 31, 2007, compared to NIS 40.5 per share as of December 31, 2006.
- At the end of the 2007, the Group had 23 properties under development with a gross area of approximately 261 thousand square meters, 27 properties being redeveloped and additional land reserves, costing approximately NIS 2.1 billion, which have been earmarked for future development. The additional cost to complete these properties under development and redevelopment totals NIS 3.7 billion.

**E. Highlights - Fourth Quarter 2007**<sup>(2)</sup>

- The Group's investments totaled NIS 1 billion, compared to NIS 1.5 billion in the corresponding period last year.
- Property rental revenue totaled NIS 961 million and revenues from the sale of land and buildings and the performance of contract work totaled NIS 108 million.
- NOI<sup>(3)</sup> totaled NIS 636 million.
- Gross profit totaled NIS 670 million.
- Cash inflows from operating activities totaled NIS 134 million.
- Net income totaled NIS 208 million.
- Net income attributable to the shareholders of the Company totaled NIS 76 million.

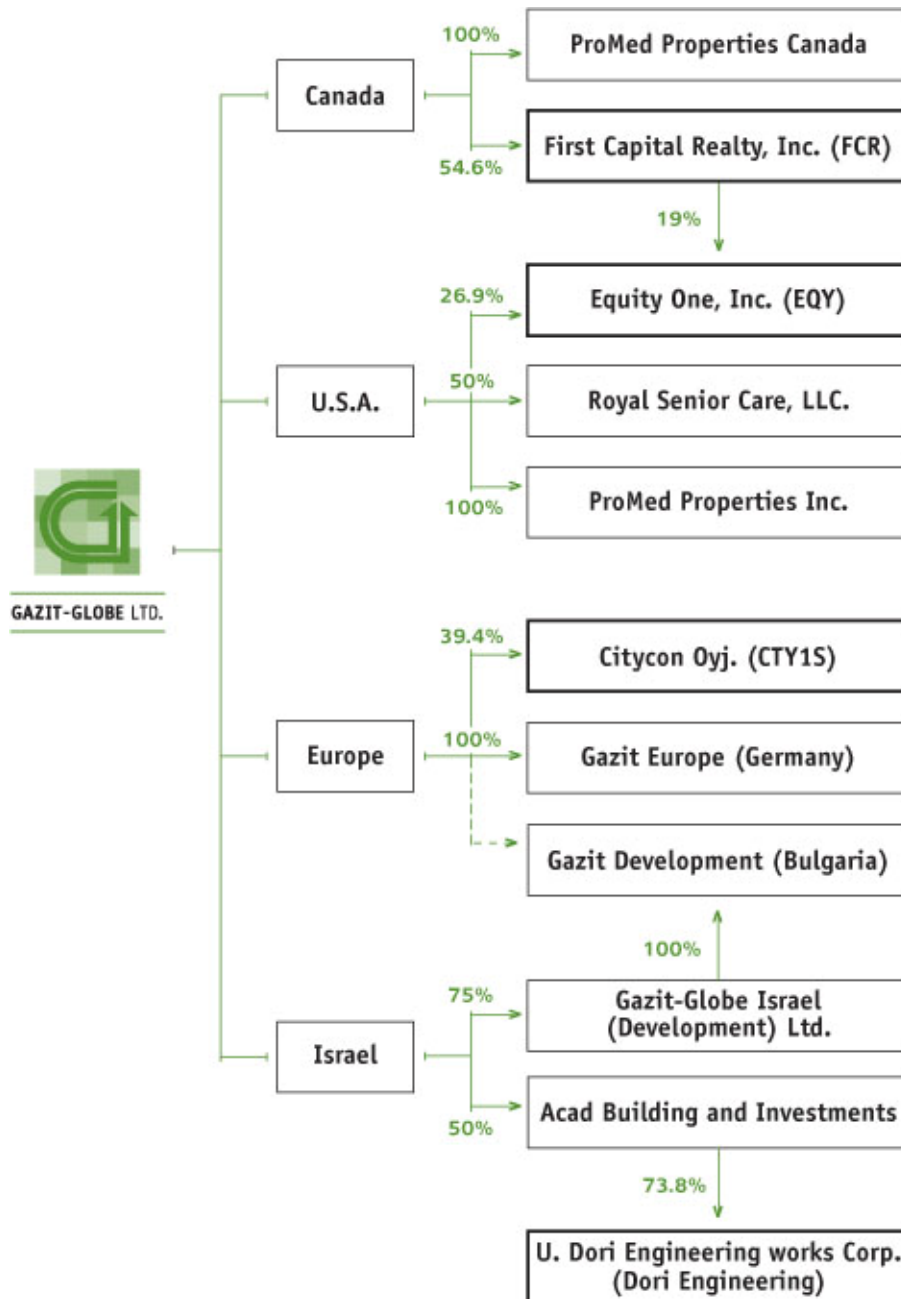
---

<sup>(1)</sup> See section H3 below.

<sup>(2)</sup> Comparative data for the fourth quarter of 2006 are not presented, as the results for the fourth quarter this year are presented according to IFRS, while the results for the corresponding quarter in 2006 were prepared according to generally accepted accounting principles in Israel. Consequently, comparison of the two quarters does not provide any relevant information.

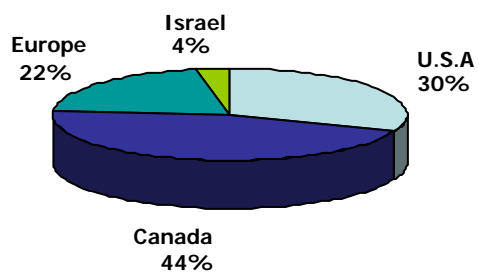
<sup>(3)</sup> NOI – Property rental revenue, net of property operating expenses.

**F. The Company's Major Holdings are Shown Below (Ownership Percentages are as of December 31, 2007):**

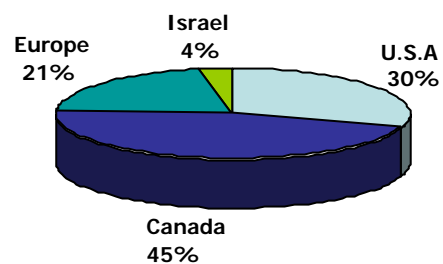


**G. Breakdown of Net Operating Income (“NOI”)<sup>(1)</sup>, According to the Company’s Operating Regions:**

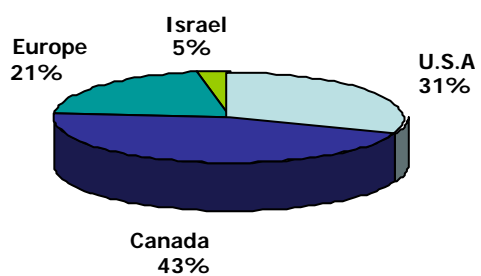
**Q4 2007**



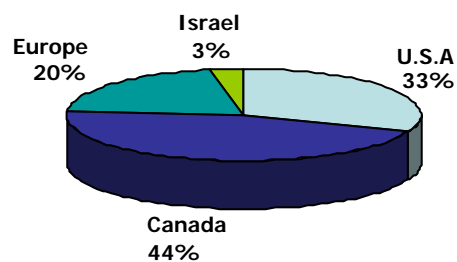
**Q4 2006**



**Year 2007**



**Year 2006**



<sup>(1)</sup> As to the Company’s share (“by proportionate consolidation”), see section H2 below.

## H. Additional Information Concerning the Company's Assets and Liabilities

1. The following table presents additional information summarizing the Company's assets as of December 31, 2007, as described above:

<b>Name of company</b>	<b>Type of security/ property</b>	<b>Holding (millions)</b>	<b>Holding percentage (%)</b>	<b>Book value (NIS in millions)</b>	<b>Market value as of December 31, 2007 (NIS in millions)</b>
EQY <sup>(1)</sup>	Shares (NYSE)	19.7	26.9	1,553	1,746
FCR	Shares (TSX)	43.5	54.6	3,807	4,097
FCR	Convertible debentures (TSX)	118.7	50.9	480	442
Citycon	Shares (OMX)	87	39.4	2,189	1,796
Citycon	Convertible debentures (OMX)	37	33.6	214	230
U. Dori <sup>(2)</sup>	Shares (TASE)	42.5	36.9	187	168
RSC <sup>(3)</sup>	Income-producing property	-	-	400	-
Property in Europe	Income-producing property	-	-	1,105	-
ProMed	Income-producing property	-	-	1,004	-
Property in Israel	Income-producing property	-	-	1,696	-
<b>Total</b>				<b>12,635</b>	<b>-</b>

<sup>(1)</sup> Represents only the Company's direct interest in EQY. (In addition, FCR owns 14 million shares of EQY).

<sup>(2)</sup> Represents linked holding in U. Dori.

<sup>(3)</sup> Presented at the fair value of the properties, in accordance with International Accounting Standard No. 16.

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

Debentures and debts to financial institutions *	7,819
Monetary liabilities, other than debentures and debts to financial institutions	<u>520</u>
Total monetary liabilities	8,339
Less – monetary assets	<u>1,425</u>
Monetary liabilities, net	<u>6,914</u>

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

<u>Year</u>	<u>Total</u>	<u>%</u>
2008	218	3
2009	714	9
2010	378	5
2011	575	7
2012	494	6
2013	475	6
2014	893	11
2015	513	7
2016	493	6
2017	702	9
2018	446	6
2019	541	7
2020	542	7
2021	720	9
2022 and after	<u>115</u>	<u>2</u>
<b>Total</b>	<b><u>7,819</u></b>	<b><u>100</u></b>

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

The sensitivity analyses shown in the table below describes the implied value of the income-producing properties<sup>(2)</sup> 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, assumptions regarding the following 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.

	<b>For the fourth quarter that ended December 31, 2007</b>	<b>For the year ended December 31, 2007</b>	<b>For the year ended December 31, 2006</b>	
<b>N I S i n m i l l i o n s</b>				
Property rental revenue	961	3,607	3,054	
Property operating expenses, net of depreciation	(325)	(1,181)	(1,034)	
NOI for the period	636	2,426	2,020	
Less – minority's share in NOI	(322)	(1,236)	(1,090)	
Add – Company's share in Citycon's NOI <sup>(3)</sup>	-	-	(3)41	
NOI for the period	<b>314</b>	<b>1,190</b>	<b>971</b>	
NOI for the year	<b>(4)1,256</b>	<b>1,190</b>	<b>971</b>	
<b>Cap Rate:</b>	<b><u>6.00%</u></b>	<b><u>6.25%</u></b>	<b><u>6.50%</u></b>	<b><u>6.75%</u></b>
Value of proportionately consolidated income-producing property (NIS in millions) <sup>(5)</sup>	<b><u>20,943</u></b>	<b><u>20,105</u></b>	<b><u>19,335</u></b>	<b><u>18,616</u></b>

<sup>(1)</sup> NOI – Property rental revenue, net of property operating expenses.

<sup>(2)</sup> NOI divided by the cap rate.

<sup>(3)</sup> For the first quarter of 2006, in which Citycon was included at its equity value

<sup>(4)</sup> NOI for the fourth quarter multiplied by 4.

<sup>(5)</sup> In accordance with the NOI for the fourth quarter of 2007.

New properties and properties under development, which have not yet come on line and which are presented at their carrying values in the Company's books (according to the proportionate consolidation method) as of December 31, 2007, amounted to NIS 1,614 million.

The Group's liabilities, net of monetary assets (by the proportionate consolidation method) as of December 31, 2007, amounted to NIS 14,931 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), which 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, the data does not constitute a valuation of the Company and does not replace the data presented in the financial statements; rather, they provide an additional aspect of the Company's results in accordance with the recommendations of EPRA.

