GAZIT-GLOBE LTD.

Directors' Report to Shareholders
For the periods ended June 30, 2006

The Board of Directors of Gazit-Globe Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the periods ended June 30, 2006:

1. A. General

The Company – directly and through subsidiaries and an affiliate – is engaged in the acquisition, development, and management of income-producing properties in North America, Europe and Israel, and focuses mainly on supermarket-anchored shopping centers. In addition, the Company is active in the senior housing communities and the medical office buildings sectors in the U.S.A., and also continues to seek out and realize opportunities in its business and/or synergetic businesses, both in regions where it operates and other regions.

B. Properties of the Company and its Subsidiaries (hereinafter – "the Group")

As of the date of the financial statements, the Group owns and manages, by itself and through an affiliate, 498 properties, as follows:

- 470 operational shopping centers and stores
- 17 shopping centers under development
- 7 senior housing communities (encompassing some 860 units)
- 2 senior housing communities under development
- 1 medical office building with a multi-story parking garage
- 1 office building in Tel-Aviv

The abovementioned properties have a Gross Leasable Area ("G.L.A.") of approximately 4.2 million square meters. These properties are recorded in the Company's books at a value of NIS 28 billion and generate an annual rental revenue of NIS 3.2 billion. (Annual rental revenue data is based on the gross annual rent from the properties currently owned at the exchange rate on the date of the financial statements.)

In addition, the Group has a 20% interest in an unconsolidated joint venture that owns and manages 29 shopping centers in Texas, U.S.A., with a G.L.A. of approximately 260 thousand square meters.

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – "EQY"), a public company listed on the NYSE (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and indirectly (including through the subsidiary, First Capital Realty Inc., as described below), 41% 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 and has interests in 164 operating shopping centers, with a G.L.A. of 1.6 million square meters and 5 shopping centers under development. It also has a 20% interest in an unconsolidated joint venture that owns and manages 29 shopping centers in Texas, U.S.A.

The Company is also active in the United States through Royal Senior Care (hereinafter – "RSC") and ProMed Properties Inc. (hereinafter – "ProMed"). RSC, in which the Company holds a 50% interest, is active in the senior housing communities sector in the southeastern United States. RSC owns 7 senior housing communities, encompassing approximately 860 units, as well as 2 senior housing communities under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings sector. ProMed owns a medical office building, with a G.L.A. of 24 thousand square meters, and an adjacent multi-story parking garage.

In Canada, the Company operates through First Capital Reality Inc. ("FCR"), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the date of the financial statements, the Company holds 53% 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 140 properties in Canada, with a G.L.A. of approximately 1.6 million square meters, and 5 shopping centers under development. In addition FCR owns 13.3 million shares of EQY.

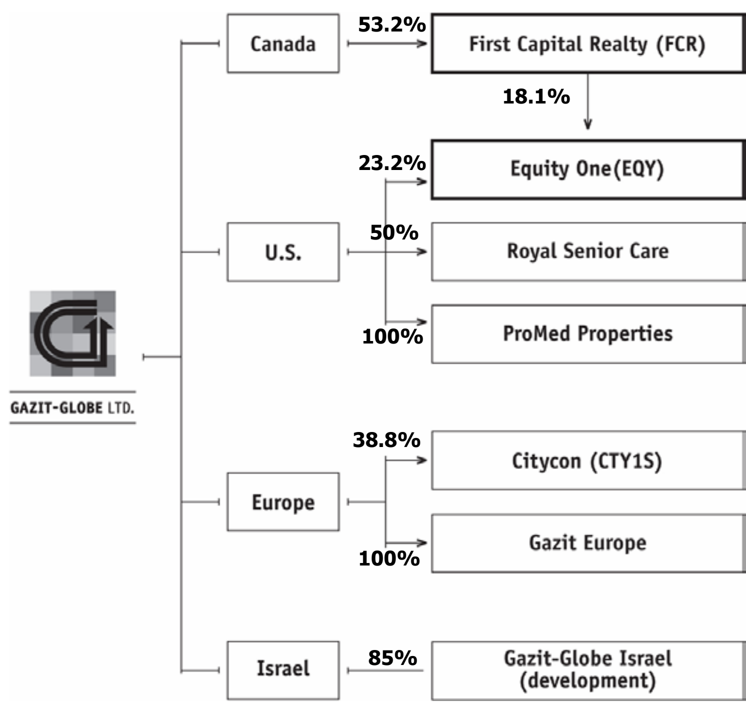
In Israel, the Company owns 85% of the share capital of Gazit-Globe Israel (Development) Ltd. (hereinafter – "Gazit Development"), which is an owner, developer and operator of shopping centers in Israel. Gazit Development owns 7 shopping centers, with a G.L.A. of approximately 63 thousand square meters, and also 7 plots of land for the future development of shopping centers. In addition, the Company owns an office building in Tel-Aviv.

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – Citycon), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (HEX). As of the date of the financial statements, the Company owns approximately 39% of Citycon's share capital. Citycon is active in northern Europe (as of the date of the financial statements, in Finland, Sweden and Estonia) and owns 30 shopping centers and 127 stores, which are let primarily to supermarkets and other retail chains, with a G.L.A. of approximately 0.8 million square meters. An agreement has been signed for the sale of 76 of the aforementioned stores, and this transaction is expected to be closed during 2006. European operations are also conducted through Gazit Europe, a wholly (100%) owned subsidiary, which is engaged in the European shopping centers sector and which owns 2shopping centers in Germany, with a G.L.A. of approximately 25 thousand square meters.

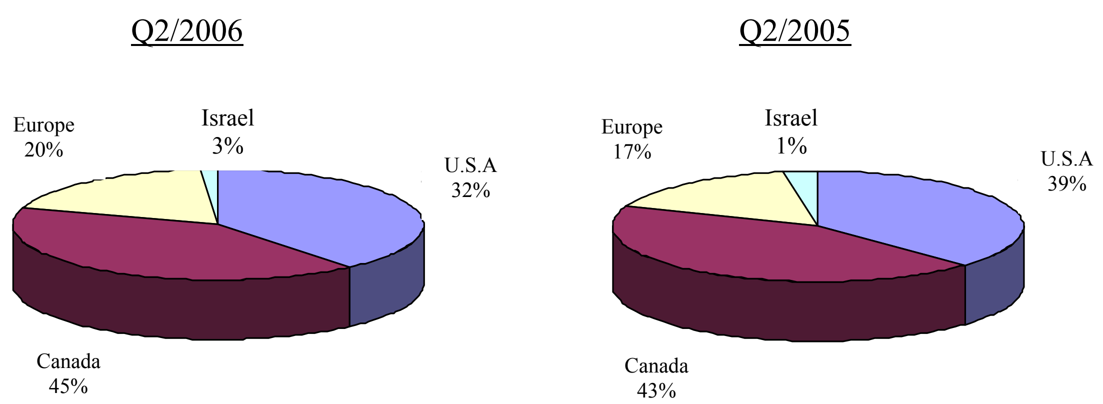
Other-publicly-accessible data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets and liabilities, and other information, can be found on the Group's Internet website and the Internet websites of the Group's companies:

www.gazit-globe.com
www.equityone.net
www.firstcapitalrealty.ca
www.citycon.fi

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



D. The Following Chart Illustrates the Breakdown of Net Operating Income ("N.O.I.")[(1)], According to the Company's Operating Regions:



(1) The Company's share (by proportionate consolidation) - see section E2 below.

E. The Company's Holdings

1. The following table presents a summary of the Company's holdings as of June 30, 2006, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions)	Market value as of June 30, 2006 (NIS in millions)
EQY [(1)]	Shares (NYSE)	17.1	23.2	1,047	1,588
FCR	Shares (TSX)	39.0	53.0	2,145	3,588
FCR	Convertible debentures (TSX)	11.9	11.9	46	48
Citycon	Shares (HEX)	60.8	36.8	1,021	1,238
RSC	Income-producing property	-	-	187	-
Gazit Europe	Income-producing property	-	-	364	-
ProMed	Income-producing property	-	-	385	-
Properties in Israel	Income-producing property	-	-	576	-
Other assets, net [(2)]		-	-	39	-
Total		**-**	**-**	**5,810**	**-**

The Company's net liabilities [(3)] (including those of its wholly owned subsidiaries) amounted to NIS 3,324 million as of June 30, 2006.

2. Additional information is presented below concerning the Company's share in the income-producing property owned by the Group as of June 30, 2006, based on capitalized net operating income ("N.O.I.")[(4)] 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 aid 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 valuation of its present or future worth or the value of its shares.

(1) Represents only the Company's direct holding in EQY (in adddition, FCR holds 13.3 million shares of EQY).
(2) Mainly represents the book-value of the Gazit House and other assets, net of provision for deferred taxes.
(3) Net of financial assets.
(4) Property rental revenue, net of property operating expenses.

The sensitivity table below presents the value of the income-producing properties[1] owned by the Group according to the range of different cap rates generally accepted in the regions in which the Group operates, as of the date of publishing the financial statements. It should be noted that this presentation does not take into account existing construction rights in respect of the Company's properties.

In calculating the N.O.I., the following assumptions were made:

a. The annual N.O.I. for each of the Group companies based on its quarterly results for the second quarter of 2006.

b. The Company's proportionate share in the N.O.I. of the Group companies, as follows:

	For the 3 months ended June 30, 2006	For the year ended December 31, 2005
	NIS in millions	
N.O.I. for the period	412	1,478
Less – minority interests' share in N.O.I.	(221)	(858)
Add – Company's share in Citycon's N.O.I.	41	127
N.O.I. for the period	232	747
N.O.I. for the year	[2]929	747

Cap Rate:	6.25%	6.50%	6.75%
Value of proportionately consolidated income-producing property (NIS in millions)	14,863	14,291	13,762

The Group's liabilities, net of monetary assets, new properties and properties under development, which have not yet begun to produce income and which are presented at their carrying values in the Company's books (by the proportionate consolidation method) as of June 30, 2006, amounted to NIS 8,487 million.

3. As of June 30, 2006, the Company's issued share capital comprises 108.4 million shares (excluding treasury stock held by the Company).

[1] N.O.I. divided by the cap rate.

[2] The cap rate for the second quarter of 2006 multiplied by 4.

F. Highlights - Second Quarter 2006

- The Group's investments amounted to NIS 0.9 billion, compared to NIS 1.0 billion in the same quarter last year. In addition, Citycon invested NIS 167 million in acquiring and developing properties, compared to NIS 27 million in the same quarter last year.

- Property rental revenue amounted to NIS 626 million, an increase of 19% compared to the same quarter last year. 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 coming online of properties whose development had been completed and also the increase in the average rent per square meter received on the Group's properties.

- N.O.I. [(1)] amounted to NIS 412 million, compared to NIS 361 million in the same quarter last year, an increase of 14%.

- Gross profit amounted to NIS 299 million, compared to NIS 273 million for the same quarter last year, an increase of 9%.

- Cash inflows from operating activities amounted to NIS 183 million, similar to those for the same quarter last year.

- F.F.O. [(2)] amounted to NIS 63.4 million, NIS 0.60 per share, compared to NIS 56.4 million, NIS 0.65 per share, for the same quarter last year, an increase of 12%. The decrease in F.F.O. per share is due mainly to the revaluation of index-linked loans following the steep rise in the "known" Israeli CPI index during the second quarter of 2006 (reflecting an annual inflation rate of 4.8%) and also to the issuance of capital during the second quarter, which has a dilutory effect in the short term.

- The Company, EQY and FCR raised NIS 520 million in share capital from the public, compared to NIS 18 million in the same quarter last year. As a result of the offerings made by FCR, the Company recorded net gains of NIS 26 million; the Company had no such gains in the same quarter last year.

- In April 2006, EQY closed the sales of income-producing properties and land in Texas to an unconsolidated joint venture (in which EQY has a 20% interest), as well as of other properties to third parties, for an aggregate consideration of NIS 1.7 billion. These sales generated a gross gain of NIS 126 million for the Company, compared to a gain of NIS 5 million in the same quarter last year.

---

(1) N.O.I. – Property rental revenue, net of property operating expenses.
(2) See section 3C.

- Net income, which included higher than usual capital gains and a non-recurring write-down, amounted to NIS 126.5 million, NIS 1.16 per share, compared to NIS 17.6 million, NIS 0.20 per share, in the same quarter last year.

- The Company has written down a long-term investment in the shares of a real estate company listed in the U.S.A. by a gross amount of NIS 99 million, to the price at which said shares were listed at balance sheet date.

- Capital surpluses [(1)] (included within the line item "shareholders' equity", as described above) fell by NIS 43.7 million (NIS 0.41 per share), compared to a rise of NIS 53.8 million (NIS 0.62 per share) in the same quarter last year. The reduction in the capital surpluses is due to the weakening of the U.S. dollar, the Canadian dollar and the euro against the shekel in the second quarter of 2006, compared to the strengthening of the U.S. dollar and the Canadian dollar in the same quarter last year.

- Debt to market capitalization (derived from the market value of the Group's holdings) stood at 52.4% as of June 30, 2006, compared to 55.4% as of June 30, 2005. As of December 31, 2005, this ratio stood at 52.2%.

G. Highlights - First Six Months of 2006 (hereinafter – "the reporting period")

- The Group's investments amounted to NIS 2.9 billion, compared to NIS 1.5 billion in the same period last year. In addition, Citycon invested NIS 645 million in acquiring and developing properties, compared to NIS 33 million in the same period last year.

- Property rental revenue amounted to NIS 1.3 billion, an increase of 25% compared to the same period last year. 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 coming online of properties whose development had been completed and also the increase in the average rent per square meter received on the Group's properties.

- N.O.I. amounted to NIS 847 million, compared to NIS 701 million in the same period last year, an increase of 21%.

- Gross profit amounted to NIS 621 million, compared to NIS 532 million for the same period last year, an increase of 17%.

- Cash inflows from operating activities amounted to NIS 338 million, compared to NIS 326 million for the same period last year, an increase of 4%.

[(1)] Capital surpluses deriving from translation of the financial statements of overseas investee companies operating independently.

- F.F.O.[1] amounted to NIS 133.6 million, NIS 1.29 per share, compared to NIS 110.7 million, NIS 1.29 per share, for the same period last year, an increase of 21%.

- Net income, which included higher than usual capital gains and a non-recurring write-down, amounted to NIS 166.8 million, NIS 1.60 per share, compared to net income (after neutralizing the non-recurring effect of Israel Accounting Standard No. 19) of NIS 62.4 million, NIS 0.70 per share, in the same period last year.

- The Company, EQY and FCR raised NIS 704 million, net, in share capital from the public, compared to NIS 227 million in the same period last year. As a result of the offerings made by EQY and FCR, the Company recorded net gains of NIS 29 million in the reporting period, compared to net gains of NIS 17.2 million in the same period last year.

