GAZIT-GLOBE LTD.

Directors' Report to Shareholders
For the periods ended June 30, 2007

The Board of Directors of Gazit-Globe Ltd. (hereinafter – "the Company") is pleased to present the financial statements of the Company and its consolidated subsidiaries for the periods ended June 30, 2007:

1. A. General

The Company – directly and through its subsidiaries (hereinafter, collectively – "the Group") and an affiliate – is engaged in the acquisition, development and management of income-producing properties in North America, Europe and Israel, focusing mainly on supermarket-anchored shopping centers. In addition, the Company is active in the senior housing communities and the medical office buildings sectors in North America. and continues to seek and realize opportunities within its core business and similar asset classes, both in regions where it operates and also in new territories.

B. Properties

As of the date of the financial statements, the Group owns 473 properties, as follows:

- 428 shopping centers and stores
- 22 shopping centers under development
- 12 senior housing communities (with approx. 1,231 units)
- 2 senior housing communities under development
- 7 medical office buildings and a multi-story parking garage
- 2 office buildings

The above properties have a gross leasable area ("G.L.A.") of approximately 4.6 million square meters. They are recorded in the Company's books and in the affiliate's books at their fair value of NIS 42.1 billion and generate annual rental revenue of NIS 3.7 billion (annual rental revenue data is based on the gross annual rent from the properties currently owned at the exchange rate on the signing date of the financial statements).

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – "EQY"), a public company listed on the New York Stock Exchange (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for U.S. tax purposes. As of the signing date of the financial statements, the Company owns, directly and indirectly (through the subsidiary, First Capital Realty Inc., as described below), 45% of EQY. EQY's properties are located primarily in growing

metropolitan areas in the southeastern United States, mainly in Florida and Georgia, and in the Boston, Massachusetts metropolitan area. EQY owns 174 operating shopping centers, with a G.L.A. of 1.7 million square meters, as well as three land parcels for future development.

The Company is also active in the United States through Royal Senior Care (hereinafter – "RSC") and ProMed Properties Inc. (hereinafter – "ProMed"). RSC, in which the Company holds a 50% interest, is active in the senior housing communities sector in the southeastern United States. RSC owns 12 senior housing communities, encompassing approximately 1,231 units, as well as two that are currently under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings sector. ProMed owns seven medical office buildings in North America, with a G.L.A. of 68,000 square meters and a multi-story parking garage.

In Canada, the Company operates through First Capital Realty Inc. ("FCR"), a public company listed on the Toronto Stock Exchange (TSX: FCR). As at the signing date of the financial statements, the Company holds 53.8% of FCR. FCR's properties are located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 157 properties in Canada, with a G.L.A. of approximately 1.8 million square meters and six shopping centers under development. In addition, FCR owns 14 million shares in EQY.

In Israel, the Company operates through Gazit-Globe Israel (Development) Ltd. (hereinafter – "Gazit Development"), which is 75% owned by the Company. Gazit Development is an owner, developer and operator of shopping centers in Israel and Bulgaria. It owns eight income-producing shopping centers in Israel, with a G.L.A. of approximately 107,000 square meters and has seven shopping centers under development. In addition, the Company owns an office building in Tel-Aviv, part of which serves as the Group's headquarters.

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – "Citycon"), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (OMX). As of the signing date of the financial statements, the Company owns approximately 39.4% of Citycon's share capital. Citycon is active in northern Europe (as of the signing date of the financial statements, in Finland, Sweden, Estonia and Latvia) and owns 84 shopping centers and retail properties. These properties are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.8 million square meters, and two shopping centers that are currently under development. The Company also operates in the European shopping centers sector (in Germany, as of the signing date of the financial statements) through wholly owned subsidiaries (hereinafter – "Gazit Europe") and owns four shopping centers with a G.L.A. of approximately 40,000 square meters and two shopping centers under development. The Company is also active in Bulgaria, through wholly owned subsidiaries of Gazit Development (hereinafter – "Gazit Development (Bulgaria)"), where it owns a shopping center with a G.L.A. of approximately 7,000 square meters, two plots of land for the future development of shopping centers and offices, with an

area of approximately 153,000 square meters and also an office building that is used by the Group.

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

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

C. Highlights – Second quarter of 2007:

- **The Group and the affiliate's investments totaled NIS 1.5 billion, compared to NIS 1.1 billion in the corresponding quarter last year.**

- **Property rental revenue totaled NIS 683 million, an increase of 9% compared to the corresponding quarter last year. The increase is due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the development properties coming on-line and the increase in the average rent per square meter received on the Group's properties.**

- **NOI [1] totaled NIS 465 million, compared to NIS 412 million in the corresponding quarter last year, an increase of 13%.**

- **FFO [2] totaled NIS 65.2 million, NIS 0.55 per share, compared to NIS 61.7 million, NIS 0.58 per share, for the corresponding quarter last year, an increase of 6%.**

  The decrease in FFO per share, in the amount of NIS 0.03, as referred to above, is due to the following reasons:

  1. **The appreciation in the average exchange rates between the aforementioned periods (the U.S. dollar – 9.5%, the Canadian dollar – 7%, and the euro – 2.8%), which has a NIS 4 million effect (NIS 0.03 per share).**

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(1) NOI – Property rental revenue, net of property operating expenses.
(2) See section 3D below.