Presented below is the calculation of the EPRA NAV and EPRA NNNAV:

	<b>As of December 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>NIS in millions</b>	
<b>a. <u>EPRA NAV</u></b>		
Shareholders' equity attributable to the shareholders of the Company, per financial statements	5,721	4,437
Adjustments for neutralization of fair value of derivative financial instruments	(118)	28
Add – Provision for tax on revaluation of investment property to fair value (net of minority's share)	1,225	962
<b>Net asset value - EPRA NAV</b>	<b>6,828</b>	<b>5,427</b>
<b>EPRA NAV per share (in NIS)</b>	<b>54.5</b>	<b>46.1</b>
<b>b. <u>EPRA NNNAV</u></b>		
EPRA NAV	6,828	5,427
Adjustment for addition of fair value of derivative financial instruments	118	(28)
Adjustments of financial liabilities to fair value	217	(295)
Other adjustments to provision for deferred taxes <sup>(1)</sup>	(591)	(335)
<b>“Adjusted” net asset value - EPRA NNNAV</b>	<b>6,572</b>	<b>4,769</b>
<b>EPRA NNNAV per share (in NIS)</b>	<b>52.5</b>	<b>40.5</b>

4. As of December 31, 2007, the Company's issued share capital comprises 125.2 million shares (excluding treasury stock held by the Company).

<sup>(1)</sup> This adjustment does not include a provision for tax in respect of the revaluation of investment property in territories where, upon disposing of property, the Company customarily defers the payment of the capital gains tax.

## **2. The Group and its Business Environment – Key Events and Changes During the Reporting Year**

### **General**

During 2007, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various existing properties totaled NIS 7.3 billion. Other investments totaled NIS 0.2 billion. The effect of these investments on the operating results will be reflected in full in 2008.

### **A. Property Activities**

1. During the reporting year, the Group acquired 32 income-producing properties, with a total G.L.A. of approximately 402 thousand square meters and 10 plots of land for future development. The total consideration for these acquisitions totaled NIS 5.9 billion.
2. During the reporting year, the Group invested a total of NIS 1.4 billion in developing new properties and in the redevelopment of existing properties.
3. As of December 31, 2007, EQY and FCR had 9 properties under development with a gross area of approximately 51.5 thousand square meters, 21 properties being redeveloped and expanded and additional land reserves for future development. The cost to complete these development, redevelopment and expansion projects is expected to amount to a further NIS 0.8 billion.

As of December 31, 2007, Citycon had 6 properties being redeveloped and expanded at an investment of €67 million (approximately NIS 377 million). The cost to complete these projects is expected to amount to a further €264 million (approximately NIS 1.5 billion).

The total cost of the aforementioned properties and land of EQY, FCR and Citycon, 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 2.1 billion. These properties and land did not generate any rental revenue during the reporting year.

4. As of December 31, 2007, EQY's and FCR's average basic monthly rental revenue was US\$ 11.99 per square meter. During the year, EQY and FCR renewed leases on 188 thousand square meters, while increasing the average basic monthly rent on these leases by 13.80% to an average monthly rent of US\$ 14.46 per square meter. Additionally, the companies signed new leases on 112 thousand square meters at a basic average monthly rent of US\$ 13.17 per square meter. The net operating income from the same properties increased by an average of 3.3%, compared to the previous year.

EQY's and FCR's core properties had an average occupancy rate of 94.3% as of December 31, 2007 (the rate was 95.4% as of December 31, 2006).

5. As of December 31, 2007, Citycon's average basic monthly rental revenue was €15.7 per square meter. During the year, Citycon signed new leases and extended existing leases on 103 thousand square meters, at an average rent of €18.0 per square meter. During the year, leases on 118 thousand square meters expired, on which the average monthly rent was €14.9 per square meter. During the year, Citycon's net operating income from the same properties increased by an average of 6.2%, compared to 2006. As of December 31, 2007, Citycon's properties had an occupancy rate of 95.7% (the rate was 97.1% as of December 31, 2006).

6. As of December 31, 2007, RSC's properties had an occupancy rate of 87% (the rate was 94% as of December 31, 2006). The average monthly rental revenue was US\$ 2,825 per unit and the NOI margin for the reporting year was 35%.

RSC has land reserves of 2 plots for the construction of additional senior housing communities. As of December 31, 2007, the balance of the investment amounted to US\$ 18 million (approximately NIS 71 million). The projects being built will consist of 471 units and the additional investment to bring them to completion is expected to be US\$ 60 million (approximately NIS 231 million).

7. As of December 31, 2007, ProMed's properties had an occupancy rate of 98.1%, average monthly rental revenues of US\$ 26.8 per square meter and a NOI margin of 80%.

8. As of December 31, 2007, Gazit Development's properties had an occupancy rate of 95% (as of December 31, 2006 – 97.4%) and yielded average monthly rental revenues of NIS 70 per square meter.

As of December 31, 2007, Gazit Development had 7 properties under development at an investment of NIS 493 million. These properties are expected to comprise approximately 103 thousand square meters and the additional investment to bring them to completion is expected to amount to NIS 600 million.

In addition, as of December 31, 2007, Gazit Development owns in Bulgaria an income-producing property with a G.L.A. of approximately 7 thousand square meters and an office building. It also owns 3 plots of land in Bulgaria that are intended for the development of shopping centers and offices with an area of approximately 388 thousand square meters, representing an investment of €32 million (approximately NIS 182 million). The expected additional cost of bringing the first stage of the Bulgarian land plots to completion is €25 million (approximately NIS 140 million), with this expected to add approximately 63 thousand square meters out of the total of approximately 375 thousand square meters, whose development will be completed in a number of stages.

9. As of December 31, 2007, Gazit Europe's properties in Germany had an occupancy rate of 95.3% and yielded average monthly rental revenues of €12.4 per square meter.

As of December 31, 2007, Gazit Europe owned 2 properties under development at an investment of €15 million (approximately NIS 85 million). These properties are expected to comprise approximately 43 thousand square meters and the additional investment to bring them to completion is expected to be €65 million (approximately NIS 368 million).

- B.** As to the issuance of capital by the Company – see note 28 to the financial statements.
- C.** As to the issuance of debentures by the Company by way of a shelf prospectus – see note 21 to the financial statements.
- D.** As to the placement of debentures by EQY – see note 21 to the financial statements.
- E.** As to the issuance of debentures and convertible debentures by FCR – see note 21 to the financial statements.
- F.** As to agreements for the provision of unsecured credit lines to FCR, EQY and Citycon and a revolving credit line to the Company (and its wholly owned subsidiaries) and to Gazit Development – see sections 26 and 27 of the Description of the Company’s Business Report.
- G.** As to issuances of capital by Citycon and the Company’s participation in these issuances – see section 27 of the Description of the Company’s Business Report.
- H.** As to capital raised by FCR by means of the issuance of shares in place of the interest payable on convertible debentures (series A and B) and the issuance of shares under the plan for the reinvestment of dividends that it distributes (“DRIP”), and also the Company’s participation in these issuances – see section 27 of the Description of the Company’s Business Report.
- I.** As to the acquisition of 50% of the share capital and voting rights of Acad – see section 31.6 of the Description of the Company’s Business Report.
- J.** As to the investment by a wholly owned subsidiary of the Company in a real estate investment fund in India – see note 11 to the financial statements. The Company is also considering making direct investments in India, either on its own or with local partners, in the shopping centers sector or in complementary property sectors.
- K.** The Company’s Board of Directors, at its meeting in September 2007, resolved to examine the making of initial investments in the energy sector, in general, and in 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. Within this context, it was also resolved to examine acquiring the shares of Ormat Industries Ltd. 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.
- L.** With regard to the issuance of stock options to employees and officers, who are not interested parties of the Company – see note 28 to the financial statements.

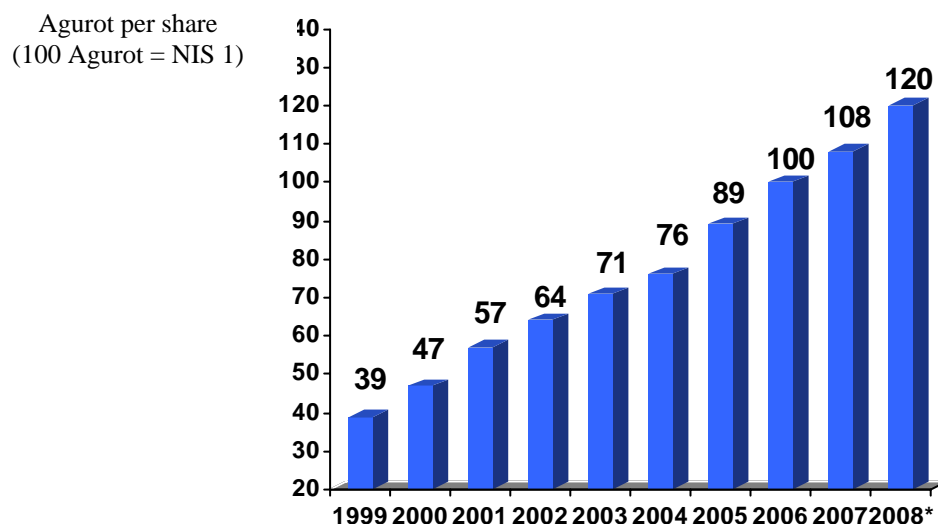
M. As to the appointment of a new President of the Company and the appointment of the outgoing President as Executive Vice Chairman of the Board of Directors - see notes 27 and 38 to the financial statements.

#### N. 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:**



\* Projected, assuming implementation of the decision of the Company's Board of Directors regarding the dividend distribution rate for 2008, as described above.

### 3. A. Results of Operations

	<b>For the year ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>NIS in millions</b>			
<b>(other than earnings per share data)</b>			
Property rental revenue	3,607	3,054	2,177
Revenue from sale of land and buildings and performance of contract work	108	-	-
Total revenues	3,715	3,054	2,177
Rental property operating expenses	1,182	1,034	725
Cost of sale of land and buildings and contract work performed	90	-	-
Total cost of revenues	1,272	1,034	725
Gross profit	2,443	2,020	1,452
Appreciation, net, of investment property	1,862	2,678	1,188
General and administrative expenses	553	339	191
Operating income	3,752	4,359	2,449
Financing expenses	(1,467)	(1,235)	(764)
Financing income	560	105	75
	2,845	3,229	1,760
Other income, net	25	59	61
Equity in earnings of affiliates	4	36	131
Income before taxes on income	2,874	3,324	1,952
Taxes on income	604	550	245
Net income	2,270	2,774	1,707
Attributable to:			
Shareholders of the Company	983	983	602
Minority interests	1,287	1,791	1,105
	2,270	2,774	1,707
<b><u>Net earnings per share attributable to ordinary shareholders of the Company (in NIS)</u></b>			
Primary net earnings	8.32	9.13	6.68
Fully diluted net earnings	8.21	8.87	6.48

## **B. Analysis of Results of Operations for 2007**

### **General**

The reporting year includes the full consolidation of the results of Citycon, whereas in 2006, the first quarter included the Company's share in the results of Citycon based on the equity method, while, from the second quarter of 2006, the results of Citycon were fully consolidated. Consequently, the effect of Citycon's operations for the first quarter of 2006 is not reflected in the various operating items; instead, it is included in the line item, "equity in earnings of affiliates". For further information, see also note 2A to the financial statements. Additionally, Acad's operations are only reflected in the fourth quarter of 2007, commencing from the acquisition date.

### **Property rental revenue**

The 18% increase compared to the previous year is due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, development properties coming on-line and also the increase in the average rent per square meter received on the Group's properties, as well as to the consolidation of Citycon, as referred to above. This increase was partly set-off by the changes in the average exchange rates of the Canadian dollar and the U.S. dollar against the shekel between the periods.