H. Change in Reported Income Due to Changes in Accounting Standards

Israel Accounting Standard No. 19 – "Taxes on Income", published by the Israel Accounting Standards Board (hereinafter – "the Standard"), was approved in July 2004. The Standard prescribes criteria for the recognition, measurement, presentation and disclosure for taxes on income in financial statements.

In the first quarter of 2005, the Company included in its statement of income (by means of a non-recurring charge) an expense of NIS 56.5 million in respect of the cumulative effect at the beginning of the year of adopting this Standard. Other than as stated above, the Company does not expect the application of the new Standard to have any further effect on its operating results, its financial position and/or its cash flows.

[1] See section 3C.

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

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties, totaled NIS 2.9 billion. The effect of these investments on the operating results will be reflected in full during the remainder of the year.

A. Property Transactions

1. During the reporting period, the Group acquired 20 income-producing properties, with a total G.L.A. of approximately 207 thousand square meters, and 14 plots of land for future development. The total consideration for these acquisitions amounted to NIS 2.5 billion.

2. During the reporting period, the Group invested a total of NIS 0.4 billion in developing new properties and in the redevelopment of existing properties.

3. As of June 30, 2006, EQY has properties being developed that include land for the development of 5 properties on an area of approximately 1.3 million square meters. In addition, EQY is engaged in the redevelopment of 10 properties.

   As of June 30, 2006, FCR has properties being developed that include land for the development of 5 properties on an area of approximately 139 thousand square meters. In addition, FCR is engaged in the development and redevelopment of 6 properties.

   As of June 30, 2006, Gazit Development has 5 plots of land for the development of shopping centers.

   The total cost of the properties and land as described above, which are being developed or are intended for future development, amounts to approximately NIS 1.3 billion. These properties and land did not generate any property rental revenue during the reporting period.

4. As of the end of the second quarter of 2006, EQY's and FCR's average basic monthly rental revenue was US$10.38 per square meter. During the second quarter of 2006, EQY and FCR renewed leases on 66 thousand square meters, while increasing the average basic monthly rent on these leases by 4.8% to an average monthly rent of US$10.93 per square meter, as well as signing new leases on 37 thousand square meters at an average basic monthly rent of US$12.16 per square meter. During the second quarter of 2006, leases on 32 thousand square meters expired, on which the average monthly rent was US$ 9.41 per square meter. The net operating income from the same properties increased by an average of 3.3%, compared to the same period last year.

EQY's and FCR's core properties had an average occupancy rate of 95.1% as of June 30, 2006 (the rate was 94.1% as of June 30, 2005).

5. As of June 30, 2006, RSC's properties had an occupancy rate of 94.5% (the rate was 93.8% as of June 30, 2005).

   During the reporting period, RSC acquired 2 plots of land for the construction of additional senior housing communities, which will encompass approximately 400 units, for a total investment of US$ 8 million.

   In addition, RSC has completed the process of refinancing two mortgages on properties in South Carolina, on which RSC has taken a new, non-recourse loan secured by a mortgage on these properties from a leading institutional provider of mortgages to the senior housing communities sector. The new loan, which is for a 5-year period, is in an amount of US$ 13.5 million. This is close to the amount paid by the Company for the acquisition of these two properties in 2004 and is at the same level of leverage.

6. In the reporting period, Citycon invested € 114 million (approximately NIS 645 million) in the acquisition of income-producing properties, in increasing its stake in existing shopping centers, and in the redevelopment of income-producing properties.

   The net operating income from the same properties increased by 3.2%, compared to the same period last year.

   As of June 30, 2006, Citycon's properties had an occupancy rate of 96.7% (the rate was 96.3% as of June 30, 2005).

B. As to the sale of Company shares and Company stock options to institutional and foreign investors, interested parties and the parent company for a total consideration of NIS 325 million - see note 3A to the financial statements.

C. As to the closing of ProMed's acquisition of a medical office building, with a multi-story parking garage, located in the state of New Jersey in the United States – see note 3B to the financial statements.

D. As to the exercise of stock options into shares of the Company by Clal Insurance, an interested party in the Company – see note 3C to the financial statements.

E. As to the agreement with Clal Finance Underwriting Ltd. for the receipt of services in relation to raising capital, marketing securities, banking and other areas, in consideration for the grant of non-listed stock options – see note 3D to the financial statements.

F. In January 2006, based on the capabilities and the experience accumulated by the Company in North America and Europe, the Company's Board of Directors authorized the Company's management to broaden the scope of operations in Europe and to examine the possibility of extending operations into Asia. To this end, the Board of Directors approved an investment budget of US$ 1.5 billion over the next - 2 years. The investments will be made while maintaining the proper ratios of financial strength that have characterized the Group over the years and will be financed from the Company's own resources, as well as by raising capital and debt on the Israeli stock exchange and overseas financial markets.

   Pursuant to the Board of Directors' decision, the broadening of the scope of operations in Europe and the examination of the possibility of extending operations into Asia will include the Company's existing areas of activity, viz.: mainly shopping centers, as well as senior housing communities and medical office buildings. Within this framework, the Company is currently assessing – in several geographical regions of Europe and Asia – various types of arrangements, including: the acquisition, development and construction of individual buildings, the acquisition of property portfolios and the acquisition of property companies – either by itself or through alliances and joint ventures with appropriate partners.

G. As to the replacement of EQY's credit facility – see note 3E to the financial statements.

H. As to the raising of debt by the Company – see note 3F to the financial statements.

I. As to the issue of debentures by EQY – see note 3G to the financial statements.

J. As to the issue of debentures by FCR – see note 3H to the financial statements.

K. As to the closing of a sale of 29 of EQY's income-producing properties and land in Texas to a joint venture with Investcorp and the sale of 2 other properties in Texas to third parties - see notes 3I and 3Q to the financial statements.

L. As to the issue of 500 thousand Company stock options, together with a wholly owned subsidiary's debentures with a nominal value of NIS 50 million, to institutional investors – see note 3K to the financial statements.

M. As to equity raising by FCR - see note 3L to the financial statements.

N. As to a rights issue made by Citycon – see note 3M to the financial statements.

O. As of June 30, 2006, the balance of long-term investments includes an investment in a real estate company listed in the U.S.A. (hereinafter – "the real estate company"). The total of the original investment, as of June 30, 2006, amounts to NIS 416 million. The market value of this investment, as of June 30, 2006 and as of the date of signing the financial statements, is NIS 317 million and NIS 207 million (at the exchange rate of June 30, 2006), respectively. Having examined and analyzed the fair value of the investment as of June 30, 2006 and based on publicly available data

issued by the real estate company, the Company decided to write-down its investment in the real estate company by an amount of NIS 99 million. Following this write-down, the investment is carried in the Company's books at a value of NIS 317 million as of June 30, 2006, which reflects the real estate company's market value as of balance sheet date. Subsequent to balance sheet date, the Company increased its investment in the real estate company by a further NIS 14 million. The Company will continue to review the value of its investment as before, taking into account its market value and in accordance with other data published by the real estate company in the future.

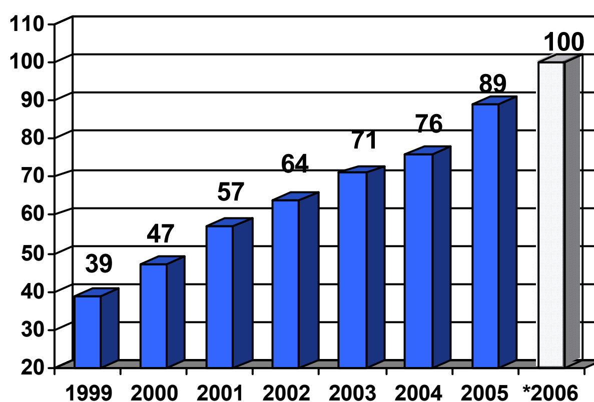
P. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. In November 2005, the Company decided that the dividend to be declared in 2006 will not be less than NIS 0.25 per share per quarter (NIS 1.00 per share on an annualized basis).

The aforesaid 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, including the appropriation of its income for other purposes and the revision of this policy.

The Company's dividend growth in the years 1999-2006 is shown in the graph below:

Agurot (hundredths of a NIS) per share



* Forecast

3. A. Results of Operations

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands (other than net earnings per share data)				
Property rental revenue	1,286,822	1,030,967	625,537	527,366	2,195,821
Property rental operating expenses	439,742	330,115	213,717	166,323	717,762
Property rental depreciation	226,207	168,628	113,276	87,939	360,800
Gross profit	620,873	532,224	298,544	273,104	1,117,259
General and administrative expenses	120,378	(*) 84,951	65,558	(*) 42,804	189,102
Operating income	500,495	447,273	232,986	230,300	928,157
Financing expenses, net	378,867	288,007	207,780	145,056	622,058
	121,628	159,266	25,206	85,244	306,099
Other income, net	324,977	59,392	317,251	16,050	122,353
Income before taxes on income	446,605	218,658	342,457	101,294	428,452
Taxes on income	48,593	45,496	24,319	23,123	74,545
Income after taxes on income	398,012	173,162	318,138	78,171	353,907
Equity in earnings of affiliates	152,799	26,913	115,127	15,494	129,960
Minority interest in earnings of subsidiaries	(384,059)	(*) (137,658)	(306,801)	(*) (76,082)	(295,965)
Net income before cumulative effect	166,752	62,417	126,464	17,583	187,902
Cumulative effect as of the beginning of the period of change in accounting principle (see section 1H above)	-	(56,525)	-	-	(56,525)
Net income	166,752	5,892	126,464	17,583	131,377
Net earnings per share of NIS 1 par value (in reported NIS)					
Fully diluted earnings per share					
Before cumulative effect	1.60	0.70	1.16	0.20	2.05
Cumulative effect as of the beginning of the period of change in accounting principle	-	(0.66)	-	-	(0.63)
Net earnings	1.60	0.04	1.16	0.20	1.42
Number of shares used in computing fully diluted earnings per share	103,406	85,974	106,016	86,346	89,791

(*) Reclassified in accordance with Israel Accounting Standard No. 24 – see note 2D(4) to the financial statements.

B. Analysis of Results of Operations for the Second Quarter of 2006

Property rental revenue

The 19% increase compared with the same period last year is due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the coming online of properties whose development had been completed and also the increase in the average rent per square meter received on the Group's properties.

Rental property operating expenses

The increase in rental operating expenses, compared to the same period last year, stems from the increased number of properties, as referred to above. Rental property operating expenses, as a percentage of property rental revenue, rose to 34.2% from 31.5% for the same period last year. This is mainly due to the relatively greater share in these items that now relates to FCR and RSC, whose operating expenses represent a higher percentage of revenue than EQY's.

Rental property depreciation

The increase in rental property depreciation expenses, compared to the same period last year, stems from the increased number of properties, as referred to above, as well as from the allocation of certain property costs to the term of the tenants' leases, which is shorter than the lifespan of the properties. Depreciation expenses as a percentage of property rental revenue rose to 18.1% from 16.7% for the same period last year.

Gross profit

Gross profit amounted to NIS 299 million (47.7% of property rental revenue); this compares to NIS 273 million (51.8% of property rental revenue) for the same period last year – an increase of 9%. The reduction in gross profit as a percentage of property rental revenue is attributable to the increase in rental property depreciation as a percentage of property rental revenue, and FCR's and RSC's relatively greater share in this item, as explained above.

General and administrative expenses

General and administrative expenses as a percentage of total revenues amount to 6.2%, compared to 7.7% in the same period last year. This reduction is mainly due to the line item "other income".

Financing expenses, net

The change in financing expenses stems from the following factors:

1. An increase in the Group's loans from an average balance of NIS 11.6 billion in the second quarter of 2005 to an average balance of NIS 15 billion in the second quarter of 2006. Interest expenses for the quarter reflect an average nominal interest rate of approximately 6% per annum on the Group's indebtedness.

2. The 1.2% rise in the "known" Israeli consumer price index ("C.P.I.") (reflecting an annual inflation rate of 4.8%) led to an increase in financing expenses, due to the revaluation of loans that are linked to the changes in the Israeli C.P.I., in the amount of NIS 12.1 million (NIS 0.11 per share), compared to NIS 3.1 million (NIS 0.04 per share) in the same period last year.

3. The financing expenses are net of income of NIS 5.9 million from investments in listed securities, compared to NIS 24.8 million received in the same period last year.

Other income, net

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

The gain resulting from the dilution of holdings in consolidated subsidiaries amounts to a total of NIS 25.7 million. The Company had no such gains in the same period last year.

Additionally, the sale of income-producing properties and plots of land by EQY (see section 2K above) produced a gross gain for the Group of NIS 390 million (the Company's share being NIS 126 million), compared to the gain of NIS 14 million (the Company's share being NIS 5 million) from the sale of properties in the same period last year.

Furthermore, the Company has written down a long-term investment in the shares of a real estate company listed in the U.S.A by a gross amount of NIS 99 million, to the price at which said shares were quoted at balance sheet date (see section 2O above).

Equity in earnings of affiliates

The increase in this item is primarily attributable to the Company's equity in the earnings of Citycon in the amount of NIS 107.7 million, compared to NIS 15.5 million in the same period last year.
In the second quarter of 2006, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of € 59.8 million (approximately NIS 339 million) in

their gross value (the Company's share, net of related taxes, being approximately NIS 92 million).

C. F.F.O. [1] and F.F.O. per share

The Company's practice is to publish its F.F.O. results (which is the net reported income, after neutralizing non-recurring income and expenditure (including capital gains from the sale of properties and the gain from the dilution of its holdings in consolidated subsidiaries) and with the addition of the Company's share of depreciation of rental properties and amortization), and F.F.O. per share, as is already the accepted practice in those countries in which the Company operates, and in accordance with the position paper issued by the NAREIT – the U.S.-based National Association of Real Estate Investment Trusts.

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

The Company is of the opinion that F.F.O. and F.F.O. 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.