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

- **The principal operating items, according to the average exchange rates for the second quarter of 2006, are as follows:**

	For the three months ended June 30		Rate of change between the periods
	2007	2006	
	NIS in millions		
Property rental revenue	741	626	18%
NOI	504	412	22%
FFO	69	62	12%
FFO per share	0.58	0.58	-

- **Gross profit totaled NIS 462 million, compared to NIS 299 million in the corresponding quarter last year, an increase of 55%, which is mainly due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.**

- **Cash inflows from operating activities totaled NIS 234 million, compared to NIS 183 million for the corresponding quarter last year, an increase of 28%.**

- **Net income totaled NIS 368 million, NIS 3.06 per share, compared to NIS 126.5 million, NIS 1.16 per share, for the corresponding quarter last year.**

- **At the end of the quarter, the Group had 22 properties under development with a gross area of approximately 260,000 square meters, 22 properties being redeveloped and additional land reserves, costing approximately NIS 1.6 billion, which have been earmarked for future development. The additional cost to complete these properties under development and redevelopment totals NIS 2 billion.**

- **Capital reserves (1) (included within the line item "shareholders' equity") rose by NIS 368.1 million (NIS 3.1 per share), compared to a fall of NIS 43.7 million (NIS 0.41 per share) in the corresponding quarter last year. The increase in the capital surpluses is due to the strengthening of the Canadian dollar, the U.S. dollar and the euro against the shekel (a "devaluation" of the shekel) at the end of the quarter, compared to the weakening of the Canadian dollar, the U.S. dollar and the euro against the shekel (an "appreciation" of the shekel) in the corresponding quarter last year.**

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

- **As of June 30, 2007, debt to market capitalization (derived from the market value of the Group's holdings) was 52.4%, the same as of June 30, 2006, compared 49.4% as of December 31, 2006.**

- **The Company is applying Israel Accounting Standard No. 16, "Investment Property", for the first time commencing from January 1, 2007. As a result of implementing the standard as stated, the Company's shareholders' equity as of December 31, 2006 increased from approximately NIS 2.9 billion to approximately NIS 4.6 billion. Moreover, in the second quarter of 2007, the Company recognized income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 86 million (approximately NIS 71 million after providing for taxes).**

D. <u>Highlights – First six months of 2007 (hereinafter – "the reporting period")</u>:

- **The Group and the affiliate's investments totaled NIS 3.5 billion, a similar amount as in the corresponding period last year.**

- **Property rental revenue totaled NIS 1.3 billion, an increase of 3% compared to the corresponding period last year. The increase is due to the enlargement of the property portfolio as a result of the acquisition of new properties, net of properties sold, the development properties coming on-line and the increase in the average rent per square meter received on the Group's properties.**

- **NOI totaled NIS 893 million, compared to NIS 847 million in the corresponding period last year, an increase of 5%.**

- **FFO [(1)] totaled NIS 130.3 million, NIS 1.10 per share, compared to NIS 133.6 million, NIS 1.29 per share, for the corresponding period last year.**

  The decrease in FFO (NIS 3.3 million) and FFO per share (NIS 0.19) as referred to above, is due to the following reasons:

  1. **The appreciation in the exchange rates between the aforementioned periods (the U.S. dollar – 9.6%, the Canadian dollar – 9.1%, and the euro – 2.2%), which has a NIS 10 million effect (NIS 0.09 per share).**
  2. **Expenses relating to The Mills Corporation ("MLS") shares, which were sold at the end of the first quarter, in the amount of NIS 10 million (NIS 0.09 per share).**
  3. **A NIS 6.1 million (NIS 0.05 per share) increase in non-recurring administrative expenses, mainly due to transactions that did not ultimately take place.**
  4. **Sale of the Texas property portfolio in April 2006.**

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(1) See section 3D below.