### **Property operating expenses**

The increase in rental operating expenses, compared to the previous year, is mainly due to the enlargement of the property portfolio, as well as to the full consolidation of Citycon, as referred to above. Rental property operating expenses, as a percentage of property rental revenue, fell to 32.7% from 33.9% for the previous year. This is mainly due to an improvement in this percentage in FCR.

### **Gross profit**

Gross profit totaled NIS 2,443 million (65.8% of total revenues); this compares to NIS 2,020 million (66.1% of property rental revenue) for the previous year – an increase of 21%. The decrease in gross profit as a percentage of total revenues is mainly due to the consolidation of Acad's operations that have a lower gross profit margin than the Company's other operations.

### **Appreciation of investment property**

The Company implements the fair value model, as prescribed in International Accounting Standard No. 40 – "Investment Property". As a result of implementing this standard, the Company made an adjustment, in the reporting year, to the fair value of its properties in the gross amount of NIS 1,862 million (the Company's share therein being NIS 894 million). This compares to an adjustment in the previous year of NIS 2,678 million (the Company's share, gross, therein being NIS 1,211 million).

### **General and administrative expenses**

The increase in general and administrative expenses is mainly due to the following factors:

- 1) An increase in the Group's salary expenses as a result of taking on additional staff to cope with the growth in the Group's operations and also the reclassification of salary expenses in respect of EQY employees that, in the past, were classified under general property operating expenses.
- 2) An accounting provision for the bonus of the Chairman of the Board of Directors and the outgoing President of the Company in a cumulative amount of NIS 62.4 which arises from the increase in the fair value of investment property in 2007. With regard to this amount, the aforesaid interested parties have stated that they are conditionally waiving this. Administrative expenses also include a provision for the bonus of the Chairman of the Board of Directors in an amount of NIS 11.6 million, which the Chairman of the Board of Directors has waived absolutely. The aforesaid amount waived has been carried directly to earnings in the Company's shareholders' equity.
- 3) An increase in non-recurring fees to professional service providers, mainly in respect of the transition to reporting under IFRS, the valuations of investment property and expenses relating to assessing the feasibility of listing the Company for trade on an additional stock exchange abroad.
- 4) An increase in non-recurring charges relating to the evaluation of transactions that did not ultimately materialize.

### **Financing expenses**

The change in financing expenses results from an increase in the Group's loans from an average balance of NIS 16.8 billion in 2006 to an average balance of NIS 23.9 billion in 2007, due to the Group's investments in the acquisition, development and redevelopment of properties in the amount of NIS 7.3 billion, as well as from the full consolidation of Citycon, as referred to above. Interest expenses reflect an average nominal interest rate of approximately 5.9% on the Group's indebtedness, similar to that for the previous year.

### **Financing income**

Financing income includes an amount of NIS 316 million from investments in listed securities (including NIS 42 million from dividends), compared to NIS 77 million received in the previous year (which included NIS 34 million from dividends). In 2007, on selling its holding of MLS shares, the Company recognized a gain, part of which related to the 2006 writedown of the investment in MLS. Financing income also includes an amount of NIS 195 million in respect of the revaluation of derivative financial instruments, compared to an amount of NIS 1 million in the previous year.

### **Other income**

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.

During the year, EQY sold 14 income-producing properties and 6 plots of land, which produced a gross gain for the Group of NIS 6 million (the Company's share being NIS 4 million), compared to the gain in 2006 of NIS 35 million (the Company's share being NIS 14 million), which was mainly due to the sale of 75 commercial buildings by Citycon, which were not part of Citycon's core business.

Additionally, 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 gain of NIS 17 million, similar to that in the previous year.

### **Equity in earnings of affiliates**

The decrease in this item is attributable to the discontinuance of recording, for accounting purposes, the Company's share in the earnings of Citycon according to the "equity method" and it becoming a consolidated subsidiary from the second quarter of 2006, as referred to above.

**C. Analysis of Principal Operating Results for 2006, by Quarter:**

	<u>Q1 2007</u>	<u>Q2 2007</u>	<u>Q3 2007</u>	<u>Q4 2007</u>	<u>Total 2007</u>
	<u>NIS in millions</u>				
Property rental revenue	828	873	944	962	3,607
Revenue from sale of land and buildings and performance of contract work	-	-	-	108	108
Total revenues	828	873	944	1,070	3,715
Rental property operating expenses	279	277	300	326	1,182
Cost of sale of land and buildings and contract work performed	-	-	-	90	90
Total cost of revenues	279	277	300	416	1,272
Gross profit	549	596	644	654	2,443
Appreciation, net, of investment property	533	1,032	175	122	1,862
General and administrative expenses	144	142	112	155	553
Operating income	938	1,486	707	621	3,752
Financing expenses	(286)	(332)	(383)	(466)	(1,467)
Financing income	312	57	86	105	560
	964	1,211	410	260	2,845
Other income (expenses), net	(1)	8	(6)	24	25
Equity in earnings of affiliates	3	-	1	-	4
Income before taxes on income	966	1,219	405	284	2,874
Taxes on income	180	241	107	76	604
Net income	786	978	298	208	2,270
Attributable to:					
Shareholders of the Company	415	368	124	76	983
Minority interests	371	610	174	132	1,287
	786	978	298	208	2,270

#### **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 <sup>(1)</sup> 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 <sup>(2)</sup> and other writedowns. It also publishes FFO per share results, as is already the accepted practice in those countries in which the Company operates and in accordance with the position paper issued by the NAREIT – the U.S.-based National Association of Real Estate Investment Trusts.

In addition, beginning in 2006, Israel has adopted a REIT tax regime for companies that are real estate investment trusts, similar to that in effect in various other countries throughout the world. Such companies, under certain conditions, do not pay corporate tax. The Company 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 other REIT companies in Israel and overseas.

In its FFO results, the Company includes the operations relating to its income-producing properties and excludes its other operations relating to the initiation, development and execution of residential housing projects in the real estate sector, as well as contract work for third parties.

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

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.

---

<sup>(1)</sup> As defined in International Accounting Standard No. 40.

<sup>(2)</sup> With regard to those assets that are subject to International Accounting Standard No. 16.

The table below presents the breakdown of the Company's FFO and FFO per share for the years 2005-2007:

	<b>For the year ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>NIS in millions</b>			
<b>(other than FFO per share data)</b>			
<b>Net income attributable to shareholders of the Company</b>	<b>983</b>	<b>983</b>	<b>602</b>
<b>Adjustments to net income:</b>			
Appreciation, net, of investment property	(894)	(1,211)	(489)
Depreciation and amortization	<sup>(1)</sup> (178)	<sup>(1)</sup> 238	53
Losses (gains) from dilution in holdings of consolidated subsidiaries	7	(15)	(57)
Losses (gains) from the sale of properties	1	(4)	(2)
Deferred tax expenses	309	239	143
Equity in earnings of affiliates <sup>(2)</sup>	-	(36)	(131)
Equity in FFO of affiliates	-	17	51
Other adjustments <sup>(3)</sup>	77	18	11
<b>Total adjustments to net income</b>	<b>(678)</b>	<b>(754)</b>	<b>(421)</b>
<b>FFO</b>	<b>305</b>	<b>229</b>	<b>181</b>
<b>Primary FFO per share (in NIS)</b>	<b>2.58</b>	<b>2.11</b>	<b>2.02</b>
<b>Fully diluted FFO per share (in NIS)</b>	<b>2.57</b>	<b>2.10</b>	<b>2.01</b>
<b>Number of shares used in computing fully diluted earnings per share</b>	<b>118,870</b>	<b>108,334</b>	<b>90,599</b>

<sup>(1)</sup> Includes the adjustment to the value of a long-term investment.

<sup>(2)</sup> Through the end of the first quarter of 2006, includes the Company's equity in the adjustment of Citycon's investment property, in conformity with International Accounting Standard No. 40.

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

#### 4. Financial Status

##### Liquidity

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

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

As of December 31, 2007, the liquid assets available to the Group, including short-term investments, totaled NIS 639 million, compared to NIS 461 million as of December 31, 2006. In addition, as of December 31, 2007, the Group had unutilized credit facilities available for immediate drawdown of NIS 4.5 billion, compared to NIS 3.8 billion as of December 31, 2006.

As of December 31, 2007, the Group had unpledged investment property, which is carried in the books at a cost of NIS 28.4 billion.

**In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown totaling NIS 5.1 billion.**

##### Current Assets

Current assets, as of December 31, 2007, total NIS 1.8 billion, compared to NIS 0.9 billion as of December 31, 2006. The increase relates mainly to the first-time consolidation of Acad in the amount of NIS 0.8 billion (see section 1C above and note 9J to the financial statements), as well as to the item, "cash and cash equivalents", which increased primarily due to the NIS 0.2 billion in capital and debt raised close to year-end (which had yet to be utilized at that date).

##### Long-Term Investments and Loans

Long-term investments and loans, as of December 31, 2007, total NIS 311 million, compared to NIS 77 million as of December 31, 2006. The long-term investments mainly consist of a long-term deposit that is earmarked for investment in investment property and investment property under development.

### **Investments in Securities Available for Sale**

As of December 31, 2007, investments in securities available for sale, which are presented at their fair value, total NIS 1,023 million, compared to NIS 987 million as of December 31, 2006. The investments in securities available for sale 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, as well as securities of North American public funds that are engaged in the renewable energy sector and that distribute current dividends on a regular basis. The change in the balance of investments in securities available for sale is due, on the one hand, to additional investments during the year in securities (such as, the acquisition of shares and debentures in MEL at a cost of NIS 320 million and the acquisition of shares in various funds in the renewable energy sector at a cost of NIS 180 million) and, on the other hand, from the sale of securities (such as, the sale of preferred shares in MLS) and also from the change in the fair value of the aforementioned securities.

### **Derivative Financial Instruments**

As of December 31, 2007, derivative financial instruments, which are presented at their fair value, total NIS 245 million, compared to NIS 55 million as of December 31, 2006. The increase is due to new transactions carried out in 2007 and to changes in the fair value.

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

Investment property, investment property under development and fixed assets, net, as of December 31, 2007, total NIS 44.3 billion, compared to NIS 35 billion at the end of 2006.

During the year, the Group acquired income-producing properties and fixed assets, developed new properties and redeveloped existing properties at a total cost of NIS 7.3 billion. Appreciation of the investment property was also recognized in a gross amount of NIS 1.9 billion.

### **Current Liabilities**

Current liabilities, as of December 31, 2007, total NIS 2.9 billion, compared to NIS 2.3 billion at the end of 2006. The balance primarily consists of the line item "credit from banks and others", which mainly comprises the current maturities of long-term liabilities in the amount of NIS 1.6 billion, compared to NIS 1.4 billion at the end of 2006. The aforesaid increase arises from the first-time consolidation of Acad in September 2007, which contributed NIS 0.5 billion to the increase (see section 1C above and note 9J 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 December 31, 2007 total NIS 28.5 billion, compared to NIS 21.2 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 investment property, and investment property under development, long-term investments and investments in investee companies. The increase in the line item, "deferred taxes" primarily results from the fair value adjustment to the Group's investment property.

### **Minority Interests**

Minority interests, as of December 31, 2007, mainly consist of the interests of EQY's other shareholders, who, as of the above date, accounted for 54% of EQY's equity, the interests of FCR's other shareholders, who, as of the above date, accounted for 45% of FCR's equity, and also the interests of Citycon's other shareholders, who, as of the above date, accounted for 61% of Citycon's equity.

The increase in this item is mainly due to the effect of FCR's and Citycon's issuance of shares during the reporting year to their shareholders, net of the minority share acquisitions made by Group companies, the minority interest in the Groups' earnings and, additionally, on the one hand, the strengthening of the Canadian dollar and the euro against the shekel at the end of the year, which increased the shekel amount of Citycon's and FCR's shareholders' equity, and, on the other hand, the reduction in the shekel amount of EQY's shareholders' equity due to the weakening of the U.S. dollar against the shekel at the end of the year.