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

The table below presents the computation of the Company's F.F.O. and F.F.O. per share for the periods stated:

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31,
	2006	2005	2006	2005	2005
	Reported NIS in thousands (other than F.F.O. per share data)				
Net income	166,752	[(1)]62,417	126,464	17,583	[(1)]187,902
Adjustments to net income:					
Depreciation and amortization	[(2)]202,840	69,860	[(2)]151,602	36,658	153,685
Gains from dilution in holdings of consolidated subsidiaries	(28,680)	(38,798)	(25,663)	-	(75,264)
Gains from the sale of properties	(118,918)	(7,130)	(118,310))	(4,976)	(13,782)
Losses from discontinued operations	-	12,059	-	9,193	12,059
Deferred tax expenses	15,643	16,748	11,644	6,479	22,279
Equity in earnings of affiliates[(3)]	(152,799)	(26,913)	(115,127)	(15,494)	(129,960)
Equity in F.F.O. of affiliates	39,376	20,140	24,882	6,701	50,758
Other adjustments[(4)]	9,423	2,362	7,865	266	9,075
Total adjustments to net income	(33,115)	48,328	(63,107)	38,827	28,850
F.F.O.	133,637	110,745	63,357	56,410	216,752
Primary F.F.O. per share[(5)]	1.30	1.29	0.60	0.65	2.43
Fully diluted F.F.O. per share[(5)]	1.29	1.29	0.60	0.65	2.41
Number of shares used in computing fully diluted earnings per share	103,406	85,974	106,016	86,346	89,791

(1) After neutralizing the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19) (see section 1H above).

(2) Includes the adjustment to the value of a long-term investment, see section 2O above. .

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

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

(5) In conformance with Israel Accounting Standard No. 21, which has been applied for the first time in the first quarter of 2006.

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.

As of June 30, 2006, the liquid assets available to the Group, including short-term investments, totaled NIS 432 million, compared to NIS 351 million as of December 31, 2005. In addition, as of June 30, 2006, the Group had unutilized credit facilities available for immediate drawdown of NIS 1.8 billion, compared to NIS 2.1 billion as of December 31, 2005.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 2.3 billion.

Current Assets

Current assets, as of June 30, 2006, totaled NIS 0.8 billion, compared to NIS 1.9 billion as of December 31, 2005. The reduction in current assets is due to closing the sale of rental properties, which were held for disposal, that were previously carried at a net cost of NIS 1.3 billion (see section 2K above).

Investments in Affiliates

Investments in affiliates, amounting to NIS 1,035 million as of June 30, 2006, relate primarily to the investment in 60.8 million shares of Citycon; investments in affiliates as of December 31, 2005 amounted to NIS 722 million. During the reporting period, the Company acquired additional Citycon shares, by means of purchases on the stock exchange and through participation in a rights issue, at an overall cost of NIS 164 million.

Long-Term Investments

Long-term investments, as of June 30, 2006, totaled NIS 969 million, compared to NIS 650 million as of December 31, 2005.

The increase in this item is derived primarily from the acquisition of listed shares and debentures in companies active in the Group's areas of activity or in synergetic businesses, in regions where it is already active. Among the investments included in the balance, as of June 30, 2006, are an investment in 3.7 million shares of DIM (see note 3J to the financial statements) and also an investment in a real state company, which is listed in the U.S.A (see section 2O above).

Fixed Assets, Net

Net fixed assets, as of June 30, 2006, totaled NIS 19.3 billion, compared to NIS 17 billion at the end of 2005.

In the reporting period, the Group acquired income–producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 2.9 billion. In addition, the weakening of the U.S. dollar on the one hand, and the strengthening of the Canadian dollar and the euro on the other, against the shekel contributed a decrease of NIS 0.3 billion to this item. Depreciation expenses for the reporting period amounted to NIS 226 million.

Current Liabilities

Current liabilities, as of June 30, 2006, totaled NIS 1.5 billion, compared to NIS 1.9 billion at the end of 2005. The balance mainly consists of the line item "credit from banks and other credit granting institutions", which mainly consist of the current maturities of long-term liabilities in the amount of NIS 0.9 billion, compared to NIS 1.2 billion at the end of 2005.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.2 billion (at the end of 2005 - 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 June 30, 2006 totaled NIS 14.1 billion, compared to NIS 12.3 billion at the end of 2005.

The increase in this item derives principally from the taking of new loans and the issuance of debentures, intended principally for financing investments in fixed assets and the acquisition of long-term investments.

Shareholders' Equity

The change in shareholders' equity from NIS 1,908 million as of December 31, 2005 to NIS 2,486 million as of June 30, 2006 stems mainly from the sale of treasury stock and stock options to institutional investors amounting to NIS 375 million, from the exercise of stock options into shares amounting to NIS 72 million, from the income for the reporting period amounting to NIS 167 million, and from the increase in the item "other capital surpluses" amounting to NIS 16 million. These were partly offset by the dividends of NIS 53 million paid and declared by the Company.

Shareholders' equity per share as of June 30, 2006 amounted to NIS 22.9 per share, compared to NIS 19.4 per share as of December 31, 2005. This is after a dividend distribution of NIS 0.50 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 61.9% as of June 30, 2006, compared to 61.5% and 63.4% as of December 31, 2005 and June 30, 2005, respectively.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 52.4% as of June 30, 2006, compared to 52.2% and 55.4% as of December 31, 2005 and June 30, 2005, respectively.

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

Cash Flows

Cash inflows from operating activities for the reporting period and for the second quarter of 2006 totaled NIS 338 million and NIS 183 million, respectively, compared to NIS 326 million and NIS 186 million, respectively, for the same periods last year.

In addition, in order to fund the Group's activities during the reporting period and during the second quarter of 2006, the Company and its consolidated subsidiaries raised capital totaling NIS 704 million and NIS 520 million, respectively, took long-term loans and issued debentures in a net amount of NIS 1,427 million and NIS 665 million, respectively, and sold fixed assets totaling NIS 1,694 million and NIS 1,664 million, respectively. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which, in the reporting period and in the second quarter, totaled NIS 2,858 million and NIS 893 million, respectively in the reporting period, for further investments in affiliates, listed shares and debentures and long-term investments, in an aggregate net amount of NIS 832 million and NIS 543 million, respectively, and for the buyback by EQY of its own shares in an amount of NIS 225 million in the second quarter of 2006.

5. Donations

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

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

The Company donates to the “College for All” charity – a not-for-profit organization working to close the gaps in education by means of creating equal opportunities for excellence. This vision is being realized 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. In this connection, the Company has pledged to provide assistance to a group of students for a period of five years.

During the reporting period, the Group’s donations amounted to NIS 1,501 thousand.

6. Additional Information and Subsequent Events

A. From balance sheet date through the date of signing the financial statements, the Group invested a total of NIS 0.5 billion in acquiring new properties and land for future development.

B. As to the raising of debt by the Company offered under a shelf prospectus - see note 4A to the financial statements.

C. As to the issue of convertible debentures by Citycon and the Company’s participation in this issuance - see note 4B to the financial statements.

D. As to the raising of debt by FCR - see note 4C to the financial statements.

E. As to the raising of debt by EQY - see note 4D to the financial statements.

F. In July and August 2006, the Company donated in excess of NIS 1 million to institutes and charities providing humanitarian aid to the population living in northern Israel.

7. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company’s market risks are Mr. Dori Segal, the Company’s president, and Mr. Gil Kotler, the Company’s Chief Financial Officer. Since the publication of the Company’s annual report for 2005 on March 20, 2006, there have been no significant changes in the market risks or the way in which they are managed.

Attached as Appendix I is the Company’s primary linkage balance sheet as of June 30, 2006.

August 15, 2006		
Date of approval of the Directors’ Report	Chaim Katzman Chairman of the Board of Directors	Dori Segal President and Director

Appendix I to Board of Directors' Report on the State of the Company's Affairs

Primary Linkage Balance Sheet as of June 30, 2006

	Linked to the consumer price index	In unlinked NIS	In US$ or linked thereto	In C$ or linked thereto	In euros	Unlinked	Total
	Reported NIS in thousands						
Monetary assets							
Cash and cash equivalents	-	9,497	113,507	35,021	9,497	-	167,522
Short-term investments	-	-	228,922	1,660	-	33,611	264,193
Tenants, accounts receivable and other debit balances	10,683	1,949	96,373	138,589	13,324	60,942	321,860
Long-term investments	3,993	-	1,661	10,403	-	953,194	969,251
Long-term loans and debit balances	2,756	-	68,976	42,170	-	-	113,902
	17,432	11,446	509,439	227,843	22,821	1,047,747	1,836,728
Non-monetary assets[1]	-	576,336	8,576,361	9,839,342	1,396,448	242,824	20,631,311
	17,432	**587,782**	**9,085,800**	**10,067,185**	**1,419,269**	**1,290,571**	**22,468,039**
Liabilities							
Short-term credit from banks and other credit granting institutions	-	1	38,341	66,465	202	-	105,009
Trade and other payables and other credit balances	4,103	40,021	182,868	294,070	15,193	24,084	560,339
Debentures	924,679	-	3,234,445	1,041,033	180,507	-	5,380,664
Convertible debentures redeemable in shares of a consolidated subsidiary	-	-	-	344,015	-	-	344,015
Liabilities to financial institutions and others	-	91,840	3,133,700	5,471,033	392,548	-	9,089,121
Deposits from tenants	1,199	-	42,101	23,207	-	-	66,507
Liabilities for employee rights upon retirement	-	164	-	-	-	-	164
Deferred taxes	-	-	-	-	-	107,449	107,449
	929,981	132,026	6,631,455	7,239,823	588,450	131,533	15,653,268
Receipts in respect of conversion options in consolidated subsidiary	-	-	-	10,683	-	-	10,683
Proceeds from issuance of stock options of subsidiaries	-	-	1,207	2,070	-	-	3,277
Minority interests	-	-	-	-	-	4,314,960	4,314,960
Shareholders' equity	-	-	-	-	-	2,485,851	2,485,851
	929,981	**132,026**	**6,632,662**	**7,252,576**	**588,450**	**6,932,344**	**22,468,039**

[1] Mainly fixed assets, net.

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

UNAUDITED

INDEX

	Page
Review of Unaudited Interim Consolidated Financial Statements	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Statements of Changes in Shareholders' Equity	6 - 10
Consolidated Statements of Cash Flows	11 - 13
Notes to Interim Consolidated Financial Statements	14 - 29

- - - - - - - -

ERNST & YOUNG

■ **Kost Forer Gabbay & Kasierer**
3 Aminadav St.
Tel-Aviv 67067, Israel

■ Phone: 972-3-6232525
Fax: 972-3-5622555

The Board of Directors
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements for the six and three months ended June 30, 2006

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of June 30, 2006, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 47.8% of total consolidated assets as of June 30, 2006, and whose revenues constitute approximately 51% and 52.4% of total consolidated revenues for the six and three months then ended, respectively.

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

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

Tel-Aviv, Israel
August 15, 2006

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	167,522	99,655	282,212
Short-term investments	264,193	148,022	68,691
Tenants	98,890	103,905	110,732
Accounts receivable	222,970	173,775	188,952
Rental properties held for sale	88,735	1,980,684	1,298,902
	842,310	2,506,041	1,949,489
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	1,034,718	484,766	721,864
Long-term investments	969,251	359,168	650,056
Long-term loans and receivables	113,902	101,038	116,503
	2,117,871	944,972	1,488,423
FIXED ASSETS:			
Cost	20,443,399	15,564,759	18,071,470
Less - accumulated depreciation	1,178,365	839,153	1,026,204
	19,265,034	14,725,606	17,045,266
OTHER ASSETS AND DEFERRED CHARGES, NET	242,824	270,370	318,546
	22,468,039	18,446,989	20,801,724

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	968,584	1,755,325	1,291,091
Trade payables	140,687	124,077	207,621
Other accounts payable	392,539	332,887	345,404
Dividend declared	27,113	-	22,610
	1,528,923	2,212,289	1,866,726
LONG-TERM LIABILITIES:			
Debentures	4,976,411	3,622,034	4,176,037
Convertible debentures redeemable into shares of subsidiary	344,015	-	-
Liabilities to financial institutions and others	8,629,799	6,649,413	7,951,227
Tenants' security deposits	66,507	282,285	65,068
Accrued severance pay, net	164	1,161	164
Deferred taxes, net	107,449	70,986	85,981
	14,124,345	10,625,879	12,278,477
CONVERTIBLE DEBENTURES REDEEMABLE INTO SHARES OF SUBSIDIARY	-	225,160	351,827
RECEIPTS FROM CONVERSION OPTION IN SUBSIDIARY	10,683	-	-
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN SUBSIDIARIES	3,277	*) 101	*) 1,284
MINORITY INTEREST	4,314,960	*) 4,010,430	*) 4,395,154
SHAREHOLDERS' EQUITY	2,485,851	1,373,130	1,908,256
	22,468,039	18,446,989	20,801,724

*) Restated, see Note 2b(4).

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

August 15, 2006			
Date of approval of the financial statements	Chaim Katzman Chairman of the Board	Dori Segal CEO and Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	1,286,822	1,030,967	625,537	527,366	2,195,821
Rental property operating expenses	439,742	330,115	213,717	166,323	717,762
Rental property depreciation	226,207	168,628	113,276	87,939	360,800
Gross profit	620,873	532,224	298,544	273,104	1,117,259
General and administrative expenses	120,378	*) 84,951	65,558	*) 42,804	189,102
Operating income	500,495	447,273	232,986	230,300	928,157
Financial expenses, net	378,867	288,007	207,780	145,056	622,058
	121,628	159,266	25,206	85,244	306,099
Other income, net	324,977	59,392	317,251	16,050	122,353
Income before taxes on income	446,605	218,658	342,457	101,294	428,452
Taxes on income	48,593	45,496	24,319	23,123	74,545
Income after taxes on income	398,012	173,162	318,138	78,171	353,907
Equity in earnings of affiliates	152,799	26,913	115,127	15,494	129,960
Minority interest in earnings of subsidiaries	(384,059)	*) (137,658)	(306,801)	*) (76,082)	(295,965)
Income before cumulative effect	166,752	62,417	126,464	17,583	187,902
Cumulative effect as of the beginning of the period of change in accounting principle, net (Note 2b)	-	(56,525)	-	-	(56,525)
Net income	166,752	5,892	126,464	17,583	131,377
Net earnings per share (in reported NIS):					
Basic earnings per share:					
Before cumulative effect	1.66	**) 0.72	1.21	**) 0.21	2.12
Cumulative effect as of the beginning of the period of change in accounting principles	-	**) (0.66)	-	-	(0.63)
Net earnings	1.66	0.06	1.21	0.21	1.49
Diluted earnings per share:					
Before cumulative effect	1.60	0.70	1.16	0.20	2.05
Cumulative effect as of the beginning of the period of change in accounting principles	-	(0.66)	-	-	(0.63)
Net earnings	1.60	0.04	1.16	0.20	1.42

*) Restated, see Note 2b(4).
**) Restated, see Note 2b(2).

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at the beginning of the period (audited)	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,295	69,862	-	-	-	-	-	-	-	72,157
Sale of shares held by the Company	-	209,476	-	-	-	-	-	157,731	-	367,207
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	621	-	-	-	-	621
Revaluation of derivatives in affiliate to market value	-	-	-	13,155	-	-	-	-	-	13,155
Net income	-	-	-	-	-	166,752	-	-	-	166,752
Cost of share-based payment (1)	-	-	-	2,492	-	-	-	-	-	2,492
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	-	85	85
Revaluation of loans for purchase of shares	-	-	-	-	-	60	-	-	(60)	-
Dividend paid	-	-	-	-	-	-	(25,419)	-	-	(25,419)
Dividend declared	-	-	-	-	-	(27,113)	-	-	-	(27,113)
Dividend declared (2)	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at the end of the period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851

(1) See Note 2b(4).
(2) See Note 4e.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at the beginning of the period (audited)	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	2,380	50,179	-	-	-	-	-	-	52,559
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	58,864	-	-	-	-	58,864
Revaluation of derivatives in affiliate to market value	-	-	(9,746)	-	-	-	-	-	(9,746)
Cost of share-based payment	-	-	*) 221	-	-	-	-	-	*) 221
Net income	-	-	-	-	*) 5,892	-	-	-	*) 5,892
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	341	341
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(112)	(112)
Dividend paid	-	-	-	-	(19,904)	(17,200)	-	-	(37,104)
Dividend declared	-	-	-	-	(21,499)	21,499	-	-	-
Balance at the end of the period	146,394	973,079	(10,549)	183,838	184,062	21,499	(116,004)	(9,189)	1,373,130

*) Restated, see Note 2b(4).

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at the beginning of the period	163,055	1,506,422	-	15,809	301,647	276,311	27,107	(181,056)	(10,774)	2,098,521
Exercise of stock options into shares	21	(21)	-	-	-	-	-	-	-	-
Sale of shares held by the Company	-	182,622	-	-	-	-	-	135,628	-	318,250
Issuance of stock options	-	-	7,658	-	-	-	-	-	-	7,658
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	-	(43,666)	-	-	-	-	(43,666)
Revaluation of derivatives in affiliate to market value	-	-	-	3,743	-	-	-	-	-	3,743
Net income	-	-	-	-	-	126,464	-	-	-	126,464
Cost of share-based payment	-	-	-	1,994	-	-	-	-	-	1,994
Revaluation of loans for purchase of shares	-	-	-	-	-	19	-	-	(19)	-
Dividend paid	-	-	-	-	-	27,107	(27,107)	-	-	-
Dividend declared	-	-	-	-	-	(27,113)	-	-	-	(27,113)
Dividend declared (2)	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at the end of the period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851

(1) See Note 2b(4).
(2) See Note 4e.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at the beginning of the period	145,807	961,187	(355)	130,044	188,078	19,798	(116,004)	(9,096)	1,319,459
Exercise of stock options into shares	587	11,892	-	-	-	-	-	-	12,479
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	53,794	-	-	-	-	53,794
Revaluation of derivatives in affiliate to market value	-	-	(10,415)	-	-	-	-	-	(10,415)
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(93)	(93)
Cost of share-based payment	-	-	*) 221	-	-	-	-	-	*) 221
Net income	-	-	-	-	*) 17,583	-	-	-	*) 17,583
Dividend paid	-	-	-	-	(100)	(19,798)	-	-	(19,898)
Dividend declared	-	-	-	-	(21,499)	21,499	-	-	-
Balance at the end of the period	146,394	973,079	(10,549)	183,838	184,062	21,499	(116,004)	(9,189)	1,373,130

*) Restated, see Note 2b(4).

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2005 (audited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of year	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	14,267	330,964	-	-	-	-	(196,782)	-	148,449
Issuance of share capital	2,500	82,500	-	-	-	-	-	-	85,000
Sale of shares held by the Company	-	73,321	-	-	-	-	109,627	(1,775)	181,173
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	631	631
Revaluation of loans for purchase of shares	-	-	-	-	256	-	-	(256)	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	132,386	-	-	-	-	132,386
Revaluation of derivatives in affiliate to market value	-	-	5,828	-	-	-	-	-	5,828
Cost of share-based payment	-	-	1,095	-	-	-	-	-	1,095
Net income	-	-	-	-	131,377	-	-	-	131,377
Dividend paid	-	-	-	-	(40,088)	(17,200)	-	-	(57,288)
Dividend declared	-	-	-	-	(22,610)	-	-	-	(22,610)
Dividend declared	-	-	-	-	(25,419)	25,419	-	-	-
Balance at end of year	160,781	1,409,685	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2006	2005	2006	2005	2005
	Unaudited				Audited
	Reported NIS in thousands				
Cash flows from operating activities:					
Net income	166,752	*) 5,892	126,464	*) 17,583	131,377
Adjustments to reconcile net income to net cash provided by operating activities (a)	170,963	*) 319,905	56,681	*) 168,277	530,044
Net cash provided by operating activities	337,715	325,797	183,145	185,860	661,421
Cash flows from investing activities:					
Investment in newly consolidated companies (b)	(20,425)	(246)	(20,425)	(246)	58
Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method (c)	-	-	-	-	87,454
Investments in fixed assets	(2,672,903)	(1,422,476)	(707,834)	(968,507)	(2,854,007)
Repayment of loans to partners in property under development, net	15,509	9,083	2,504	5,586	11,589
Proceeds from sale of fixed assets	1,693,580	119,843	1,664,016	56,828	195,419
Long-term loans granted	(2,593)	-	(2,593)	-	(19,532)
Repayment of long-term loans granted	25,767	100	20,690	43	1,175
Short-term investments, net	(197,413)	(21,192)	(199,364)	(23,050)	44,524
Purchase of marketable securities and long-term investments	(570,263)	(203,901)	(221,446)	(60,990)	(808,614)
Investment in investees	(167,882)	-	(158,140)	-	(104,844)
Proceeds from realization of long-term investments	104,708	47,340	36,265	33,372	401,331
Withdrawal of long-term deposits	1,563	-	525	-	7,058
Net cash provided by (used in) investing activities	(1,790,352)	(1,471,449)	414,198	(956,964)	(3,038,389)
Cash flows from financing activities:					
Repayment of loans granted for the purchase of Company and subsidiary's shares	85	341	-	-	631
Issuance of share capital, net	-	-	-	-	85,000
Issuance of stock options	7,658	-	7,658	-	-
Exercise of stock options into shares	72,157	52,559	-	12,479	148,449
Sale of shares held by the Company	367,207	-	318,250	-	181,173
Issuance of shares to minorities in subsidiaries, net	256,734	174,784	193,766	5,064	246,686
Dividend paid	(48,029)	(37,104)	(25,419)	(19,898)	(57,288)
Dividend paid to minorities in subsidiary	(390,457)	(185,685)	(287,423)	(105,158)	(376,607)
Receipt of long-term loans	1,682,128	845,459	624,839	498,531	2,281,265
Repayment of long-term loans	(1,250,119)	(983,306)	(766,003)	(691,988)	(1,976,536)
Withdrawal (repayment) of long-term credit lines from banks, net	(154,043)	186,524	(417,322)	316,666	(345,343)
Redemption and early redemption of debentures	(352,460)	(14,789)	(218,976)	(924)	(18,199)
Sale of Company's debentures by subsidiaries	300,622	11,036	185,711	-	277,551
Short-term bank credit, net	13,931	(38,774)	24,802	(27,221)	47,575
Issuance of debentures	1,059,018	1,170,134	68,539	856,634	2,095,650
Purchase of subsidiary's shares by subsidiary	(225,435)	-	(225,435)	-	-
Decrease in tenants' security deposits, net	-	(785)	-	(795)	(785)
Net cash provided by (used in) financing activities	1,338,997	1,180,394	(517,013)	843,390	2,589,222
Effect of exchange rate differences from cash balances of foreign autonomous entities	(1,050)	12,106	(5,071)	7,881	17,151
Increase (decrease) in cash and cash equivalents	(114,690)	46,848	75,259	80,167	229,405
Cash and cash equivalents at beginning of period	282,212	52,807	92,263	19,488	52,807
Cash and cash equivalents at end of period	167,522	99,655	167,522	99,655	282,212

*) Restated, see Note 2b(4).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2006	Six months ended June 30, 2005	Three months ended June 30, 2006	Three months ended June 30, 2005	Year ended December 31, 2005
	Unaudited				Audited
	Reported NIS in thousands				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Minority interest in earnings of subsidiaries	384,059	*) 137,658	306,801	*) 76,082	295,965
Gain from realization of investment in jointly controlled entity	-	-	-	-	(1,199)
Equity in earnings of affiliates, net of dividend received	(109,920)	7,953	(111,998)	19,372	(95,102)
Depreciation	206,075	164,842	102,293	84,319	350,100
Write-down of long-term investments	98,840	-	98,840	-	-
Gain from realization and revaluation of marketable securities, net	(8,958)	(24,523)	(3,900)	(20,548)	(54,895)
Deferred taxes, net	19,774	79,047	7,801	14,676	89,153
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(1,174)
Adjustment differences on monetary assets and long-term monetary liabilities, net	28,038	14,904	20,986	18,524	24,044
Amortization of other assets and deferred charges	26,197	8,950	20,120	3,736	14,954
Capital gain	(375,359)	(22,109)	(371,992)	(15,146)	(46,795)
Increase in accrued severance pay, net	-	119	-	45	119
Gain from issuance of shares to third party, net	(29,191)	(35,728)	(25,916)	-	(71,253)
Cost of share-based payment	4,505	*) 322	3,361	*) 322	2,379
Bad debts	812	-	812	-	-
Changes in asset and liability items:					
Decrease (increase) in tenants and accounts receivable	(58,574)	(59,318)	12,429	(47,436)	(121,620)
Increase (decrease) in trade payables and other accounts payable	(18,296)	43,108	(2,545)	31,561	135,683
Increase (decrease) in tenants' security deposits, net	2,961	4,680	(411)	2,770	9,685
	170,963	319,905	56,681	168,277	530,044

*) Restated, see Note 2b(4).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2006	Six months ended June 30, 2005	Three months ended June 30, 2006	Three months ended June 30, 2005	Year ended December 31, 2005
	Unaudited				Audited
	Reported NIS in thousands				
(b) Investment in newly consolidated companies:					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(1,898)	(179)	(1,898)	(179)	(8,746)
Current liabilities	24,694	31,499	24,694	31,499	35,566
	22,796	31,320	22,796	31,320	26,820
Fixed assets, long-term investments and loans (mainly real estate)	(185,579)	(47,486)	(185,579)	(47,486)	(223,888)
Other assets	-	-	-	-	(1,237)
Long-term liabilities	142,358	16,339	142,358	16,339	198,782
Minority interest	-	(419)	-	(419)	(419)
	(43,221)	(31,566)	(43,221)	(31,566)	(26,762)
	(20,425)	(246)	(20,425)	(246)	58
(c) Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method:					
The jointly controlled entity's assets and liabilities at date of realization:					
Current assets	-	-	-	-	1,926
Current liabilities	-	-	-	-	(38,868)
	-	-	-	-	(36,942)
Fixed assets, long-term investments and loans (mainly real estate)	-	-	-	-	348,273
Other assets	-	-	-	-	22,500
Long-term liabilities	-	-	-	-	(251,536)
Minority interest	-	-	-	-	3,960
	-	-	-	-	123,197
Capital gain from realization of investment in jointly controlled entity	-	-	-	-	1,199
	-	-	-	-	87,454
(d) Significant non-cash operations:					
Conversion of convertible debentures into subsidiary's shares	-	260,000	-	-	492,782
Dividend declared	27,113	-	27,113	-	22,610
Sale of treasury shares to employees against long-term loans	-	-	-	-	1,775

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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2006, and for the six and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2005 and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

b. Initial adoption of new Accounting Standards:

   1. Initial adoption of Accounting Standard No. 20 (Revised) regarding the accounting for goodwill and intangible assets upon acquisition of investee:

      On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee which is not a subsidiary, including a company under joint control. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated.

      The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: allocating the excess of cost of an investment in an investee also to the investee's identifiable intangible assets; distinguishing between intangible assets with a finite useful life and intangible assets with an indefinite useful life; immediate recognition as a gain in the statement of income of the balance of negative goodwill arising upon acquisition and remaining after deduction from the cost of the investee's intangible assets and non-monetary assets; the discontinuance of the systematic amortization of goodwill and intangible assets with an indefinite useful life; assessment for impairment of goodwill in respect of a subsidiary or jointly controlled company and of intangible assets with an indefinite useful life on an annual basis, or more frequently, if there are indications of impairment; distinguishing between goodwill relating to the acquisition of a subsidiary and a jointly controlled company as opposed to that of an affiliate in respect of the assessment of impairment, such that impairment of goodwill for an affiliate is evaluated in the context of the assessment of impairment of the investment as a whole. Impairment is accounted for in accordance with Accounting Standard No. 15, "Impairment of Assets".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard:

The Company discontinued the systematic amortization of goodwill which amounted to approximately NIS 1,813 thousand, NIS 911 thousand and NIS 3,403 thousand for the six and three months ended June 30, 2005, and for the year ended December 31, 2005, respectively (the effect on the Company's net income for the six and three months ended June 30, 2005 and for the year ended December 31, 2005 amounted to approximately NIS 800 thousand, NIS 402 thousand and NIS 1,328 thousand, respectively). The balance of goodwill as of January 1, 2006 is NIS 42,652 thousand.

2. Initial adoption of Accounting Standard No. 21 regarding earnings per share:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 21, "Earnings per Share" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

According to the Standard, earnings per share are computed based on the number of ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are only included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share. In addition, convertible securities which are converted during the period, are included in diluted earnings per share up to the date of conversion and are included in basic earnings per share from that date. Pursuant to the Standard, options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares minus the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also included adjustments to earnings.

The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard, the comparative data of earnings per share relating to previous periods have been restated as follows:

	Six months ended June 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
		Reported NIS	
Basic earnings per share:			
Before cumulative effect	0.76	(0.04)	0.72
Cumulative effect as of the beginning of the period of change in accounting principles	(0.63)	(0.03)	(0.66)
	0.13	(0.07)	0.06

	Three months ended June 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
		Reported NIS	
Basic earnings per share:			
Before cumulative effect	0.24	(0.03)	0.21
Cumulative effect as of the beginning of the period of change in accounting principles	-	-	-
	0.24	(0.03)	0.21

	Year ended December 31, 2005 (audited) *)		
	As previously reported	The change	As presented in these financial statements
		Reported NIS	
Basic earnings per share:			
Before cumulative effect	2.13	(0.01)	2.12
Cumulative effect as of the beginning of the period of change in accounting principles	(0.60)	(0.03)	(0.63)
	1.53	(0.04)	1.49

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The comparative data of diluted earnings per share for previous periods are presented in these financial statements for the first time.

*) Data of earnings per share for the year ended December 31, 2005 were restated in the context of the publication of the financial statements for the three months ended March 31, 2006.