### **Shareholders' Equity Attributable to the Shareholders of the Company**

The change in shareholders' equity attributable to the shareholders of the Company from NIS 4,437 million as of December 31, 2006 to NIS 5,721 million as of December 31, 2007 results mainly from the net income for the reporting year in the amount of NIS 983 million, from the exercise of stock options in the amount of NIS 342 million, from the increase in the item "other capital surpluses" in the amount of NIS 73 million, from the sale of treasury stock by the Company in the amount of NIS 10 million, and from the repayment of loans for the acquisition of shares in the amount of NIS 6 million. These were partly offset by the dividends of NIS 130 million paid and declared by the Company.

Shareholders' equity per share as of December 31, 2007 totaled NIS 45.7 per share, compared to NIS 37.7 per share as of December 31, 2006. This is after a dividend distribution of NIS 1.08 per share during the reporting year.

### **Ratio of Debt to Total Assets**

The ratio of the Group's interest-bearing debt to its total assets (derived mainly from the presentation of investment property on the basis of its fair value) stood at 55.8% as of December 31, 2007, compared to 53.9% as of December 31, 2006.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 57.4% as of December 31, 2007, compared to 48.1% as of December 31, 2006.

### **Cash Flows**

Cash inflows from operating activities in the reporting year totaled NIS 793 million, compared to NIS 687 million in the previous year.

In the reporting year, the Group's activities were funded by means of capital raised by the Company and its consolidated subsidiaries totaling NIS 1,368 million, long-term debentures and convertible debentures issued in a net amount of NIS 2,997 million, and loans received and credit facilities drawn on in a net amount of NIS 3,357 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of investment property and fixed assets amounting to NIS 7,027 million, further investments in the acquisition of shares from the minority shareholders in consolidated subsidiaries amounting in total to NIS 534 million and further long-term investments in a net amount of NIS 28 million.

### **5. Additional Information and Subsequent Events**

- A.** From the balance sheet date through the signing date of the financial statements, the Group invested a total of NIS 0.3 billion in acquiring new properties and land for future development.
- B.** As to the acquisition of the first shopping center in Sao Paulo, Brazil – see note 39 to the financial statements.
- C.** As to the appointment of Mr. Michael Bar Haim to the office of President of the Company – see note 27 to the financial statements; as to the approval of the appointment of Mr. Dori Segal as Executive Vice Chairman of the Board of Directors (instead of serving as President) – see note 39 to the financial statements.
- D.** As to issuances of capital by FCR – see note 39 to the financial statements.
- E.** As to Citycon's sale of 40% of a shopping center in Helsinki - – see note 39 to the financial statements.
- F.** As to the establishment of a joint venture between EQY and Global Retail Investors LLC for the purpose of investing in and managing shopping centers in the United States – see note 39 to the financial statements.
- G.** Investment in MEL:
  - 1. On March 20, 2008, the Company entered into a series of agreements for a joint investment (hereinafter, collectively – “the investment agreement”), together with CPI European Fund (hereinafter – “CPI”), which is part of the Citibank International Group, in MEL, in an initial amount of €800 million.

2. MEL, which was incorporated in 1997 on the island of Jersey, is an income-producing property company, focusing on supermarket-anchored shopping centers. It is listed on the Vienna Stock Exchange (symbol: MEL), having made its IPO in 2002. MEL focuses on the leasing, management and development of shopping centers in 11 Central and Eastern European countries, primarily Russia, Poland, the Czech Republic, Turkey and Romania. MEL's operations consist of both the acquisition of existing properties and also the development of new properties; the proportion of MEL's overall operations represented by its development operations has shown continuous growth in recent years.
  3. According to MEL's financial statements (not reviewed) to September 30, 2007, it owned at that date (either wholly or partly) 160 properties, which have a fair value of €1.8 billion and cover an area of 877 thousand square meters in 8 countries (as of the aforesaid date, MEL did not have operating income-producing properties in the three other countries in which it is active), and 43 properties under development, whose aggregate cost (including the cost to complete) is estimated at €3.4 billion (through to the date of the financial statements to September 30, 2007, €614 million had been invested in the above development projects). In addition, as of the aforesaid date, MEL also had 10 plots of land for future development, with a total area of 1.6 million square meters. MEL's income-producing property portfolio mainly comprises regional and neighborhood shopping centers, service centers and retail stores. MEL's cash reserves totaled €1.55 billion as of September 30, 2007; following the execution of the investment agreement, the reserves are expected to grow to €2 billion.
  4. For further details – see note 39 to the financial statements.
- H.** The Company is considering entering into an agreement for the establishment of a corporation that will engage in the acquisition and provision of loans on the North American property market. The finance corporation (if established) will be set up in cooperation with an American partner with experience in this sector.
- I.** With regard to the issuance of debentures by means of a shelf prospectus – see note 39 to the financial statements.

## **6. Donations**

The Company customarily makes donations to charities and to projects for community welfare and education in the various countries in which it operates.

- A.** 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 7 years (commenced in 2005).
- B.** 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 5 years (commenced in 2005).
- C.** The Company has 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 3 years (commenced in 2007).

In addition, the Group makes donations to numerous other bodies.

During the reporting year, the Group’s donations amounted to NIS 3.291 million.

Of the above sum, the Group donated NIS 0.6 million to the Tel-Aviv University, NIS 0.1 million to the College for All charity, NIS 0.2 million to the Ezer Mizion charity, NIS 0.1 million to the Israeli Soldiers Welfare Association, NIS 0.7 million to various bodies engaged in charitable, welfare and educational work with the community in Israel, and also NIS 1.6 million to various bodies in the United States, Canada and Europe (through the Company’s consolidated subsidiaries, such sums being designated for the regions in which they operate).

## **7. Critical Accounting Estimates**

While preparing the financial statements, the Company’s management is required to make estimates and assessments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities.

Management bases its estimates and assessments on past experience and other factors that, in its opinion, are relevant taking the particular circumstances into account. Actual results could differ from these assessments under different assumptions or conditions. The Company has identified the estimates and assessments detailed below as being critical estimates, since any change in such estimates and assumptions has the potential of having a material effect on the financial statements.

**Changes in fair value of investment property:**

The Group assesses the fair value of its investment property in accordance with the provisions of International Accounting Standard No. 40. 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.

**Estimate of the lifespan of intangible assets and impairment of goodwill:**

Intangible assets are methodically amortized over their useful life. The amortization period reflects the best estimate of the period during which the Company will derive economic benefits from the asset. Use of other assumptions could result in a different assessment of the estimate of the period during which economic benefits are expected as stated above. The Company performs a methodical assessment as to the possible impairment of its assets (including goodwill) in conformity with International Accounting Standard No. 36.

**Allocation of excess cost on acquisition of acquired companies to the various asset and liability items:**

Pursuant to IFRS 3, the Company is required to allocate the acquisition cost of companies to the identifiable assets and liabilities at the acquisition date. The excess cost remaining, net of the related taxes, is attributed to goodwill. The excess cost allocated to the various asset items is written down at the same rate as the assets concerned. Changes in the attribution of the excess costs to the various asset and liability items could have a material effect on the financial statements.

**8. Participation in Peer Review**

The Company's Board of Directors has given its consent to the performance of a peer review, the objective of which is to assure – through the creation of supervisory mechanisms – that the audit of the financial statements is performed properly and thoroughly. The Board of Directors deems it appropriate to cooperate in the review's implementation and its furtherance.

The above consent is conditional upon the Company being assured that the reviewing accountant (hereinafter – “the reviewer”) shall have no conflict of interest vis-à-vis the Company and that the confidentiality of Company information, which is not in the public domain but which has been exposed to the reviewer, shall be maintained. Such assurance shall be received by way of an undertaking given by the reviewer to the Company to maintain confidentiality and to avoid conflicts of interest, and, in the event that the reviewer is asked to transmit to the Peer Review Board information to which he has been exposed during the course of his review, he shall only do so after an assurance of the confidentiality of the information and an undertaking to avoid conflicts of interest have been received from the Peer Review Board. It should also be noted that, with regard to the foreign investee companies listed on the various overseas stock exchanges, the transmission of information relating to such companies by the Company or by its independent auditors to the reviewer in a peer review (as is the case with respect to any third party) would be subject both to the provisions of the law applicable to that investee company and also (so long as the aforesaid foreign law does not prohibit this) to the specific consent of the investee company concerned.

## **9. Directors Possessing Accounting and Financial Expertise**

- A.** The Company’s Board of Directors has decided that the minimum required number of directors possessing accounting and financial expertise is three, after taking into account the Board of Directors legal obligations and duties (including its responsibility for the preparation and approval of the financial statements), the nature of the accounting issues involved in the Group’s field of operations and the Group’s structure (including its holdings in foreign, public subsidiaries). The decision regarding the above minimum number also takes into account the close accounting support provided to the Company by its auditors (who are one of the world’s four largest accounting firms), including their participation in meetings of the Board of Directors at which the financial statements are discussed.
- B.** The Board of Directors considers that the following directors possess accounting and financial expertise:
1. Mr. Chaim Katzman
  2. Mr. Arie Mientkavich
  3. Mr. Dori Segal
  4. Mr. Chaim Ben-Dor
  5. Mr. Eliahu Shahar
  6. Mr. Shai Pilpel
  7. Mr. Yair Orgler
- C.** Regarding the education and business experience of the above directors, see Article 26 of the Periodic Report for 2007.

## **10. Compensation of Senior Employees**

- A.** In March 2008, the Chairman of the Company's Board of Directors and its outgoing President, who was appointed as Executive Vice Chairman of the Board of Directors in 2008, gave written notice to the Company that, in light of the adoption of International Accounting Standard No. 40, they are conditionally waiving – with effect from 2007 – the current payment to them of that part of the annual bonus to which they are entitled by virtue of their employment agreements, which results directly from the appreciation in value of the real estate assets that are classified in the books of the Company as investment property. This waiver is valid until the dates specified in note 38 to the financial statements. With regard to 2007, the Chairman of the Board of Directors and the outgoing President, as referred to above, have waived bonuses amounting to NIS 44.578 million and NIS 17.831 million, respectively. For further details, see note 38 to the financial statements.
- B.** Additionally, the Chairman of the Board of Directors and the outgoing President, referred to in sub-section A. above, have waived part of the bonuses to which they are entitled for 2007 by virtue of their employment agreements, in the amounts of NIS 11.6 million and NIS 3.3 million, respectively.
- C.** In 2007, the Company's Board of Directors did not set any policy regarding the compensation of senior employees.
- D.** With regard to the issue of non-listed stock options to officers and employees of the Company in 2007, see note 27 to the financial statements.
- E.** Regarding the compensation in 2007 of the Company's senior employees, who are interested parties in the Company, by consolidated subsidiaries, see note 38 to the financial statements.

## **11. Disclosure Concerning the Company's Internal Auditor**

### **The Company's internal auditor:**

Haguel, Shem-Tov (who was appointed as the Company's internal auditor in 1999) is a CPA and a qualified internal auditor – C.I.A., from the Institute of International Internal Auditors (IAA); he is a partner in the firm of Haguel & Co. and has many years experience in the field.

### **Is the internal auditor an employee of the Company or a person who provides internal audit services on behalf of an outside party:**

The internal auditor provides internal audit services within the framework of an outside service provider, though the firm of S. Haguel & Co., CPAs.

### **Legal requirements met by the internal auditors:**

The internal auditor meets the requirements of Section 146(b) of the Companies Law and Section 8 of the Internal Audit Law.

### **Holding of securities of the Company or of a related entity:**

As of the date of the report, the internal auditor held 1,200 shares in the Company. This negligible holding is not sufficient to influence the quality of the internal auditor's work for the Company.