3. Initial adoption of Accounting Standard No. 22 regarding financial instruments: disclosure and presentation:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes principles for the presentation and disclosure of financial instruments and supersedes Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated or reclassified.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: transaction costs in respect of a financial liability are deducted from the liability and are taken into account in the computation of the effective interest rate; upon the issuance of several types of financial instruments in a single unit (shares, debentures and warrants), the components of the unit, including related transaction costs, are classified separately upon initial recognition into the various financial instruments based on their fair value; compound financial instruments that include both a liability and an equity component (such as convertible debentures) are bifurcated between the equity component (receipts from conversion option) and the liability component and each component is classified separately (net of transaction costs attributed to the different components).

The Standard supersedes the provisions of Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which in certain circumstances, an investor was required to record a provision for a loss resulting from a decrease in its holdings in an investee, due to the probable conversion of convertible instruments issued by the investee ("loss provision").

As a result of the initial adoption of the provisions of the Standard:

a) On January 1, 2006, the Company recorded the equity component of debentures in a subsidiary as "receipts from conversion option in subsidiary" thereby increasing said item and reducing convertible debentures redeemable into shares of subsidiary in the amount of approximately NIS 10,608 thousand.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Transaction costs in respect of a financial liability are deducted from the liability and taken into account in the computation of the effective interest rate. The balance of issuance expenses, amounting to NIS 80 million as of December 31, 2005, in respect of financial liabilities, was offset on January 1, 2006, from the balance of the financial liabilities as presented in the balance sheet as of December 31, 2005.

4. Initial adoption of Accounting Standard No. 24 regarding share-based payment:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 24, "Share-Based Payment" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other requirements for three types of share-based transactions:

a) Equity-settled share-based payment transactions;
b) Cash-settled share-based payment transactions;
c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

For equity-settled share-based payment transactions, the Standard is applicable to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006. The Standard is also applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, comparative data in the financial statements for 2005 are to be restated in order to reflect the expense relating to the aforementioned grants.

The Standard applies to all transactions in which a share-based payment is made in respect of purchase of goods or services, including transactions with employees or other parties that must be settled using the Company's equity instruments or in cash. Concurrently with the recording of an expense in the statement of income, shareholders' equity is increased when the share-based payment transaction is settled in equity instruments, or a liability is recorded when the transaction is settled in cash.

As a result of the initial adoption of the provisions of the Standard:

a) The Company recorded for the six and three months ended June 30, 2006, an expense in the statement of income of approximately NIS 3,426 thousand and NIS 2,651 thousand, respectively, and a corresponding increase in shareholders' equity (capital reserves) in the amount of approximately NIS 2,492 thousand and NIS 1,994 thousand, respectively, and an increase in minority interest and receipts from issuance of stock options in subsidiary of approximately NIS 934 thousand and NIS 657 thousand, respectively in respect of options to employees and directors in the Company and subsidiaries.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) The Company restated its financial statements for the year ended December 31, 2005, in order to retroactively reflect the effect of the change in accounting treatment of share-based payment transactions with employees or other parties, to be settled using the Company's and subsidiaries' equity instruments, and which had been granted subsequent to March 15, 2005 and had not vested as of December 31, 2005 or which had been granted prior to March 15, 2005 but whose terms were subsequently modified.

Following is the effect of the changes on the financial statements:

Balance sheet:

	June 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Capital reserves	(10,770)	221	(10,549)
Shareholders' equity	1,373,162	(32)	1,373,130
Retained earnings	184,315	(253)	184,062
Minority interest	4,010,499	(69)	4,010,430
Receipts from issuance of stock options in subsidiary	-	101	101

	December 31, 2005 (audited) *)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Capital reserves	4,804	1,095	5,899
Shareholders' equity	1,908,788	(532)	1,908,256
Retained earnings	264,716	(1,627)	263,089
Minority interest	4,395,906	(752)	4,395,154
Receipts from issuance of stock options in subsidiary	-	1,284	1,284

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Statements of income:

	Six months ended June 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	84,629	322	84,951
Income before taxes on income	218,980	(322)	218,658
Minority interest in earnings of subsidiaries	(137,727)	69	(137,658)
Net income	6,145	(253)	5,892

	Three months ended June 30, 2005 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	42,482	322	42,804
Income before taxes on income	101,616	(322)	101,294
Minority interest in earnings of subsidiaries	(76,151)	69	(76,082)
Net income	17,836	(253)	17,583

	Year ended December 31, 2005 (audited) *)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	186,723	2,379	189,102
Income before taxes on income	430,831	(2,379)	428,452
Minority interest in earnings of subsidiaries	(296,717)	752	(295,965)
Net income	133,004	(1,627)	131,377

*) Data of the effect of said Standard for the year ended December 31, 2005 were restated in the context of the publication of the financial statements for the three months ended March 31, 2006.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Initial adoption of Accounting Standard No. 25 regarding revenues:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 25, "Revenues" ("the Standard") of the Israel Accounting Standards Board. The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the required accounting treatment (principles of recognition, measurement, presentation and disclosure) regarding these three types of transactions.

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

c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

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

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

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

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

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

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements.

d. The following are details of exchange rates of the U.S. dollar, the Euro and of the Israeli CPI:

	Representative exchange rate of US$	Representative exchange rate of €	Israeli CPI
As of:	**N I S**		**Points *)**
June 30, 2006	4.440	5.6435	187.9
June 30, 2005	4.574	5.5270	181.6
December 31, 2005	4.603	5.4465	185.1
	%		
Change during the period:			
June 30, 2006 (6 months)	(3.5)	3.6	1.5
June 30, 2006 (3 months)	(4.8)	(0.3)	1.0
June 30, 2005 (6 months)	6.2	(6.0)	0.5
June 30, 2005 (3 months)	4.9	(2.2)	1.1
December 2005 (12 months)	6.8	(7.3)	2.4

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

NOTE 3:- ADDITIONAL INFORMATION

a. In May 2006, the Company sold about 3.6 million dormant shares to institutional and foreign entities and to interested parties for a total consideration of approximately NIS 175 million (simultaneously with the allocation of about 1.2 million non-marketable stock options at no consideration).

The Company also sold about 3.1 million dormant shares to the parent company for a total consideration of approximately NIS 150 million (simultaneously with the allocation of about 1 million non-marketable stock options at no consideration).

Each stock option mentioned in this item is exercisable into one share for an exercise increment of NIS 54 linkage to the Israeli CPI and subject to adjustments. The exercise period of the stock options expires on May 8, 2007.

In addition, in March 2006, the Company sold 1,100 thousand dormant shares to institutional entities for total proceeds of approximately NIS 49 million.

b. In February 2006, ProMed completed the acquisition of a medical office building including a multi-story parking lot situated in the district hospital campus in the State of New Jersey, U.S.

The built area includes a gross 24,000 sq.m. for lease and about 1,700 roofed parking spaces and is leased in full to the hospital. The acquisition was carried out by way of purchasing the property's leasehold rights until 2041. The overall cost of acquisition amounted to approximately U.S. $ 88 million (approximately NIS 415 million) whereby about 30% was financed by the Company's independent sources and the remainder was financed by assigning the loan that had been granted in respect of the built area from the sellers to the Company.

In November 2005, the date on which the Company entered into the contingent agreement for the acquisition of said property, the Company announced that its Board had approved, in addition to the purchase of the medical office building as above, an initial budget of U.S. $ 300 million (approximately NIS 1.4 billion) for additional investments in the area and that it intends to examine the acquisition and/or establishment of additional properties in the U.S.

c. In January 2006, entities controlled by Clal Insurance Holdings Ltd. ("Clal Insurance") exercised the remaining non-marketable stock options which had been allocated to them in February 2005 into approximately 2.3 million Company shares for an aggregate consideration of approximately NIS 72 million. On the same date, Clal Insurance announced that it had become an interested party in the Company with a 6% interest.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

d. In January 2006, the Company entered into an agreement with Clal Finances Underwriters Ltd., controlled by Clal Insurance, for a period of one year, for receiving consulting services in matters of capital raising, marketing securities and other banking and investment-related services in consideration of the allocation of 300 thousand non-marketable stock options, convertible into the Company's shares. Should the stock options be exercised into shares, as above, Clal Insurance will have a 6.2% interest in the Company at that time.

e. In January 2006, EQY signed a new agreement for receiving a non-secured credit line amounting to U.S. $ 275 million (approximately NIS 1.3 billion) from a consortium of banks and financial institutions managed by Wells Fargo Bank. The credit line is for a period of three years and is renewable from time to time. The credit line replaces EQY's former credit line.

f. In January through April 2006, a wholly-owned subsidiary of the Company sold approximately NIS 106 million par value of debentures (series B) in consideration of approximately NIS 113 million and approximately NIS 180 million par value of debentures (series C) in consideration of approximately NIS 190.5 million. The Company also allocated by way of series extension NIS 45 million par value of debentures (series A) in consideration of approximately NIS 44.2 million.

g. In March 2006, EQY issued a series of debentures with an overall scope of U.S $ 125 million (approximately NIS 588 million). The debentures are non-secured, bear fixed interest of 6% and are redeemable in one installment in September 2016. The debentures were ranked as Baa3 (Positive outlook) by Moody's and as BBB (Positive outlook) by Standard & Poor's.

h. On March 24, 2006, FCR entered into an agreement with a group of underwriters headed by RBC Dominion Securities Inc. for the sale of Can $ 100 million (approximately NIS 400 million) in debentures (series B), which are non-secured and bear an annual interest rate of 5.25%. The debentures will be redeemed on March 30, 2011.

i. On March 27, 2006, EQY entered into an agreement whereby it will establish a joint venture with Investcorp, an international investment fund which manages a U.S. $ 2.3 billion portfolio. The joint venture shall purchase EQY's rights in 29 out of 32 properties it owns in the State of Texas with an area covering some 260 thousand sq.m. Investcorp will hold 80% of the rights to the joint venture and EQY will hold the remaining 20% and also manage the joint venture for the next 15 years. The value of said properties was set at U.S. $ 388 million (approximately NIS 1.8 billion). The net proceeds EQY received in respect of said transaction amount to approximately U.S. $ 310 million (approximately NIS 1.4 billion) and it recorded a gain of approximately U.S. $ 92 million (approximately NIS 416 million). The Company's share in the pre-tax gain is approximately NIS 119 million. The transaction was finalized on April 25, 2006.

On June 30, 2006, following the completion of the transaction, EQY distributed a special dividend to its shareholders in the amount of U.S. $ 1 (approximately NIS 4.4) per share.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

j. As of June 30, 2006, EQY holds, directly and indirectly, about 3.7 million shares of DIM, a publicly-traded company incorporated in the Netherlands whose shares are traded on the Euronext Amsterdam Stock Exchange, which represented 48.1% of DIM's share capital (the total investment in DIM constitutes less than 2% of the Company's consolidated balance sheet). DIM owns 19 commercial centers in the southeast of the U.S. with an area of some 250 thousand sq.m. EQY also committed to purchase another 45 thousand DIM shares in consideration of U.S. $ 941 thousand (approximately NIS 4.4 million) in September 2007.

   As of June 30, 2006, the investment in DIM is presented at cost since EQY has no significant influence over DIM due to its inability to influence DIM's financial and operating policies.

   As of June 30, 2006, the cost of EQY's investment in DIM, amounting to approximately NIS 341 thousand, is lower than its market value by about 9%. According to EQY's management estimate, based on tests and analyses, the decrease in the value of the investment does not reflect its fair value and accordingly, in the opinion of EQY's management, is of a temporary nature.

k. In April 2006, the Company entered into agreements whereby it will allocate, at no consideration, a total of 500 thousand non-marketable stock options to institutional entities of the Bank Hapoalim Ltd. group. Each stock option as above will be exercisable into one Ordinary share of the Company by March 31, 2008. Stock options which are exercised by March 31, 2007 will bear an exercise increment of NIS 50.5, linked to the Israeli CPI, and subsequent to that date will bear an exercise increment of NIS 54.5, linked to the Israeli CPI.

   Simultaneously with the closing of the option agreement, as above, an American wholly-owned subsidiary of the Company entered into another agreement with the optionees whereby it will allocate to them non-marketable debentures with an aggregate scope of NIS 50 million par value in consideration of their par value .The debentures bear annual interest of 4.57% paid semi-annually and the principal payments will be made in equal portions in each of the years 2013 through 2015. The principal and interest are linked to the Israeli CPI. The Company has provided a full guarantee for the subsidiary's debenture obligations.

l. In April 2006, FCR entered into an agreement with a group of underwriters for raising approximately Can $ 26 million (approximately NIS 105 million) through the allocation of one million Ordinary shares of FCR for a price of Can $ 25.75 (approximately NIS 99.5) per share. The underwriters exercised an option for the purchase of an additional 135,000 shares for the issuance price. Following said allocation, the Company recorded a capital gain of approximately NIS 26 million.

m. In April 2006, CITYCON issued about 27 million shares by way of issuance of rights for a total consideration of approximately € 75 million (approximately NIS 425 million) (about 99.4% of the shareholders responded to the issuance of rights). The Company acquired bout 10 million shares in the context of the issuance for an investment of approximately € 27.9 million (approximately NIS 158 million).

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

n. As of June 30, 2006, the balance of long-term investments includes an investment in a real estate company listed in the U.S.A. ("the real estate company"). The total of the original investment, as of June 30, 2006, amounts to NIS 416 million. The market value of this investment, as of June 30, 2006 and as of the date of signing the financial statements, is NIS 317 million and NIS 207 million (at the exchange rate of June 30, 2006), respectively. Having examined and analyzed the fair value of the investment as of June 30, 2006 and based on publicly available data issued by the real estate company, the Company decided to write-down its investment in the real estate company by an amount of NIS 99 million. Following this write-down, the investment is carried in the Company's books at a value of NIS 317 million as of June 30, 2006, which reflects the real estate company's market value as of balance sheet date. Subsequent to balance sheet date, the Company increased its investment in the real estate company by an additional mount of NIS 14 million. The Company will continue to review the value of its investment as before, taking into account its market value and in accordance with other data published by the real estate company in the future.

o. In the context of entering into investments in acquisitions, management and development of commercial centers in Israel, in May 2006, the Company signed a series of agreements with Mr. Ronen Ashkenazi and a company under his control ("the Ashkenazi company") whereby the Company and the Ashkenazi company will hold Gazit Development at rates of 85% and 15%, respectively. In addition, the Ashkenazi company was allocated about 1.3 million stock options, exercisable for a period of ten years into about 1.3 million shares of Gazit Development for a price per share identical to the original investment price such that after the exercise of the stock options, the Ashkenazi company's holdings in Gazit Development will increase to about 25%.