**The internal auditor's relationship with the Company or with a related entity:**

The internal auditor also serves as the internal auditor of Gazit Inc, the controlling shareholder of the Company and also as the internal auditor of Gazit Globe Israel (Development) Ltd., a subsidiary of the Company, although this is not sufficient to create a conflict of interests with his duties as the internal auditor of the Company.

**Other duties of the internal auditor within the Company:**

Apart from his duties as the internal auditor of the Company, the internal auditor is not otherwise employed by the Company and does not provide it with any other services.

**Other duties of the internal auditor outside the Company:**

The internal auditor is a self-employed accountant, the owner of a firm that provides accounting and auditing services.

**Method of the internal auditor's appointment:**

Mr. Haguel was appointed as the Company's internal auditor pursuant to the resolutions of the Company's Audit Committee and the Company's Board of Directors on November 1, 1999 and November 17, 1999, respectively.

**Identity of the person to whom the internal auditor reports within the organization:**

The internal auditor reports to the Chairman of the Board of Directors.

**The internal auditor's work program:**

The internal auditor's work program for 2007 was an annual program that takes into account the subjects that have been examined in previous years.

The contents of the program are determined in coordination with the Audit Committee of the Board of Directors and the Company's management. The work program is accepted and approved by the Audit Committee.

The annual audit program reflects the activities of the private companies that are owned by the Company, in Israel and overseas, and the order of priorities for the subjects according to their importance and urgency, as determined by the internal auditor and the Audit Committee. The work program may be altered with the approval of the Audit Committee.

In 2008, external professionals began to conduct a risk assessment review for the Company. In the Company's estimation, the future audit programs will take the findings of the aforementioned review into account.

**Examination of the Company's material transactions during 2007 by the internal auditor:**

During the year all transactions with interested parties and officers were examined and the internal auditor submitted a report on this subject, which was discussed by the Company's Audit Committee.

**Overseas audit and audit of investees:**

Private subsidiaries – The audit reports also relate to the Company's private subsidiaries, both in Israel and overseas.

In 2006, the internal auditor conducted an audit of the operations of the Company's wholly owned foreign private companies in the United States, this being in accordance with the work program decided upon by the Company's Audit Committee. The report on this subject was presented at the beginning of 2007.

Within the framework of the audit program for 2007, as a general audit review, transactions on various subjects were examined in relation to the subsidiary in Israel, Gazit Development.

Public subsidiaries – With regard to the audit of the Company’s public subsidiaries that are listed overseas, this is a question that involves the legal restrictions to which they are subject. With regard to the internal audit of EQY (U.S.A.), at the end of 2004, an internal auditor was appointed for EQY and his activities have been reviewed by the internal auditor (Mr. Haguel) in the following manner: The internal auditor presented a periodic questionnaire to EQY’s internal auditor and a meeting also took place between the Company’s internal auditor and EQY’s internal auditor, who is an employee of the accounting firm BDO, for the purpose of receiving updates regarding the conduct of the audit work. The findings from these questionnaires and the discussion were included in the internal auditor’s reports to the Audit Committee. With regard to the internal audit of FCR, FCR has not appointed an internal auditor, as, under the laws to which FCR is subject, it is not required to make such an appointment. It should nevertheless be noted that FCR maintains internal control processes, in accordance with the laws to which it is subject.

With regard to the internal audit of Citycon, in 2007 this was performed by KPMG Oy Ab, with Citycon’s Board of Directors, its Audit Committee and its President being involved in the audit processes, their approval and their supervision.

**Extent of the internal auditor’s engagement:**

The extent of the internal auditor’s engagement varies in accordance with the annual audit program; in 2007, approximately 280 hours were spent on audit work activities, in accordance with the breakdown presented in the table below. The abovementioned number of hours was determined in accordance with the requirements of the audit program.

	<u>Work hours</u>
Internal audit of the Company	Approx. 160 hours
Internal audit of the Company’s overseas investees	Approx. 35 hours
Internal audit of the Company’s Israeli investees	<u>Approx. 85 hours</u>
<b>Total</b>	<b>Approx. 280 hours</b>

The number of the internal auditor’s work hours was decided upon in accordance with the audit subjects prescribed for 2007. The scope of the aforementioned engagement is flexible within this context; over the course of the year and as the different financial statements are discussed, the Audit Committee may allow the internal auditor to increase the number of audit hours that were decided upon at the outset in the annual audit program. The number amounted to 160 hours in 2006 and also included an audit of overseas private companies owned by the Company. Compared to 2006, the number of hours was greater; this was due to the growth in the scope of the Company’s activities and the addition of the activities of Gazit Development, and also to following up on overseas audit subjects.

**The professional standards in accordance with which the internal auditor performs his audit:**

The audit is performed in conformity with professional standards generally accepted for internal audit, professional directives and guidance papers of the Institute of Internal Auditors in Israel.

As far as the Company can assess, the internal auditor has complied with the requirements prescribed in the aforesaid standards.

**Freedom of access for the internal auditor:**

With regard to the information and documents of the Company and the Company's private subsidiaries in Israel and overseas, the internal auditor is given free access to all IT systems of the aforesaid companies, including financial data. With regard to the Company's public subsidiaries, in light of the legal restrictions placed on these companies, the internal auditor has no access to information of the aforesaid companies that is not accessible to the public. The sole exception to this is with regard to the report of EQY's internal auditor, which includes the audit program and updates regarding progress made in converting this from theory to practice, including details of steps taken by EQY's management as a consequence of the internal auditor's reports. The aforementioned freedom of access to information with regard to investee companies of the Company and also with regard to overseas activities is assured by means of a management directive requiring full cooperation with the internal auditor.

**Reports of the internal auditor:**

The dates when written reports of the internal auditor's findings were submitted and when these reports were discussed by the Audit Committee, are as follows:

- a. In February 2007, the internal auditor submitted an audit letter on the subject of the management of Gazit Development's IT systems.
- b. In October 2007, the internal auditor submitted an audit report on the subject of the Company's various insurances.
- c. In October 2007, the internal auditor submitted an audit report on the subject of transactions with interested parties and related parties.
- d. In November 2007, the internal auditor submitted to the Audit Committee an audit letter on the subject of the legal relationships between the Company and Gazit Inc.
- e. In November 2007, the internal auditor submitted an audit report describing the audit review performed at Gazit Development.
- f. In November 2007, the internal auditor submitted an audit report on the subject of risk management within the Company, including reference to market risks and exchange rate and interest risks.
- g. In January 2008, the internal auditor submitted an audit report on the subject of the activities of the private subsidiaries in Germany.

The Audit Committee discussed the above reports at its meetings held on May 27, 2007 and December 16, 2007.

**Opinion of the Company's Board of Directors concerning the internal auditor's activities:**

In the opinion of the Company's Board of Directors, the extent, nature, continuity of the internal auditor's activities and his work program are reasonable in light of prevailing circumstances and are sufficient to attain the internal audit objectives of the Company.

**Remuneration of the internal auditor:**

The internal auditor's fees are determined in accordance with the number of work hours actually invested in performing his assignments, in accordance with a budget approved by the Company's Audit Committee.

In the Company's opinion, the payment of such remuneration does not influence the professional discretion exercised by the internal auditor.

**12. Professional Fees of the Independent Auditors**

Independent auditors of the Company: Kost Forer Gabbay & Kasierer & Co. (Ernst & Young).

The professional fees of the independent auditors that audit the financial statements of the Company and the Company's consolidated subsidiaries (as to proportionately consolidated subsidiaries – the Company's proportionate share based on its holding percentage in the consolidated subsidiary), are as follows:

A. Ernst & Young (the Company, wholly owned subsidiaries of the Company and also Equity One Inc. and Citycon Oyj.)

	<b>For the year ended December 31</b>			
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>NIS in thousands</b>		<b>Hours</b>	
Fees for audit and related services	8,916	3,774	14,411	7,042
Fees for consulting and tax services	1,755	759	2,854	1,648
Other fees	1,390	2,308		-
<b>Total</b>	<b>12,061</b>	<b>6,841</b>		

B. Deloitte Touche, Canada (Gazit 2003 Inc., Gazit Canada Inc. and First Capital Reality Inc.)

	<b>For the year ended December 31</b>			
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>NIS in thousands</b>		<b>Hours</b>	
Fees for audit and related services	4,392	4,229	5,946	6,260
Fees for consulting and tax services	1,799	1,670	1,143	1,170
Other fees	316	629		-
<b>Total</b>	<b>6,507</b>	<b>6,528</b>		

### **13. Reporting of Exposures to Market Risks and their Management**

- A.** The individuals responsible for managing and reporting the Company's market risks are Mr. Michael Bar Haim, the Company's President (Mr. Dori Segal, the outgoing President, through to the end of 2007) and Mr. Gil Kotler, the Company's Chief Financial Officer.
- B.** Principal market risks to which the company is exposed:
1. The financial stability of the Group's tenants and the behavior of its anchor tenants (including changes to the leasing policy of retail chains and other major tenants).
  2. Changes in consumption habits.
  3. The economic conditions affecting the geographical regions in which the Company is active.
  4. Operations in the property acquisition and development sector.
  5. Entry into new operating regions.
  6. Competitive environment.
  7. Risks arising from the effect of outside factors on the Group's property portfolio and on its activities, such as, the possible effect of the crisis affecting the U.S. "sub-prime" mortgage market on the property and financial sectors, both within and outside the United States.
  8. Terror attacks and natural disasters.
  9. Changes in the tax burden in relation to the operations of the Company's subsidiaries and, in particular, EQY's status as a REIT.
  10. Changes in the exchange rate of the U.S. dollar, the Canadian dollar and the euro relative to the shekel mainly affect the Company's shareholders' equity: an increase in the exchange rate of the above foreign currencies will increase the Company's shareholders' equity, while a decrease in their exchange rate will reduce the Company's shareholders' equity.
  11. Changes in interest rates in the U.S.A., Canada, Europe and Israel have an effect on the Company's results, to the extent that a rise in interest rates will increase the investee companies' and the Company's financing expenses, while a decline in interest rates will reduce the investee companies' and the Company's financing expenses.
  12. The Company has investments in traded securities, whose value is affected by fluctuations in their market price. (For further details concerning the above risk factors and also concerning other risk factors in relation to the Company's operations, see the section "The Company's Risk Factors" in the Description of the Company's Business chapter included in the periodic report).

C. The Company's policies for risk management are as follows:

1. The Group companies hire local experts in the field of property management, development and acquisition in the U.S.A., Canada, Europe and Israel, who monitor, on a regular basis, developments in the markets in which the Group operates. With regard to the risks relating to terror attacks and natural disasters, the Group companies have insurance on most of their properties against some of the aforesaid risks.
2. It is the Company's policy to maintain as close a correlation as possible between the currency in which properties are acquired and the currency in which the liabilities to finance the acquisition of those properties are taken out. Management regularly evaluates the linkage basis balance sheet and takes appropriate action in accordance with exchange rate developments. As a general rule, the Company tries to hold its shareholders' equity in the currencies of the various markets in which it operates and in the same proportions as the assets in each such currency bear to the total assets, as detailed in section D1 below. The Company designates the management of market risks to economic exposure.
3. The Company and its investee companies finance most of their activities with long-term loans in U.S. dollars, Canadian dollars and euros, at fixed interest rates. The Company finances most of its investment in shekel assets with shekel credit, at fixed interest rates and regularly monitors developments and changes in the interest policy of the Bank of Israel. In order to reduce the impact of interest rate fluctuations on their loans, from time to time and depending on market conditions, the Company and the investee companies enter into interest rate swaps, whereby they exchange variable interest for fixed interest, and vice versa, as detailed below.
4. During 2007, no changes occurred in the Company's market risks management policy.