   The Company has undertaken to invest approximately U.S. $ 85 million (approximately NIS 397 million) against placing shareholders' loans to Gazit Development (subordinate to loans from third parties). A management agreement was also signed between Gazit Development and the Ashkenazi company whereby Mr. Ronen Ahkenazi will provide management services to Gazit Development for a period of five years.

   The board of directors of Gazit Development will include between three to five members to be determined by the Company and the Ashkenazi company will be entitled to nominate one member. Certain decisions of the general meeting of Gazit Development's shareholders and board will be passed by a special vote of 86%.

p. In April 2006, the VAT Authorities dismissed the Company's principal claims in its objection to the VAT assessments received for 2003 and 2004 and for part of 2002 and 2005. Notwithstanding, the Company's claims regarding technical errors committed in determining the amount of the assessments were accepted. As a result, the assessment deduction limit was written down to approximately NIS 3.5 million. The Company appealed the above decision of the VAT Authorities.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

The Company, based, among other things, on the opinion of its legal counsel, believes that it has arguments to support its position that the assessments, their calculation and reasoning do not coincide with the Company's nature of operation and consequently provide no grounds for limiting the Company's assessment deduction. The Company did not include a provision in respect of the above in its financial statements.

q. In May 2006, EQY sold two properties in Texas to third parties in consideration of approximately U.S. $ 15.3 million (approximately NIS 71 million). Following the sale, the Company recorded a gain of approximately U.S. $ 6.7 million (approximately NIS 31 million). The Company's share in the pre-tax gain is approximately NIS 7.5 million.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In July 2006, the Company issued approximately NIS 352 million par value of debentures (series C) to the public, according to a shelf prospectus published on May 25, 2006, offered by way of series extension, in consideration of approximately NIS 372 million.

b. On July 25, 2006, CITYCON issued convertible debentures at a scope of € 110 million (approximately NIS 616 million). The debentures bear interest at a rate of 4.5% and will be redeemed in August 2013. The debentures are convertible into shares of CITYCON at a conversion price of € 4.3432 per share. CITYCON is entitled to repay the debenture principal and the interest accrued up to the repayment date in cash, under certain conditions.

The Company has acquired approximately 37 million par value of said debentures in the context of this issuance in consideration of approximately € 37 million (approximately NIS 207 million).

c. On August 1, 2006, FCR completed the sale of Can $ 100 million (approximately NIS 400 million) of debentures (series C), which are not secured and bear annual interest at a rate of 5.49%. The debentures will be redeemed on December 1, 2011.

d. In August 2006, EQY issued a series of debentures at a scope of U.S. $ 125 million (approximately NIS 545 million). The debentures are non-secured, are redeemable in one installment in January 2017 and bear fixed interest at a rate of 6.25%. The debentures were ranked (Positive outlook) as Baa3 by Moody's and as BBB (Positive outlook) by Standard & Poor's.

e. In August 2006, the Company declared a dividend in the amount of NIS 0.25 per share, to be paid in October 2006. The record date is September 19, 2006.

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Six months ended June 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Other	Total - consolidated
	Reported NIS in thousands				
Rental income	631,150	629,797	21,365	4,510	1,286,822
Segment results	325,994	283,079	9,750	2,050	620,873

	Six months ended June 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	576,736	438,913	15,318	1,030,967
Segment results	328,124	203,759	341	532,224

	Three months ended June 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Other	Total - consolidated
	Reported NIS in thousands				
Rental income	295,618	314,600	10,809	4,510	625,537
Segment results	146,873	144,746	4,875	2,050	298,544

	Three months ended June 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	294,957	224,723	7,686	527,366
Segment results	168,271	104,548	285	273,104

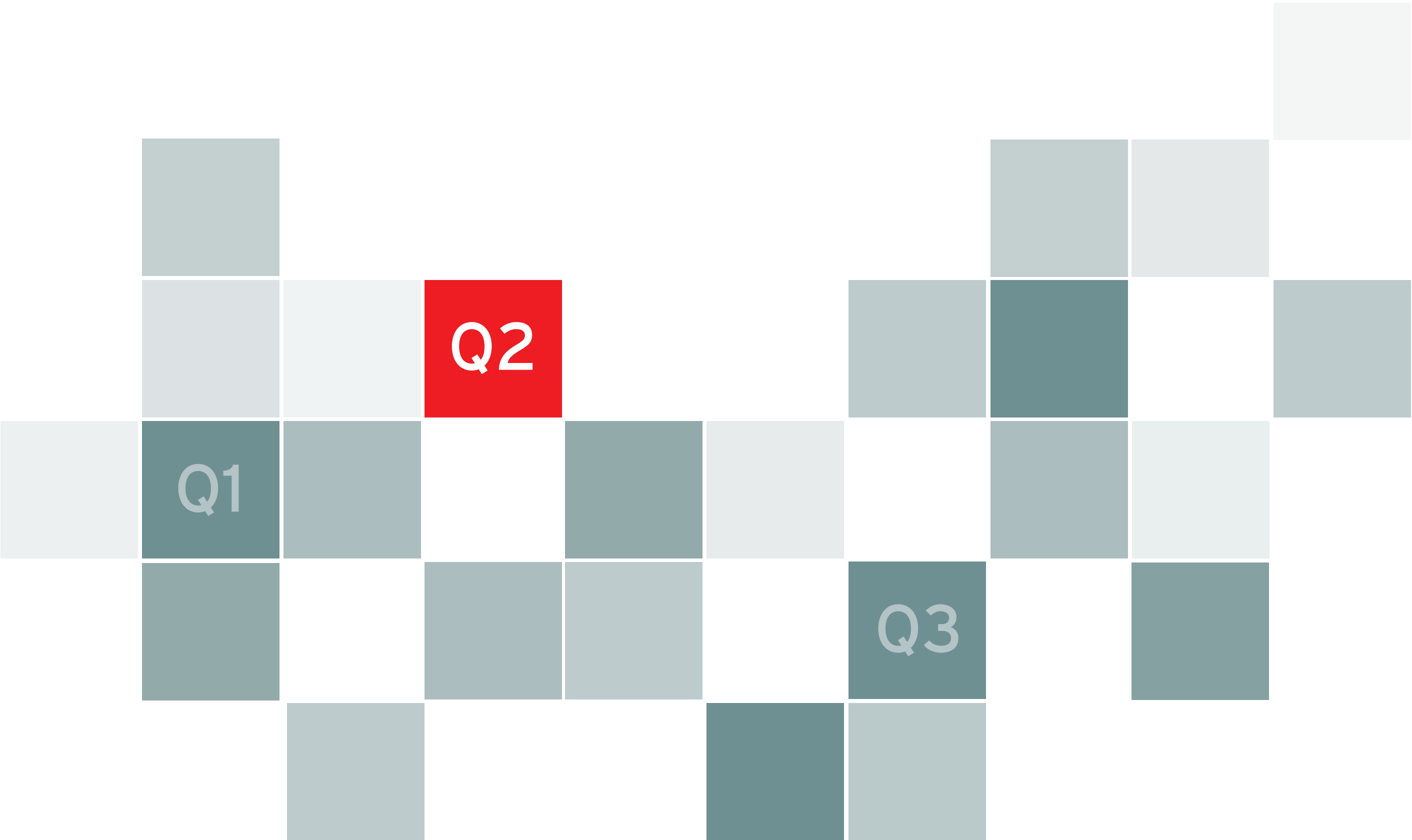
NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS (Cont.)

	Year ended December 31, 2005 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	1,184,546	984,454	26,821	2,195,821
Segment results	650,261	461,993	5,005	1,117,259

- - - - - - - - - - - - - - - - -

F:\W2000\w2000\3007\M\06\EC6-GLOBE.DOC

2006 | Interim Report 1 January - 30 June



CITYCON

Citycon's Interim Report 1 January – 30 June 2006

Summary

- Turnover increased by 29.5 per cent, to EUR 55.0 million (1-6/2005: EUR 42.5 million).
- Net rental income increased to EUR 39.0 million (EUR 31.2 million) while that for like-for-like properties grew by 3.2 per cent.
- Profit before taxes came to EUR 95.8 million (EUR 17.2 million), including EUR 75.3 million (EUR 7.8 million) in fair-value increase in investment properties.
- Earnings per share were EUR 0.47 (EUR 0.11). Earnings per share excluding the valuation items and the related tax impact were EUR 0.10 per share (EUR 0.06).
- The market value of Citycon's property portfolio increased by 51.5 per cent, to EUR 1,143.2 million (30 June 2005 EUR 754.7 million).
- Net financial expenses decreased by 29.5 per cent to EUR 12.9 million (EUR 18.3 million). 1-6/2005 figure included one-off expenses of EUR 5.7 million.
- Citycon expanded its business operations to Lithuania by buying the Mandarinas shopping centre and made several major investments in Finland and Sweden during the reporting period.
- Citycon successfully completed a EUR 75 million rights issue.

Key figures and ratios

	1-6 2006	1-6 2005	1-12 2005
Turnover, EUR million	55.0	42.5	92.2
Operating profit, EUR million	108.7	35.6	105.2
% of turnover	197.5	83.8	114.1
Profit before taxes, EUR million	95.8	17.2	74.2
Profit for the period, EUR million	72.7	13.3	59.8
Fair market value of investment properties, EUR million	1,143.2	754.7	956.6
Earnings per share (basic), EUR	0.47	0.11	0.47
Earnings per share (diluted), EUR (EPRA EPS)	0.47	0.11	0.46
Earnings per share (basic), excluding the effects of change in fair values, EUR	0.10	0.06	0.20
Net cash from operating activities per share, EUR	0.10	0.05	0.19
Equity per share, EUR (EPRA NAV)	2.98	1.94	2.45
Triple net NAV per share, EUR (EPRA NNNAV)	3.00	1.94	2.45
P/E (price / earnings) ratio	4	14	7
Return on equity (ROE), %	35.0	11.2	22.5
Return on investment (ROI), %	20.4	9.5	13.5
Equity ratio, %	42.3	28.9	36.7
Gearing, %	122.9	217.2	156.8
Net rental yield, %	8.0	8,8	8,5
Occupancy rate, %	96.7	96.3	97.2
Personnel at the end of the period	61	46	57

CEO Petri Olkinuora: "Citycon's business operations have progressed according to plan. During the period, we have announced transactions worth approximately EUR 350 million out of which about EUR 225 million is expected to close during the next quarter. Our operations have expanded to new markets in Lithuania and the Greater Gothenburg region in Sweden.

Implemented capital expenditure totalled EUR 114.2 million, pushing the market value of Citycon's property portfolio to EUR 1,143.2 million. The market for the shopping-centre business remained favourable, in spite of increasing competition.

Citycon improved its reported turnover by 29.5 per cent, to EUR 55.0 million, due mainly to strategy-based property investments made in Finland, Sweden and the Baltic countries in 2005 and 2006.

Profit for the reporting period increased to EUR 72.7 million, while earnings per share amounted to EUR 0.47.

We will continue to implement our growth strategy by making new acquisitions if good opportunities come up and by developing our existing property portfolio."

The EPRA Best Practices Policy Recommendations

In January 2006 the European Public Real Estate Association (EPRA), which represents listed European property investment companies, published financial reporting recommendations for these companies. Citycon Oyj has started to apply these recommendations in its financial reporting as of this Interim Report. The recommendations do not replace IAS/IFRS standards, but complement them.

In conjunction with the adoption of the EPRA recommendations, Citycon Oyj has changed its income statement presentation so that information is presented by function instead of by expense type. Thus, the income statement also includes gross and net rental income.

Citycon is confident that the adoption of the EPRA recommendations helps investors to better evaluate its earning power and increases the transparency of its investor information. In addition to the new income statement presentation, Citycon publishes a new key figure Triple net NAV (EPRA NNNAV). The recommendations are available in their entirety on EPRA's website at www.epra.com.

As Citycon applies the fair-value model in the measurement of its investment properties under IAS 40, Citycon IFRS profit equals the EPRA profit. IFRS diluted earnings per share is the same as EPRA earnings per share. EPRA NAV corresponds to the reported IFRS shareholders' equity.

Citycon's NNNAV increased by 114.1 per cent, to EUR 494.3 million in the first half of the year. NNNAV per share was EUR 3.00.

Key Figure in Accordance with EPRA Recommendations

	EUR million			per share (diluted), EUR		
	1-6 2006	1-6 2005	1-12 2005	1-6 2006	1-6 2005	1-12 2005
EPRA NAV	491.4	230.9	356.6	2.98	1.94	2.45
(iv) Fair value gains/losses of financial instruments in the income statement	–	–	–	–	–	–
(iv) The difference between the fair and book value of debt	3.0	0.0	0.5	0.02	0.00	0.00
(iii) Deferred taxes	–	–	–	–	–	–
EPRA NNNAV	494.3	230.9	357.1	3.00	1.94	2.45

Business Environment

International investors continued to show a keen interest in Finnish retail properties. Finnish retail sales continued to grow, further strengthening retail traders' positive expectations. Demand for retail premises was still active and occupancy rates remained high. The growth in inflation and interest rates did not have any major effect on the market situation. The interest rates continue to be at low levels despite the latest growth.

Property Portfolio in Summary

Citycon engages in the retail-property business throughout the entire ownership chain, i.e. development, ownership, leasing and management of properties. Citycon operates through the following three divisions: Shopping Centres, Supermarkets and Shops, and Property Development.

At the end of the reporting period, the company owned 29 (16) shopping and retail centres and 127 (127) supermarkets and shops. On 30 June 2006, the market value of the company's property portfolio totalled EUR 1,143.2 million (31 December 2005: EUR 956.6 million), of which shopping and retail centres accounted for 70.1 per cent (60.9 per cent) and supermarkets and shops 29.9 per cent (39.1 per cent). Finland, Sweden, Estonia and Lithuania account for 83.2 per cent, 10.0 per cent, 5.6 per cent and 1.3 per cent of the company's property portfolio, respectively, based on fair values.

Changes in Property Portfolio Fair Value

Citycon applies the fair-value model in the measurement of its investment properties under IAS 40, whereby changes in fair value are recognised through profit or loss. The most recent valuation statement, dated 10 July 2006, on the Citycon property portfolio's June-end status, based on an appraisal by Aberdeen Property Investors Finland Oy, is available on the company's website at www.citycon.fi. More detailed information on this valuation method is available in Citycon's Annual Report 2005, page 14.

During the reporting period, the fair value change of Citycon's property portfolio totalled EUR 75.3 million. The period saw a total value increase of EUR 82.5 million and a total value decrease of EUR 7.1 million.

The average net yield requirement defined by Aberdeen Property Investors Finland Oy for Citycon's property portfolio decreased to 7.1 per cent (on 31 December 2005, the average net yield requirement was 7.6 per cent). This decrease is mainly due to the very active property market.

Lease Portfolio and Occupancy Rate

At the end of the period, Citycon had a total of 2,373 leases with 1,475 lessees, and the occupancy rate for the company's property portfolio stood at 96.7 per cent (96.3 per cent) with a net yield of 8.0 per cent (8.8 per cent).

Net rental income during the reporting period increased by 25.0 per cent, to EUR 39.0 million while gross rental income increased by 27.9 per cent, to EUR 52.8 million, due mainly to property investments made during the period. Citycon's income statement includes net and gross rental income in accordance with EPRA's recommendations.

Net rental income for like-for-like properties grew by 3.2 per cent. Like-for-like properties refer to properties held by Citycon through the 24-month reference period. Properties under development and expansion as well as lots are excluded from like-for-like properties.

The calculation method for net yield and standing investments (like-for-like) is based on the guidelines of the KTI Institute for Real Estate Economics and the IPD Investment Property Databank.

Lease portfolio summary

	1-6 2006	1-6 2005	1-12 2005
Number of leases started during the period	201	130	298
Total area of leases started, sq.m.	48,986	24,895	51,476
Occupancy rate at end of the period, %	96.7%	96.3%	97.2%
Average length of lease portfolio at the end of the period, year	2.9	3.4	3.2

Shopping Centres

Citycon leads the Finnish shopping centre business. The company's net rental income from shopping centres improved by 41.8 per cent, to EUR 26.0 million. Shopping centres accounted for 66.7 per cent of Citycon's total net rental income.

Key figures: Shopping Centres

Lease portfolio summary, shopping centres

	1-6 2006	1-6 2005	1-12 2005
Number of leases started during the period	156	101	233
Total area of leases started, sq.m.	23,249	10,213	29,160
Occupancy rate at end of the period ,%	97.4%	96.8%	98.0%
Average length of lease portfolio at the end of the period, year	2.3	2.6	2.6

Financial performance, shopping centres

	1-6 2006	1-6 2005	1-12 2005
Turnover, EUR million	37.3	25.3	57.4
Net fair value gains on investment property, EUR million	62.1	4.4	22.1
Operating profit, EUR million	86.8	22.0	61.2
Gross rental income, EUR million	35.2	24.3	54.5
Net rental income, EUR million	26.0	18.4	41.3
Net rental yield, %	7.7	8.3	8.2
Net rental yield, like-for-like properties, %	8.2	8.4	8.4
Market value of property portfolio, EUR million	801.8	459.4	636.7
Capital expenditure, EUR million	113.4	2.4	174.9

Capital expenditure and development projects

During the reporting period, Citycon made several major investments in Finland, Sweden and the Baltic countries.

In Finland, the company acquired the rest of the Myyrmanni shopping centre in Vantaa as well as the Tullintori shopping centre in Tampere and the Valtari shopping centre in Kouvola. In Sweden, Citycon acquired retail centres in Lindome, Backa, Hindås, Landvetter and Floda in the Greater Gothenburg Area, with the related capital expenditure totalling EUR 80.1 million.

In the Baltic countries, Citycon expanded its operations to Lithuania by buying the Mandarinas shopping centre located in Vilnius at the debt-free purchase price of approximately EUR 14.3 million.

In May, Citycon announced that it will buy the Stenungstorg shopping centre near Gothenburg, Sweden, for EUR 41.9 million. The transaction is expected to be finalised in early September 2006.

In June, Citycon announced that it will buy the Columbus shopping centre in Helsinki for EUR 80.1 million and the Jakobsberg Centrum shopping centre in the Stockholm Metropolitan Area for EUR 104.5 million. The Columbus deal was closed in July and the Jakobsberg transaction is expected to be finalised by the end of August.

Upon the closing of the aforementioned deals, Citycon owns 19 shopping centres in Finland, 11 shopping and retail centres in Sweden and two shopping centres in the Baltic countries.

Supermarkets and Shops

Specialising in the development, lease and management of supermarket and other retail-outlet properties, the Supermarkets and Shops division reported a 1.4 per cent improvement in net rental income, to EUR 13.0 million.

Key figures: Supermarkets and Shops

Lease portfolio summary, supermarkets and shops

	1-6 2006	1-6 2005	1-12 2005
Number of leases started during the period	45	29	65
Total area of leases started, sq.m.	25,737	14,682	22,316
Occupancy rate at end of the period ,%	95.4%	95.6%	95.8%
Average length of lease portfolio at the end of the period, year	4.1	4.6	4.2

Financial performance, supermarkets and shops

	1-6 2006	1-6 2005	1-12 2005
Turnover, EUR million	17.8	17.2	34.8
Net fair value gains on investment property, EUR million	13.3	3.4	23.8
Operating profit, EUR million	26.1	16.2	49.6
Gross rental income, EUR million	17.6	17.0	34.5
Net rental income, EUR million	13.0	12.8	25.6
Net rental yield, %	8.6	9.5	9.1
Net rental yield, like-for-like properties, %	8.7	9.7	9.2
Market value of property portfolio, EUR million	341.4	295.3	320.0
Capital expenditure, EUR million	0.7	3.5	3.6

Property Development

The Property Development division's mission is to develop and extend Citycon's existing and new retail sites together with the company's other divisions. The division is also responsible for commissioning the construction of new retail sites. The division's key figures are not reported separately because it has no property portfolio or rental income.

The division's largest-scale projects underway include the extension and refurbishment of the Hervanta shopping centre in Tampere and Lippulaiva in Espoo. Furthermore, Citycon has decided to build a new retail centre in Kaarina, five kilometres from downtown Turku, the project's value totalling EUR 8.2 million. Construction of the retail centre for Tokmanni Oy is scheduled for completion by 1 March 2007. In Seinäjoki, Citycon has launched the refurbishment of the Torikeskus shopping centre, which will be carried out in stages during 2006–2008. Citycon will invest approximately EUR 4 million in this project.

Human Resources and Administrative Expenses

At the end of the period, Citycon Group had a total of 61 (46) employees, 55 of whom worked in Finland, 5 in Estonia and 1 in Lithuania. Administrative expenses increased by 52.5 per cent, to EUR 5.9 million, due in part to the expansion of the company's operations and property portfolio.

Turnover and Profit

Turnover for the period came to EUR 55.0 million (EUR 42.5 million), of which gross rental income accounted for 96.0 per cent (97.2 per cent).

Operating profit rose to EUR 108.7 million (EUR 35.6 million). Profit before taxes amounted to EUR 95.8 million (EUR 17.2 million) and after taxes EUR 72.7 million (EUR 13.3 million). The effect of changes in the property portfolio's fair value and the related tax impact on the reported profit was EUR 57.0 million. Taking this into account, the reported profit after taxes is EUR 8.1 million above the 1-6/2005 level. The increase in earnings resulted mainly from higher net rental income and lower net financial expenses. 1-6/2005 net financial expenses included the one-off expenses of EUR 5.7 million. Earnings per share excluding the change in fair value were EUR 0.10 (EUR 0.06).

Capital Expenditure

Citycon's capital expenditure totalled EUR 114.2 million (EUR 5.9 million), of which property acquisitions and property development accounted for EUR 101.0 million (EUR 4.1 million) and EUR 13.2 million (EUR 1.9 million), respectively.

Part of the capital expenditure was financed through the EUR 75 million rights issue arranged during the reporting period.

Balance Sheet and Financial Position

The period-end balance sheet total stood at EUR 1,170.6 million (EUR 800.4 million), of which cash and cash equivalents accounted for EUR 17.7 million (EUR 35.5 million). The Group's financial position remained at a healthy level.

On 30 June 2006, Group liabilities totalled EUR 675.4 million (EUR 569.5 million), short-term liabilities accounting for EUR 104.9 million (EUR 35.0 million).

Interest-bearing liabilities increased by EUR 89.3 million, to EUR 626.2 million (EUR 536.9 million), their interest rate averaging 4.3 per cent (5.1 per cent). The average loan maturity, weighted according to loan principals, was 2.5 years (3.2 years), while the average interest-bearing period was 2.4 years (3.1 years). The currency risk related to financing the investments in Sweden, Estonia and Lithuania is hedged by financing in local currency.

The Group's equity ratio was 42.3 per cent (28.9 per cent). Interest cover, or the previous 12 months' profit before interest expenses, taxes and depreciation relative to net financial expenses, was 2.5 (2.2). Period-end gearing stood at 122.9 per cent (217.2 per cent).

Citycon's period-end interest-bearing liabilities included 88.5 per cent (86.9 per cent) of floating-rate loans, of which 71.3 per cent (72.7 per cent) had been converted into fixed rate loans, based on interest-rate swaps. The overall hedging rate of the loan portfolio was 63.1 per cent. On 30 June 2006, the nominal value of interest rate-swaps totalled EUR 395.1 million (EUR 337.9 million) while the market value of derivatives came to EUR -6.0 million (EUR -24.1 million).

Net financial expenses totalled EUR 12.9 million (EUR 18.3 million). The decrease in net financial expenses resulted mainly from the one-off expenses of EUR 5.7 million included in 2005 net financial expenses.

Commercial paper programme

In February 2006, Citycon signed a new commercial paper programme worth EUR 100 million, replacing its previous commercial paper programmes valued at EUR 60 million.

Rights issue

During the period, Citycon carried out a EUR 75 million rights issue that was successfully completed on 21 April 2006. Consequently, a total of 27,274,949 new shares were subscribed at a subscription price of EUR 2.75 per share, equalling approximately 99.4 per cent of the shares offered. The resulting share-capital increase of EUR 36,821,181.15 was registered in the Trade Register on 28 April 2006 and the new shares have been available for public trading on the Helsinki Stock Exchange's Main List as of 2 May 2006.

More detailed information on the rights issue can be found in Citycon's stock-exchange releases, published in March-April 2006 and available on the company's website at www.citycon.fi.

Share Capital and Shares

Under the Articles of Association, Citycon's minimum share capital totals EUR 100 million and maximum share capital EUR 500 million, within which limits the company may reduce or increase its share capital without altering its Articles of Association. The company has a single series of shares, with each share entitling its holder to one vote at the shareholders' meeting.

At the beginning of 2006, Citycon had a share capital of EUR 184,115,724.30 and the number of shares totalled 136,382,018. The reporting period saw Citycon increase its share capital through a rights issue and share subscriptions based on stock options by a total of EUR 37,632,509.55. The attached table shows the changes in share capital in more detail. The company's period-end registered share capital amounted to EUR 222,781,429.35 and the number of shares totalled 165,023,281, each share bearing a nominal value of EUR 1.35.

Changes in share capital from 1 January to 30 June 2006

Date 2006	Reason	Change, EUR	Change in no. of shares	Share capital, EUR	Number of shares
1 Jan.				184,115,724.30	136,382,018
16 Feb.	Increase (stock options)	1,012,945.50	750,330	185,128,669.80	137,132,348
28 March	Increase (stock options)	20,250.00	15,000	185,148,919.80	137,147,348
18 April	Increase (stock options)	737,572.50	546,350	185,886,492.30	137,693,698
28 April	Increase (rights issue)	36,821,181.15	27,274,949	222,707,673.45	164,968,647
4 May	Increase (stock options)	51,629.40	38,244	222,759,302.85	165,006,891
20 June	Increase (stock options)	22,126.50	16,390	222,781,429.35	165,023,281
30 June				222,781,429.35	165,023,281

In January-June, the total number of Citycon shares traded on the Helsinki Stock Exchange totalled 29.1 million (21.9 million) at a total value of EUR 108.4 million (EUR 58.3 million). The highest quotation was EUR 4.23 (EUR 3.09) and the lowest EUR 3.02 (EUR 2.40). The reported trade-weighted average price was EUR 3.73 (EUR 2.66), and the share closed at EUR 3.61 (EUR 3.05). The company's market capitalisation on 30 June 2006 totalled EUR 595.7 million (EUR 342.5 million).

Board authorisations

The AGM held in March authorised the Board of Directors to decide to increase share capital through one or several rights issues by offering a maximum of 50,000,000 new shares at a nominal per-share value of 1.35 for subscription by shareholders, i.e. the share capital may increase by a maximum total of EUR 67,500,000. The authorisation does not entitle the Board to deviate from the pre-emptive subscription right of the shareholders. The Board exercised this authorisation in March when it decided on a share issue based on the shareholders' pre-emptive subscription right. Following the share issue, the authorisation entitles the Board to increase the company's share capital by a further EUR 30,678,818.85 at the most, by issuing a maximum of 22,725,051 new shares. The authorisation is valid until 14 March 2007.

In addition, the AGM authorised the Board to decide to issue one or several convertible bonds, issue stock options and increase the company's share capital through one or several rights issues in such a way that, based on these issues, the company's share capital may increase by a maximum of EUR 37,025,733 and that a maximum of 27,426,468 new shares may be offered at a nominal per-share value of EUR 1.35. Valid until 14 March 2007, this authorisation includes a right to waive the shareholders' pre-emptive right to subscribe for company shares. Citycon may not use these stock options as part of its employee incentive scheme.

More detailed information on the other decisions taken by the AGM is set out in Citycon's interim report published on 27 April 2006.

Stock Options

Citycon has two option schemes in force, the 1999 A/B/C scheme and the 2004 A/B/C scheme. Stock options attached to the 1999 stock-option scheme are listed on the Helsinki Stock Exchange. These stock-option schemes form part of Citycon's Group-wide employee incentive and commitment programme.

Citycon's stock options' terms and conditions were amended due to the rights issue carried out during the reporting period in order to ensure equal treatment of holders of Citycon stock options and shares. The amended terms and conditions took effect on 24 March 2006. The table below shows a condensed summary of the stock-option terms and conditions in force.

Under the company's 2004 stock option scheme, Citycon's Board of Directors decided in April 2006 to grant a total of 1,250,000 C stock options to the Group's employees. The subscription price of the C stock options, determined on the basis of trading volume of Citycon share in April, is EUR 4.62. The subscription price is decreased by half of the amount of distributed annual dividends.

Citycon's Board of Directors has decided to transfer the 2004 stock options to the book-entry securities system before the subscription period for 2004A stock options begins on 1 September 2006. Furthermore, the Board has decided to apply for the listing of the A stock options on the Helsinki Stock Exchange as of 1 September 2006.

1999 stock options	Number	Subscription ratio, stock option/share	Subscription price per share, EUR	Share period starts	Subscription period ends
1999A	1,800,000	1:1.0927	1.35	1 Sept. 2000	30 Sept. 2007
1999B	1,800,000	1:1.0927	1.35	1 Sept. 2002	30 Sept. 2007
1999C	1,727,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Not distributed	172,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Total	5,500,000				
2004 stock options					
2004A	1,040,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B	1,200,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004C	1,250,000	1:1.0611	4.62	1 Sept. 2008	31 March 2011
2004A, not distributed	260,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B, not distributed	100,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004C, not distributed	50,000	1:1.0611	4.62	1 Sept. 2008	31 March 2011
Total	3,900,000				

In accordance with the amended terms and conditions, the 2004 stock options entitle their holders to subscribe for a maximum of 4,138,290 shares, with the result that the company's share capital may increase by a maximum of EUR 5,586,691.50.