## D. Linkage Bases Report and Derivatives and Sensitivity Analysis Tables:

### 1. Linkage bases report

A s o f D e c e m b e r 3 1 , 2 0 0 7

	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In un- linked NIS	In euros	Other curr- encies	Un- linked	Total
N I S i n m i l l i o n s								
<b>Monetary assets</b>								
Cash and cash equivalents	9	189	47	103	137	115	-	600
Short-term investments	1	27	4	5	-	-	2	39
Tenants, accounts receivable and other debit balances	31	71	130	125	65	60	89	571
Long-term investments and loans	14	280	17	-	-	-	-	311
Investments in securities available for sale	-	-	-	-	-	-	1,023	1,023
Long-term financial derivatives	-	-	-	-	-	-	245	245
Deferred taxes	-	-	-	-	-	-	115	115
	<b>55</b>	<b>567</b>	<b>198</b>	<b>233</b>	<b>202</b>	<b>175</b>	<b>1,474</b>	<b>2,904</b>
<b>Non-monetary assets <sup>(1)</sup></b>	-	12,921	15,811	2,235	13,605	336	255	45,163
	<b>55</b>	<b>13,488</b>	<b>16,009</b>	<b>2,468</b>	<b>13,807</b>	<b>511</b>	<b>1,729</b>	<b>48,067</b>
<b>Monetary liabilities</b>								
Short-term credit from banks and others	35	38	24	44	428	90	-	659
Trade and other payables and other credit balances	35	234	361	296	20	281	57	1,284
Advances from project customers and apartment buyers	-	-	-	-	-	-	48	48
Debentures	1,703	4,156	3,842	37	1,429	-	-	11,167
Debentures convertible into consolidated subsidiaries' shares	57	-	410	-	352	-	-	819
Interest-bearing liabilities to financial institutions and others	100	3,179	5,271	205	4,010	2,185	-	14,950
Long-term derivative financial instruments	-	-	-	-	-	-	83	83
Other financial liabilities	36	43	60	-	-	-	-	139
Liabilities for employee benefits	-	3	-	4	-	-	-	7
Deferred taxes	-	-	-	-	-	-	2,246	2,246
	<b>1,966</b>	<b>7,653</b>	<b>9,968</b>	<b>586</b>	<b>6,239</b>	<b>2,556</b>	<b>2,434</b>	<b>31,402</b>
Shareholders' equity attributable to shareholders of the Company	-	-	-	-	-	-	5,721	5,721
Minority interests	-	-	-	-	-	-	10,944	10,944
	<b>1,966</b>	<b>7,653</b>	<b>9,968</b>	<b>586</b>	<b>6,239</b>	<b>2,556</b>	<b>19,099</b>	<b>48,067</b>

A s o f D e c e m b e r 3 1 , 2 0 0 6

	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In un- linked NIS	In euros	Other curr- encies	Un- linked	Total
N I S i n m i l l i o n s								
<b>Monetary assets</b>								
Cash and cash equivalents	-	78	34	37	164	-	-	313
Short-term investments	-	47	4	-	-	-	97	148
Tenants, accounts receivable and other debit balances	36	103	123	4	51	-	68	385
Long-term investments and loans	11	40	26	-	-	-	-	77
Investments in securities available for sale	-	-	-	-	-	-	987	987
Long-term financial derivatives	-	-	-	-	-	-	55	55
Deferred taxes	-	-	-	-	-	-	87	87
	<b>47</b>	<b>268</b>	<b>187</b>	<b>41</b>	<b>215</b>	<b>-</b>	<b>1,294</b>	<b>2,052</b>
<b>Non-monetary assets<sup>(1)</sup></b>	-	12,954	12,479	1,287	8,462	-	140	35,322
	<b>47</b>	<b>13,222</b>	<b>12,666</b>	<b>1,328</b>	<b>8,677</b>	<b>-</b>	<b>1,434</b>	<b>37,374</b>
<b>Monetary liabilities</b>								
Short-term credit from banks and others	-	-	-	68	275	213	-	556
Trade and other payables and other credit balances	16	193	285	74	206	-	65	839
Debentures	1,385	3,656	2,170	446	489	-	-	8,146
Debentures convertible into consolidated subsidiaries' shares	-	-	433	-	338	-	-	771
Interest-bearing liabilities to financial institutions and others	-	3,017	4,469	80	2,458	1,341	-	11,365
Long-term derivative financial instruments	-	-	-	-	-	-	72	72
Other financial liabilities	1	46	59	-	-	-	-	106
Deferred taxes	-	-	-	-	-	-	1,643	1,643
	<b>1,402</b>	<b>6,912</b>	<b>7,416</b>	<b>668</b>	<b>3,766</b>	<b>1,554</b>	<b>1,780</b>	<b>23,498</b>
Shareholders' equity attributable to shareholders of the Company	-	-	-	-	-	-	4,437	4,437
Minority interests	-	-	-	-	-	-	9,439	9,439
	<b>1,402</b>	<b>6,912</b>	<b>7,416</b>	<b>668</b>	<b>3,766</b>	<b>1,554</b>	<b>15,656</b>	<b>37,374</b>

<sup>(1)</sup> Mainly investment property and investment property under development.

## 2. Derivatives

### Linkage basis swaps:

	<b>Base asset</b>	<b>Linkage basis swaps from the Company's viewpoint</b>	<b>Transaction amount (in millions)</b>	<b>Transaction currency</b>	<b>Fair value as of December 31, 2007 (NIS in millions)</b>
The Company	F Debentures (listed, CPI-linked, final redemption – 2016)	Paying fixed euro interest Receiving nominal shekels	150	ILS	(7)
The Company	F Debentures (listed, CPI-linked, final redemption – 2016)	Paying variable euro interest Receiving nominal shekels	400	ILS	(16.2)
The Company	F Debentures (listed, CPI-linked, final redemption – 2016)	Paying variable Canadian interest Receiving nominal shekels	390	ILS	(34.1)
The Company	F Debentures (listed, CPI-linked, final redemption – 2016)	Paying U.S. interest Receiving nominal shekels	200	ILS	4.1
The Company	C Debentures (listed, CPI-linked, final redemption – 2018)	Paying variable euro interest Receiving CPI	100	ILS	7.1
The Company	C Debentures (listed, CPI-linked, final redemption – 2018)	Paying fixed Canadian interest Receiving CPI	104	ILS	(7.5)
The Company	C Debentures (listed, CPI-linked, final redemption – 2018)	Paying fixed Canadian interest Receiving CPI	150	ILS	4.6
The Company	D Debentures (listed, CPI-linked, final redemption – 2021)	Paying fixed Canadian interest Receiving CPI	290	ILS	4.2
The Company	D Debentures (listed, CPI-linked, final redemption – 2021)	Paying variable Canadian interest Receiving CPI	375	ILS	34.4
The Company	D Debentures (listed, CPI-linked, final redemption – 2021)	Paying fixed euro interest Receiving CPI	211	ILS	16.2
The Company	D Debentures (listed, CPI-linked, final redemption – 2021)	Paying variable euro interest Receiving CPI	380	ILS	42.7
The Company	D Debentures (listed, linked, final redemption – 2021)	Paying variable U.S. interest Receiving CPI	300	ILS	48.6
The Company	E Debentures (listed, TALBOR-linked, final redemption – 2017)	Paying variable U.S. interest Receiving TALBOR	150	ILS	10
The Company	E Debentures (listed, TALBOR-linked, final redemption – 2017)	Paying variable Canadian interest Receiving TALBOR	350	ILS	(1.5)
Wholly owned subsidiary	Private debenture of wholly owned subsidiary (not listed, final redemption – 2015)	Paying fixed U.S. interest Receiving CPI	50	ILS	10.2
Subsidiary	Various liabilities	Receiving fixed euro interest Paying STIBOR (Sweden) interest	60	EUR	11.9

	<b>Base asset</b>	<b>Linkage basis swaps from the Company's viewpoint</b>	<b>Transaction amount (in millions)</b>	<b>Transaction currency</b>	<b>Fair value as of December 31, 2007 (NIS in millions)</b>
Subsidiary	IRS commitments at U.S. dollar interest	Paying fixed interest Receiving variable	60	USD	(2.7)
Subsidiary	IRS commitments at euro interest	Paying fixed interest Receiving variable	417	EUR	22.7
Subsidiary	IRS commitments at STIBOR (Sweden) interest	Paying fixed interest Receiving variable	1,485	SEK	20.9
Subsidiary	IRS commitment at U.S. dollar interest	Paying variable interest Paying fixed	100	USD	(1.2)

**Interest hedges:**

	<b>Type of transaction</b>	<b>Base asset</b>	<b>Interest Protected</b>	<b>Transaction amount (in millions)</b>	<b>Transaction currency</b>	<b>Fair value as of December 31 2007 (NIS in millions)</b>
The Company	T-LOCK	Planned acquisitions/ issuances	U.S. interest	30	USD	(4.5)
The Company	SWAPTION	Against expected mortgage on property in Germany	Euro	33	EUR	1.2

In addition, the Company has short-term forward contracts with a fair value of NIS 7 million.

**3. Reporting currency, interest and derivative exposures in accordance with the Second Addendum to the Securities Regulations**

Presented below is a report on the currency, interest and derivative exposures in accordance with the aforementioned regulations.

The Group has an economic and accounting exposure due to its operations on various overseas markets. The Group operates in accordance with a broad spectrum of considerations and circumstances to bridge the gaps on its linkage balance sheets in foreign currency, by the use of derivative financial instruments (interest swaps and options).

Sensitivity and fair value calculations for the transactions have been done with the aid of a professional, outside body. In the note in the financial statements relating to this topic, the fair value of the financial instruments has been taken according to a majority of fair values from the trading rooms of the banks. The values presented in the valuations are not necessarily identical, this being due to the different discount rates employed – although the level of variation between the values is negligible.

### **Sensitivity of the linkage balance sheet**

The sensitivity analysis has been performed on the foreign currency items and on shekel items that are CPI-linked (data in million of NIS):

	<b>A s o f D e c e m b e r 3 1 , 2 0 0 7</b>				
	<b>-10%</b>	<b>-5%</b>	<b>Carrying Value</b>	<b>5%</b>	<b>10%</b>
<b><u>Assets</u></b>					
Cash and cash equivalents	550	575	600	625	650
Short-term investments	36	37	39	41	42
Tenants, accounts receivable and other debit balances	535	553	571	589	607
Long-term investments and loans	280	295	311	327	342
Investments in securities available for sale	1,023	1,023	1,023	1,023	1,023
Long-term financial derivatives	245	245	245	245	245
Deferred taxes	115	115	115	115	115
	2,784	2,843	2,904	2,965	3,024
Non-monetary assets	40,896	43,029	45,163	47,297	49,430
	<b>43,680</b>	<b>45,872</b>	<b>48,067</b>	<b>50,262</b>	<b>52,454</b>
<b><u>Liabilities</u></b>					
Short-term credit from banks and others	598	628	659	690	721
Trade and other payables and other credit balances	1,191	1,237	1,284	1,331	1,377
Advances from project customers and apartment buyers	48	48	48	48	48
Debentures	10,054	10,611	11,167	11,724	12,280
Debentures convertible into consolidated subsidiaries' shares	737	778	819	860	901
Interest-bearing liabilities to financial institutions and others	13,476	14,213	14,950	15,687	16,425
Long-term derivative financial instruments	83	83	83	83	83
Other financial liabilities	125	132	139	146	153
Liabilities for employee benefits	7	7	7	7	7
Deferred taxes	2,246	2,246	2,246	2,246	2,246
	28,565	29,983	31,402	32,822	34,241
Shareholders' equity attributable to shareholders of the Company	5,721	5,721	5,721	5,721	5,721
Minority interests	10,944	10,944	10,944	10,944	10,944
	<b>45,220</b>	<b>46,648</b>	<b>48,067</b>	<b>49,487</b>	<b>50,906</b>