Information on the share and stock option holdings of the members of Citycon's Board of Directors and Corporate Management Committee can be found on the company's website at www.citycon.fi. Further information on the company's stock option schemes is available in the Financial Statements Appendix to the Annual Report 2005, pages 8-9 and 26-28.

Events after the Period

On 16 June 2006, Citycon announced that it will buy the Columbus shopping centre in Vuosaari, Helsinki. The transaction was finalised on 4 July 2006 for a debt-free purchase price of EUR 80.1 million equalling approximately 5.8 per cent initial net yield. The shopping centre will be extended by 7,500 sq.m., increasing the gross leasable area to around 20,000 sq.m.

In February, Citycon announced that it considers selling its non-core properties, due to favourable market conditions and investor interest. On 20 July 2006, Citycon signed an agreement to sell 76 non-core properties. Closing is expected to take place by the end of September 2006. The debt-free sale price of the properties is EUR 74 million. The fair value of the sold-off properties totalled EUR 66.5 million on 31 March 2006 and EUR 67.9 million on 30 June 2006. Citycon will book a gain on sale before taxes of EUR 6.1 million in the third quarter provided that the closing of the transaction takes place in the planned schedule. The gain on sale of EUR 7.5 million announced on 20 July 2006 was based on fair values of the properties on 31 March 2006. The positive impact of the transaction to the company's 2006 EPS is approximately EUR 0.02 and to 2006 profit approximately EUR 2.5 million taking into account of the gain on sale, transaction costs, lost net rental income for the fourth quarter and taxes. The profit impact of EUR 3.8 million announced on 20 July 2006 was based on fair values of the properties on 31 March 2006. All of the sold-off properties with a gross leasable area of 77,000 square meters are located in Finland. After the transaction Citycon's Supermarkets and Shops portfolio will consist of 51 properties in Finland.

A total of 269,433 new Citycon shares at a per-share nominal value of EUR 1.35 were subscribed in July, exercising stock options based on the 1999 A/B/C stock-option scheme. The resulting share-capital increase of EUR 363,734.55 will be registered in the Trade Register circa 27 July 2006 and the new shares should become available for public trading on 28 July 2006.

The per-share subscription price of the shares subscribed with stock options was EUR 1.35. The new shares will confer entitlement to dividend for the financial year 2006. The other shareholder entitlements will come into force when the increase in the share capital is registered. Each share entitles to one vote.

The unexercised stock options based on Citycon's 1999 stock-option scheme entitle their holders to subscribe for a further 2,906,511 new shares, with the result that the company's share capital may increase by a further EUR 3,923,789.85. The share subscription period will expire on 30 September 2007.

After the increase, the registered share capital of Citycon Oyj is EUR 223,145,163.90 and the total number of shares 165,292,714.

Outlook

In its interim report published on 27 April 2006, Citycon said it expects the demand, occupancy rates and rents for its retail premises to remain stable in the Helsinki Metropolitan Area and Finland's major cities, as well as in Sweden and Estonia. This outlook has not changed in the second quarter.

In the increasingly intensified competitive environment, the company continues to seek out opportunities to expand its business in Finland, Scandinavia and the Baltic countries.

Citycon's business risks relate to those associated with its lessees, customers, property portfolio, price developments and business expansion, as well as financial risks. However, due to favourable market prospects and acquisitions and extension projects carried out in 2005 and 2006, Citycon expects growth in business and operating results.

Condensed consolidated income statement, IFRS

EUR MILLION	4-6 2006	4-6 2005	1-6 2006	%	1-6 2005	%	1-12 2005
Gross rental income	26.7	20.6	52.8	96.0	41.3	97.2	89.1
Service charge income	1.1	0.7	2.2	4.0	1.2	2.8	3.1
Turnover	27.8	21.3	55.0	100.0	42.5	100.0	92.2
Property operating expenses	8.1	5.5	15.9	28.8	11.1	26.1	24.7
Other expenses from leasing operations	0.2	0.2	0.2	0.3	0.2	0.5	0.5
Net rental income	19.6	15.5	39.0	70.9	31.2	73.4	67.0
Administrative expenses	2.7	2.2	5.9	10.8	3.9	9.2	8.3
Other operating income and expenses	0.1	0.2	0.3	0.5	0.2	0.5	0.3
Net fair value gains on investment property	59.8	7.8	75.3	136.9	7.8	18.4	45.9
Net gains on sale of investment property	–	–	–	0.0	0.3	0.0	0.3
Operating profit	76.8	21.3	108.7	197.5	35.6	83.8	105.2
Net financial income and expenses	5.9	11.9	12.9	23.4	18.3	43.1	31.1
Profit before taxes	70.9	9.4	95.8	174.0	17.2	40.5	74.2
Current taxes	-1.6	-3.2	-3.0	-5.5	-3.8	-9.0	-3.5
Change in deferred tax	-15.5	1.3	-20.1	-36.6	-0.1	-0.2	-10.8
Profit for the period	53.7	7.5	72.7	132.0	13.3	31.4	59.8
Attributable to							
Parent company shareholders	54.3	7.5	72.4		13.3		59.2
Minority interest	-0.6	–	0.2		–		0.6
Earnings per share (basic), EUR	0.34	0.06	0.47		0.11		0.47
Earnings per share (diluted), EUR	0.33	0.06	0.47		0.11		0.46

Condensed consolidated balance sheet, IFRS

EUR MILLION	30 June 2006	30 June 2005	31 Dec. 2005
Assets			
Non-current assets			
Investment property	1,143.2	754.7	956.6
Property, plant and equipment	0.7	1.1	0.7
Deferred tax assets	–	3.8	–
Other non-current assets	0.4	0.0	0.2
Total non-current assets	1,144.3	759.6	957.6
Current assets			
Trade and other receivables	8.6	5.2	9.9
Cash and cash equivalents	17.7	35.5	15.6
Total current assets	26.3	40.7	25.5
Total assets	1,170.6	800.4	983.1

EUR MILLION	30 June 2006	30 June 2005	31 Dec. 2005
Liabilities and Shareholders' Equity			
Equity attributable to parent company shareholders			
Share capital	222.8	151.6	184.1
Share issue	–	–	1.1
Share premium fund and other reserves	116.0	46.8	85.4
Fair value reserve	-4.2	-17.8	-10.5
Treasury shares	–	–	–
Retained earnings	156.7	50.3	96.5
Total equity attributable to parent company shareholders	491.4	230.9	356.6
Minority interest	3.8	–	3.6
Total shareholders' equity	495.2	230.9	360.2
Liabilities			
Long-term liabilities	542.7	534.5	542.7
Deferred tax liabilities	27.7	–	5.8
Total long-term liabilities	570.5	534.5	548.4
Short-term liabilities	104.9	35.0	74.4
Total liabilities	676.4	569.5	622.9
Total liabilities and shareholders' equity	1,170.6	800.4	983.1

Condensed consolidated statement of changes in shareholders' equity, IFRS

	Equity attributable to parent company shareholders								
EUR MILLION	Share capital	Share issue	Share premium fund and other reserves	Fair value reserve	Treasury shares	Retained earnings	Equity attributable to parent company shareholders	Minority interest	Shareholders' equity, total
Balance at 1 Jan. 2005	156.8	–	41.5	-13.3	-4.7	57.4	237.7	–	237.7
Cash flow hedges				-4.5			-4.5		-4.5
Profit for the period						13.3	13.3		13.3
Total recognized income and expense for the period				-4.5		13.3	8.8		8.8
Change in share capital	-5.2		5.2		4.7	-4.7	0.0		0.0
Dividends						-15.7	-15.7		-15.7
Balance at 30 June 2005	151.6	–	46.8	-17.8	–	50.3	230.9	–	230.9
Balance at 1 Jan. 2006	184.1	1.1	85.4	-10.5	–	96.5	356.6	3.6	360.2
Cash flow hedges				6.3			6.3		6.3
Profit for the period						72.4	72.4	0.2	72.7
Total recognized income and expense for the period				6.3		72.4	78.8		78.8
Change in share capital	38.7	-1.1	37.2				74.8		74.8
Dividends			-6.6			-12.6	-19.2		-19.2
Other changes						0.4	0.4		0.4
Balance at 30 June 2006	222.8	–	116.0	-4.2	0.0	156.7	491.4	3.8	495.2

Condensed consolidated cash flow statement, IFRS

EUR MILLION	1-6 2006	1-6 2005	1-12 2005
Cash flow from operating activities			
Profit before taxes	95.8	17.2	74.2
Adjustments	-62.2	9.6	-14.1
Cash flow before change in working capital	33.5	26.9	60.1
Change in working capital	0.0	1.9	1.9
Cash generated from operations	33.5	28.8	62.0
Paid interest and other financial charges	-17.0	-20.4	-32.3
Received interest and other financial income	0.2	0.2	0.4
Taxes paid	-2.1	-2.8	-5.2
Net cash from operating activities	14.7	5.8	24.8
Cash flow from investing activities			
Acquisition of subsidiaries, less cash acquired	-66.7	-9.8	-92.6
Acquisition of investment properties	-32.3	–	–
Capital expenditure on investment properties, PP&E and intangible assets	-13.2	-1.6	-7.2
Sale of investment properties	–	2.8	2.8
Proceeds from sale of other investments	–	1.0	1.0
Net cash used in investing activities	-112.1	-7.7	-96.1
Cash flow from financing activities			
Proceeds from share issue	73.6	–	74.4
Proceeds from short-term loans	180.0	13.0	134.6
Repayments of short-term loans	-132.0	-2.0	-108.6
Proceeds from long-term loans	30.0	169.7	199.7
Repayments of long-term loans	-32.8	-135.5	-205.6
Dividends paid	-19.2	-15.7	-15.7
Net cash from/used in financing activities	99.6	29.5	78.9
Net change in cash and cash equivalents	2.1	27.6	7.7
Cash and cash equivalents at period-start	15.6	7.9	7.9
Effects of exchange rate changes	0.0	–	–
Cash and cash equivalents at period-end	17.7	35.5	15.6

Segment information

EUR MILLION	4-6 2006	4-6 2005	1-6 2006	1-6 2005	1-12 2005
Turnover					
Shopping Centres	18.9	12.6	37.3	25.3	57.4
Supermarkets and Shops	8.9	8.7	17.8	17.2	34.8
Unallocated	–	–	0.0	–	–
Total	27.8	21.3	55.0	42.5	92.2
Operating Profit					
Shopping Centres	64.5	12.9	86.8	22.0	61.2
Supermarkets and Shops	14.5	9.5	26.1	16.2	49.6
Unallocated	-2.1	-1.0	-4.1	-2.6	-5.5
Total	76.8	21.3	108.7	35.6	105.2

Key financial figures

	1-6 2006	1-6 2005	1-12 2005
Earnings per share (basic), EUR	0.47	0.11	0.47
Earnings per share (diluted), EUR (EPRA EPS)	0.47	0.11	0.46
Equity per share, EUR (EPRA NAV)	2.98	1.94	2.45
Return on equity (ROE), %	35.0	11.2	22.5
Return on investment (ROI), %	20.4	9.5	13.5
Equity ratio, %	42.3	28.9	36.7

Investment property

	1-6 2006	1-6 2005	1-12 2005
At period-start	956.6	738.7	738.7
Additions	109.9	11.6	175.4
Disposals	–	-3.4	-3.4
Net fair value gains	75.3	7.8	45.9
Exchange differences	1.3	–	–
At period-end	1,143.2	754.7	956.6

Consolidated contingent liabilities

EUR MILLION	30 June 2006	30 June 2005	31 Dec. 2005
Mortgages on land and buildings	7.8	2.4	7.8

Group's derivative financial instruments

	30 June 2006		30 June 2005		31 Dec. 2005	
EUR MILLION	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Interest rate and foreign exchange derivatives						
Interest rate and currency swaps						
Maturing in 2007	78.2	0.6	78.2	-1.5	78.2	-0.1
Maturing in 2008	50.0	-0.4	50.0	-2.9	50.0	-1.5
Maturing in 2009	143.9	-2.7	126.7	-10.1	125.3	-6.3
Maturing in 2010	83.0	-3.5	83.0	-9.6	83.0	-6.8
Maturing in 2010	40.0	0.0	–	–	–	–
Total	395.1	-6.0	337.9	-24.1	336.5	-14.7

The fair values of derivatives reflect their values if all agreements were closed at the market price at the end of the period.
Derivatives have been used for hedging the loan portfolio.
The fair values include an accrued interest of EUR 0.3 million (EUR 0.6 million) for the period, which has been booked in interest expenses.
The fair values include the positive values of EUR 1.0 million (EUR 0.0 million) and the negative values of EUR 7.0 million (EUR 24.1 million) .

The figures are unaudited.

Accounting Principles

The accounting principles presented in the annual financial statements as of 31 December 2005 are applied in this interim report.

In the annual financial statements of 31 December 2005, Citycon changed its procedures to calculate wholly owned, domestic real estate companies' deferred tax liability on the temporary difference between the debt-free cost of these companies' shares and their fair value.

The figures for the comparison period 1 January–30 June 2005 were changed to comply with the new accounting practice.

Financial Reports in 2006

Interim report for 1 January–30 September 2006 will be released on 19 October 2006.

Further information for investors is available on Citycon's website, www.citycon.fi.

Helsinki, 21 July 2006

CITYCON OYJ
Board of Directors

Further information:

CEO Mr Petri Olkinuora
Tel. +358 9 6803 6738 or +358 400 333 256
petri.olkinuora@citycon.fi

CFO Mr Eero Sihvonen
Tel. +358 9 6803 6730 or +358 50 557 9137
eero.sihvonen@citycon.fi

Distribution:

Helsinki Stock Exchange
Main media
www.citycon.fi

Report on the general review of Citycon Oyj's interim report for the period 1 January – 30 June 2006

We have generally reviewed the interim report of Citycon Oyj for the period 1 January - 30 June 2006. The Board of Directors and the Managing Director have prepared an interim report in accordance with the Securities Market Act, chapter 2, paragraph 5. Based on our interim review we express at the request of the Board of Directors a report in accordance with the Securities Market Act, chapter 2, paragraph 5.

We conducted our general review in accordance with the International Standard on Auditing applicable to general review engagements. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The general review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our general review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view in accordance with the Securities Market Act regarding the financial position of Citycon Oyj.

Helsinki, 21 July 2006

Ernst & Young Oy
Authorized Public Accountants

Tuija Korpelainen
Authorized Public Accountant