**A s o f D e c e m b e r 3 1 , 2 0 0 6**

	<b>-10%</b>	<b>-5%</b>	<b>Carrying Value</b>	<b>5%</b>	<b>10%</b>
<b>Assets</b>					
Cash and cash equivalents	285	299	313	327	341
Short-term investments	143	145	148	151	153
Tenants, accounts receivable and other debit balances	353	368	385	400	415
Long-term investments and loans	22	23	24	25	26
Long-term loans and debit balances	48	50	53	56	58
Investments in securities available for sale	987	987	987	987	987
Long-term financial derivatives	55	55	55	55	55
Deferred taxes	87	87	87	87	87
	<u>1,980</u>	<u>2,014</u>	<u>2,052</u>	<u>2,088</u>	<u>2,122</u>
Non-monetary assets	31,933	33,628	35,322	37,018	38,713
	<b><u>33,913</u></b>	<b><u>35,642</u></b>	<b><u>37,374</u></b>	<b><u>39,106</u></b>	<b><u>40,835</u></b>
<b>Liabilities</b>					
Short-term credit from banks and others	507	532	556	580	605
Trade and other payables and other credit balances	769	804	839	874	909
Debentures	7,376	7,761	8,146	8,531	8,916
Debentures convertible into consolidated subsidiaries' shares	694	732	771	810	848
Interest-bearing liabilities to financial institutions and others	10,237	10,801	11,365	11,929	12,494
Long-term derivative financial instruments	72	72	72	72	72
Other financial liabilities	95	101	106	111	117
Deferred taxes	1,643	1,643	1,643	1,643	1,643
	<u>21,393</u>	<u>22,446</u>	<u>23,498</u>	<u>24,550</u>	<u>25,604</u>
Shareholders' equity attributable to shareholders of the Company	4,437	4,437	4,437	4,437	4,437
Minority interests	9,439	9,439	9,439	9,439	9,439
	<b><u>35,269</u></b>	<b><u>36,322</u></b>	<b><u>37,374</u></b>	<b><u>38,426</u></b>	<b><u>39,480</u></b>

The Company places emphasis on maintaining the correlation of the currency of its assets with the currency of its liabilities and consequently the balance sheet exposure is proportional to the geographical exposure of the Company's operations.

**Presented below are the fair values of the amounts of the Group's core agreements (leases) (in thousands of NIS):**

\* The amounts in parentheses denote a reduction in the fair value of the amounts of the leases.

The fair value is the revenue cash flows from long-term leases capitalized at the market interest rate.

	Lease currency	Fair value	Sensitivity to changes in the exchange rate				Sensitivity to changes in FC interest for capitalization			
			+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	USD	3,896,482	194,824	389,648	(194,824)	(389,648)	(50,526)	(100,276)	51,316	103,437
	CAD	4,342,248	217,112	434,224	(217,112)	(434,224)	(51,983)	(104,553)	52,721	105,054
2007	USD	4,155,757	207,788	415,575	(207,788)	(415,575)	(40,513)	(80,292)	41,264	83,298
	CAD	5,334,767	266,738	533,477	(266,738)	(533,477)	(69,072)	(136,638)	70,621	142,838
	EUR	2,167,897	108,395	216,790	(108,395)	(216,790)	(2,912)	(5,777)	2,960	5,970
	SEK	842,748	42,137	84,275	(42,137)	(84,275)	(5,489)	(10,911)	5,557	11,184

The Company also has revenues in Latvian lats and Estonian kroons, but these are negligible relative to its total assets and its exposure to these currencies is not material.

**Presented below is a sensitivity analysis of the securities that are held by the Group (in thousands of NIS):**

	Securities currency	Fair value	Sensitivity to changes in the exchange rate/share price			
			+5%	+10%	-5%	-10%
2006	USD	899,940	44,997	89,994	(44,997)	(89,994)
	CAD	177,275	8,864	17,228	(8,864)	(17,228)
2007	USD	282,763	14,138	28,276	(14,138)	(28,276)
	CAD	292,924	14,646	29,292	(14,646)	(29,292)
	EUR	382,758	19,138	38,276	(19,138)	(38,276)
	ILS	1,958	98	196	(98)	(196)

\* The amounts in parentheses denote a reduction in the fair value of the securities portfolio.

**Presented below are the fair values of the long-term liabilities to financial institutions and others that are secured by income-producing properties (“mortgages”) (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value of the indebtedness.

In light of the fact that the Group has a surplus of assets over long-term liabilities denoted in foreign currency, the exposure to changes in the fair value of the mortgages is offset against the changes in the fair value of the assets, except for that portion of the assets that are financed from shareholders' equity.

**Mortgages in US dollars at fixed interest:**

	Fair value	Sensitivity to changes in the exchange rate				Sensitivity to changes in U.S. interest			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	2,163,232	108,161	216,322	(108,161)	(216,322)	(33,828)	(159,869)	33,828	59,869
2007	2,051,536	102,577	205,154	(102,577)	(205,154)	(58,442)	(114,680)	60,744	123,896

**Mortgages in Canadian dollars at fixed interest:**

	Fair value	Sensitivity to changes in the exchange rate				Sensitivity to changes in Canadian interest			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	4,572,706	228,635	457,270	(228,635)	(457,270)	(53,875)	(107,006)	54,626	110,017
2007	3,319,714	165,986	331,971	(165,986)	(331,971)	(46,655)	(92,364)	47,627	96,249

A wholly owned subsidiary of the Company and a consolidated subsidiary have mortgages in euros at fixed interest in a negligible amount relative to their total assets and their exposure to this currency is not material.

**Presented below is a sensitivity analysis of the fair values of the Group's debentures (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value of the Company's liabilities.

**Debentures in Canadian dollars:**

	Fair value	Sensitivity to the exchange rate				Sensitivity to changes in Canadian interest			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	1,509,106	75,455	150,912	(75,455)	(150,912)	(20,113)	(40,225)	20,113	40,225
2007	1,787,048	89,352	178,705	(89,352)	(178,705)	(23,110)	(45,862)	23,474	47,319

The debentures in Canadian dollars are those of a consolidated subsidiary.

Capitalized according to the relevant interest curve.

In light of the fact that the Group has a surplus of assets over long-term liabilities denoted in Canadian dollars, the exposure to changes in the fair value of the debentures is offset against the changes in the fair value of the assets, except for that portion of the assets that are financed from shareholders' equity.

**Debentures in U.S. dollars:**

	Fair value	Sensitivity the exchange rate				Sensitivity to changes in U.S. interest			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	2,731,487	136,573	273,146	(136,573)	(273,146)	(50,138)	(100,276)	50,138	100,276
2007	2,690,072	134,504	269,007	(134,504)	(269,007)	(53,905)	(106,591)	55,157	111,598

The debentures in U.S. dollars are those of a consolidated subsidiary.

Capitalized according to the relevant interest curve.

In light of the fact that the Group has a surplus of assets over long-term liabilities denoted in U.S. dollars, the exposure to changes in the fair value of the debentures is offset against the changes in the fair value of the assets, except for that portion of the assets that are financed from shareholders' equity.

**Debentures in U.S. dollar-linked shekels:**

	Fair value	Sensitivity to the exchange rate			
		+5%	+10%	-5%	-10%
2006	667,050	33,352	66,704	(33,352)	(66,704)
2007	522,735	26,137	52,274	(26,137)	(52,274)

Debentures of the Company (debentures (Series A)). The debentures are at variable interest and thus there is no fair value exposure due to the interest component.

**Debentures in euro-linked shekels:**

	Fair value	Sensitivity to changes in the exchange rate			
		+5%	+10%	-5%	-10%
2006	173,771	8,688	17,377	(8,688)	(17,377)
2007	197,302	9,865	19,730	(9,865)	(19,730)

Debentures (Series B) of the Company. The debentures are at variable interest and thus there is no fair value exposure due to the interest component.

**Debentures in CPI-linked shekels:**

		Fair value	Sensitivity to shekel interest			
			+5%	+10%	-5%	-10%
2006	Marketable debentures -CPI-linked shekels	2,476,838	(34,963)	(69,785)	34,963	69,785
	Marketable debentures - nominal	653,250	(9,794)	(19,416)	9,794	19,416
	Private debentures - CPI-linked shekels	379,556	(2,128)	(4,238)	2,128	4,238
	<b>Total</b>	<b>3,509,644</b>	<b>(46,885)</b>	<b>(93,439)</b>	<b>46,885</b>	<b>93,439</b>
2007	Marketable debentures -CPI-linked shekels	3,103,675	(62,717)	(123,652)	64,559	131,025
	Marketable debentures - nominal	1,072,720	(20,324)	(40,123)	20,866	42,292
	Private debentures - CPI-linked shekels	355,884	(2,066)	(4,113)	2,087	4,195
	<b>Total</b>	<b>4,532,279</b>	<b>(85,107)</b>	<b>(167,888)</b>	<b>87,512</b>	<b>177,512</b>

Measurement of the economic value of the debenture liabilities has been done by capitalizing them in accordance with the debenture curve of the relevant country.

From time to time, the Group transacts swaps in order to maintain the linkage balance sheet correlation between its assets and its liabilities, and consequently the Group's exposure on its debenture liabilities is smaller than that shown in the table.

**Presented below is the fair value for interest swap transactions from foreign currency to CPI-linked/nominal/TALBOR-linked shekels (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value of the transactions.

**2006**

FC currency	Closing date	Fair value	Sensitivity to changes in the exchange rate				Sensitivity to changes in shekel interest				Sensitivity to changes in foreign currency interest			
			+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
CAD – Fixed interest	June 2008	(5,012)	(7,987)	(15,979)	7,987	15,979	(326)	(648)	330	665	439	871	(446)	(899)
CAD – Variable interest	December 2016	523	(4,932)	(9,854)	4,932	9,854	(4,763)	(9,519)	4,772	9,552	-	-	-	-
CAD – Variable interest	June 2018	2,799	(2,501)	(5,004)	2,501	5,004	(651)	(1,302)	653	1,307	-	-	-	-
CAD – Fixed interest	March 2021	(1,236)	(22,350)	(44,713)	22,350	44,713	(1,920)	(3,806)	1,946	3,950	2,473	4,891	(2,529)	(5,118)
<b>Total</b>		<b>(2,926)</b>	<b>(37,770)</b>	<b>(75,550)</b>	<b>37,770</b>	<b>75,550</b>	<b>(7,660)</b>	<b>(15,275)</b>	<b>7,701</b>	<b>15,474</b>	<b>2,912</b>	<b>5,762</b>	<b>(2,975)</b>	<b>(6,017)</b>
USD – Fixed interest	March 2015	(3,198)	(3,057)	(6,114)	3,057	6,114	(88)	(176)	89	179	134	268	(136)	(275)
USD – Variable interest	March 2021	(24,394)	(37,861)	(75,707)	37,861	75,707	(14,901)	(29,744)	14,961	29,985	-	-	-	-
<b>Total</b>		<b>(27,592)</b>	<b>(40,918)</b>	<b>(81,821)</b>	<b>40,918</b>	<b>81,821</b>	<b>(14,989)</b>	<b>(29,920)</b>	<b>15,050</b>	<b>30,164</b>	<b>134</b>	<b>268</b>	<b>(136)</b>	<b>(275)</b>
EUR – Variable interest	December 2016	(10)	(6,844)	(13,689)	6,844	13,689	(1,704)	(3,405)	1,708	3,420	-	-	-	-
EUR – Fixed interest	March 2021	(10,753)	(11,051)	(22,106)	11,051	22,106	(1,422)	(2,819)	1,447	2,923	1,306	2,590	(1,329)	(2,680)
<b>Total</b>		<b>(10,763)</b>	<b>(17,895)</b>	<b>(35,795)</b>	<b>17,895</b>	<b>35,795</b>	<b>(3,126)</b>	<b>(6,224)</b>	<b>3,155</b>	<b>6,343</b>	<b>1,306</b>	<b>2,590</b>	<b>(1,329)</b>	<b>(2,680)</b>
<b>Grand total</b>		<b>(41,281)</b>	<b>(96,583)</b>	<b>(193,166)</b>	<b>96,583</b>	<b>193,166</b>	<b>(25,775)</b>	<b>(51,419)</b>	<b>25,906</b>	<b>51,981</b>	<b>4,352</b>	<b>8,620</b>	<b>(4,440)</b>	<b>(8,972)</b>

**2007**

FC currency	Closing date	Fair value	Sensitivity to changes in the exchange rate				Sensitivity to changes in shekel interest				Sensitivity to changes in foreign currency interest			
			+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
CAD – Fixed interest	June 2018	(7,457)	(9,482)	(12,964)	6,482	12,964	(1,269)	(2,520)	1,288	2,596	1,741	3,450	(1,775)	(3,585)
CAD – Variable interest	December 2016	(34,148)	(21,419)	(42,839)	21,419	42,839	(5,945)	(11,768)	7,919	16,004	5,066	10,054	(5,148)	(10,383)
CAD – Variable interest	June 2018	4,644	(8,187)	(16,374)	8,187	16,374	(1,749)	(3,473)	1,775	3,577	2,220	4,399	(2,263)	(4,571)
CAD – Fixed interest	March 2021	1,148	(5,323)	(10,646)	5,323	10,646	(1,685)	(3,335)	1,721	3,478	2,081	4,108	(2,138)	(4,335)
CAD – Variable interest	March 2021	9,093	(10,815)	(21,632)	10,815	21,632	(3,650)	(7,226)	3,585	7,247	4,367	8,618	(4,485)	(9,096)
CAD – Variable interest	December 2017	(1,487)	(15,892)	(31,785)	15,892	31,785	(6,681)	(13,176)	6,874	13,948	5,335	10,557	(5,453)	(11,027)
<b>Total</b>		<b>(28,207)</b>	<b>(71,118)</b>	<b>(136,240)</b>	<b>68,118</b>	<b>136,240</b>	<b>(20,979)</b>	<b>(41,498)</b>	<b>23,162</b>	<b>46,850</b>	<b>20,810</b>	<b>41,186</b>	<b>(21,262)</b>	<b>(42,997)</b>
USD – Fixed interest	March 2015	10,181	(2,275)	(4,450)	2,275	4,450	(474)	(944)	480	965	494	981	(501)	(1,011)
USD – Variable interest	March 2021	73,862	(23,130)	(46,261)	23,130	46,261	(8,490)	(16,804)	8,673	17,534	9,321	18,387	(9,584)	(19,442)
USD – Variable interest	December 2017	9,954	(7,411)	(14,823)	7,411	14,823	(2,523)	(4,992)	2,580	5,218	2,523	4,992	(2,580)	(5,218)
USD – Variable interest	December 2016	4,104	(9,705)	(19,410)	9,705	19,410	(3,176)	(6,292)	3,238	6,541	(2,260)	4,484	(2,296)	(4,630)
<b>Total</b>		<b>98,101</b>	<b>(42,521)</b>	<b>(84,944)</b>	<b>42,521</b>	<b>84,944</b>	<b>(14,663)</b>	<b>(29,032)</b>	<b>14,971</b>	<b>30,258</b>	<b>10,078</b>	<b>28,844</b>	<b>(14,961)</b>	<b>(30,301)</b>
EUR – Variable interest	June 2018	7,088	(5,239)	(10,658)	5,329	10,658	(1,181)	(2,345)	1,198	2,415	1,529	3,028	(1,559)	(3,150)
EUR – Fixed interest	March 2021	16,222	(11,817)	(23,636)	11,817	23,636	(3,998)	(7,920)	4,073	8,127	4,853	9,574	(4,990)	(10,126)
EUR – Variable interest	March 2021	42,706	(20,152)	(40,306)	20,152	40,306	(7,086)	(14,026)	7,236	14,627	8,575	16,917	(8,819)	(17,890)
EUR – Fixed interest	December 2016	(7,039)	(7,854)	(15,709)	7,854	15,709	(2,271)	(4,495)	2,319	4,689	1,937	3,843	(1,970)	(3,974)
EUR – Variable interest	December 2021	(16,151)	(21,242)	(42,455)	21,242	42,485	(6,142)	(12,156)	6,273	12,680	5,222	10,358	(5,310)	(10,710)
<b>Total</b>		<b>42,826</b>	<b>(66,304)</b>	<b>(132,764)</b>	<b>66,394</b>	<b>132,794</b>	<b>(20,678)</b>	<b>(40,942)</b>	<b>21,099</b>	<b>42,538</b>	<b>22,116</b>	<b>43,720</b>	<b>(22,648)</b>	<b>(45,850)</b>
<b>Grand total</b>		<b>112,720</b>	<b>(179,943)</b>	<b>(353,948)</b>	<b>177,033</b>	<b>353,978</b>	<b>(56,320)</b>	<b>(111,472)</b>	<b>59,232</b>	<b>119,646</b>	<b>53,004</b>	<b>113,750</b>	<b>(58,871)</b>	<b>(119,148)</b>

Variable foreign currency interest swaps and TALBOR interest swaps – No fair value exposure.

A consolidated subsidiary has swap transactions from euros to Swedish kronas. The aggregate amount of these transactions is negligible relative to the total assets and the exposure in respect of these transactions is not material.

The Group's swaps are transacted in order to hedge the linkage balance sheet and to maintain the currency correlation between assets and liabilities. The calculation of the fair value of the swaps is done by capitalizing the cash flows for which the Group has commitments under the swaps where the interest that was determined on December 31, 2007 is applicable to dates in the future. With regard to swaps where the Group has variable interest commitments, the body that did the calculations employed the relevant interest curve in order to estimate the LIBOR rate for future periods.

It is hereby clarified that changes in the rate of interest could also have an additional effect on the other linkage bases to which these financial instruments are linked, such as the U.S. dollar exchange rate. The cross-effect has not been taken into account in calculating the sensitivity of the swaps.

**Fair value for interest-fixing (swapping variable interest for fixed interest) transactions (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value.

	Transaction currency	Closing date	Fair value	Sensitivity to changes in exchange rate				Sensitivity to changes in U.S. interest			
				+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	USD	2013-2017	7,624	379	760	(378)	(760)	2,915	5,831	(2,915)	(5,831)
2007	USD	2013-2017	(2,538)	(127)	(254)	127	254	2,090	4,134	(2,046)	(4,236)

	Transaction currency	Closing date	Fair value	Sensitivity to changes in exchange rate				Sensitivity to changes in Canadian interest			
				+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	CAD	2016-2018	(2,146)	(106)	(213)	106	231	909	1,818	(909)	(1,818)
2007	CAD	2016-2018	(1,222)	(61)	(122)	61	122	957	1,899	(1,097)	(1,974)

	Transaction currency	Closing date	Fair value	Sensitivity to changes in exchange rate				Sensitivity to changes in euro interest			
				+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	EUR	Duration - 4	16,255	813	1,626	(813)	(1,626)	12,851	25,842	(11,311)	(24,050)
2007	EUR	Duration - 4	15,530	776	1,553	(776)	(1,553)	17,824	35,406	(18,041)	(36,417)

	Transaction currency	Closing date	Fair value	Sensitivity to changes in exchange rate				Sensitivity to changes in Swedish krona interest			
				+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	SEK	Duration – 7.5	(4,529)	(226)	(453)	226	453	6,475	12,706	(5,929)	(11,975)
2007	SEK	Duration – 7.5	28,035	1,402	2,803	(1,402)	(2,803)	17,824	35,406	(18,041)	(36,417)

**Fair value for interest-fixing options (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value.

All options are for periods shorter than a year

	Transaction currency	Fair value	Sensitivity to changes in exchange rate				Sensitivity to changes in foreign currency interest			
			+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2006	USD	(1,045)	(52)	(104)	52	104	631	1,263	(631)	(1,263)
	USD	(1,668)	(83)	(166)	83	166	1,172	2,344	(1,172)	(2,344)
	USD	(2,070)	(103)	(207)	103	207	1,563	3,126	(1,563)	(3,126)
	USD	(1,020)	(51)	(102)	51	102	782	1,564	(782)	(1,564)
	USD	(11,190)	(559)	(1,119)	559	1,119	6,574	13,148	(6,574)	(13,148)
	Total	(16,993)	(848)	(1,698)	848	1,698	10,722	21,445	(10,722)	(21,445)
	EUR	3,112	155	311	(155)	(311)	2,069	4,138	(2,069)	(4,138)
	Total	3,112	155	311	(155)	(311)	2,069	4,138	(2,069)	(4,138)
2007	USD	(3,725)	(186)	(372)	(186)	(372)	867	1,735	(867)	(1,735)
	EUR	1,308	99	198	(99)	(198)	2,335	4,632	(2,391)	(4,837)

The Group reduces its interest exposures by taking liabilities under fixed interest terms, with this being based on the expectation of the cash flows it anticipates receiving from long-term leases.

The Group also customarily performs interest-fixing transactions for the purpose of future acquisitions/issuances, so as to reduce its exposure to market changes.

**Fair value of swap transactions from fixed to variable interest (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value of the transaction.

	Fair value	Sensitivity to exchange rate			
		+5%	+10%	-5%	-10%
2006	20,635	1,031	2,063	(1,031)	(2,063)
2007	1,211	61	121	(61)	(121)

**Fair value of forward contracts for the sale of U.S. dollars against the purchase of Brazilian reals (in thousands of NIS):**

\* The figures in parentheses denote a reduction in the fair value of the transaction.

	Fair value	Sensitivity to changes in U.S. interest				Sensitivity to dollar-shekel changes				Sensitivity to changes in Brazilial real interest			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
2007	3,312	208	415	(209)	(418)	10,670	21,341	(10,670)	(21,341)	(395)	(789)	396	792

The forward contract was transacted in order to reduce exposures against future property acquisitions.

#### **E. Means of Implementing and Monitoring Policies:**

Those responsible for managing market risk assess, on a current and daily basis, the need to update the Company's operations in connection with the management of market risks and the Company's management discusses material matters with regard to the management of market risk on a weekly basis. (In light of the Company's policy on this topic, as detailed above, concrete quantitative limitations have not been set in respect of the operations of those responsible for managing market risk and the Company's management). The Board of Directors approves the significant aspects of the market risk management policy on a quarterly basis, in the Directors' Report (and in the same manner, changes to said policy, if and when such changes are made in the future, will require the approval of the Board of Directors). In addition, once a year, a separate meeting of the Board of Directors is held to discuss the entire array of measures employed to manage the Company's market risks. An examination of the management of market risks is performed, inter alia, by the Company's internal auditor (see section 11 above).

#### **14. 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, a draft of the financial statements, and a draft of the other parts of the periodic report too, as well as a draft of 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 Executive Vice 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); management also 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 March 28, 2008, 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 February 20, 2008, reference number 2008-01-049386, containing details of the senior officers; the information contained therein is hereby presented by means of this reference). Among others, the Company's President, its 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 and the other parts of the periodic report.

### **15. Meetings of the Board of Directors**

In 2007, 20 meetings of the Board of Directors were held.

\_\_\_\_\_  
March 28, 2008  
Date of Approval  
of Directors' Report

\_\_\_\_\_  
**Chaim Katzman**  
Chairman of the Board of Directors

\_\_\_\_\_  
**Michael Bar Haim**  
President