- **The principal operating items, according to the average exchange rates for the first six months of 2006, are as follows:**

	For the three months ended June 30		Rate of change between the periods
	2007	**2006**	
	NIS in millions		
Property rental revenue	**1,457**	**1,287**	**13%**
NOI	**981**	**847**	**16%**
FFO	**141**	**134**	**5%**
FFO per share	**1.19**	**1.29**	**(8%)**

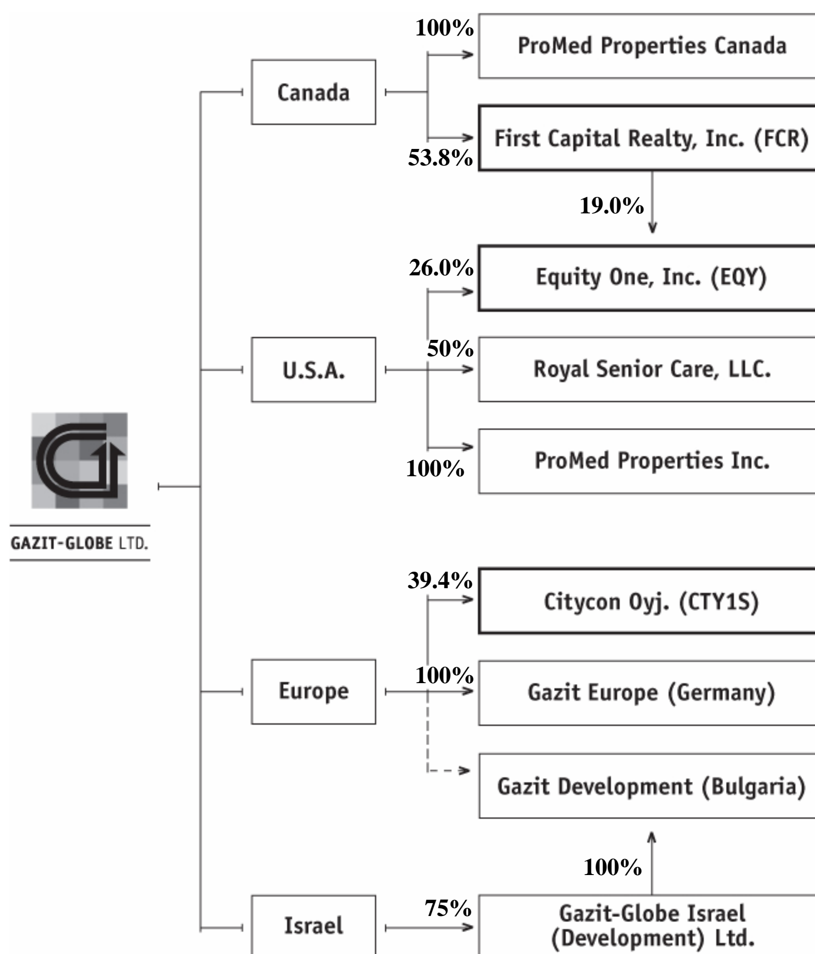
- **Gross profit totaled NIS 888 million, compared to NIS 621 million in the corresponding period last year, an increase of 43%, which is due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.**

- **Cash inflows from operating activities totaled NIS 404 million, compared to NIS 338 million for the corresponding period last year, an increase of 20%.**

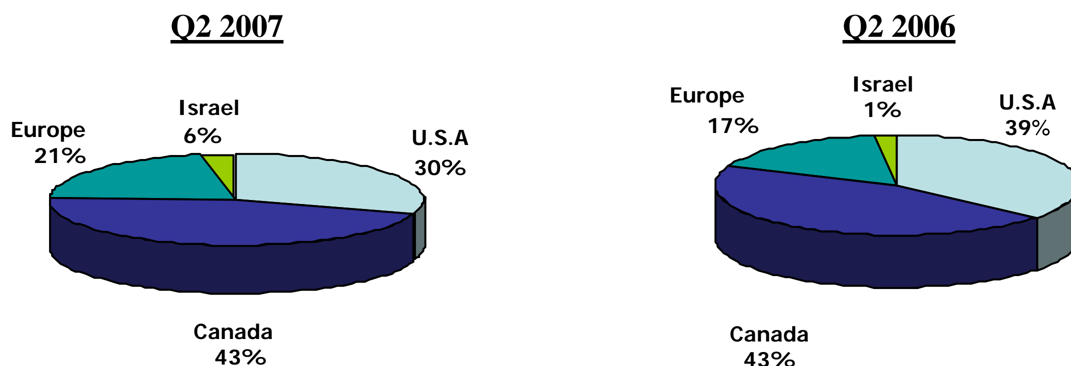
- **Net income totaled NIS 603.2 million, NIS 5.02 per share, compared to NIS 166.8 million, NIS 1.60 per share, for the corresponding period last year.**

- **The Company is applying Israel Accounting Standard No. 16, "Investment Property", for the first time commencing from January 1, 2007. As a result of implementing the standard as stated, the Company recognized, in the reporting period, income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 276 million (approximately NIS 228 million after providing for taxes).**

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



F. Breakdown of Net Operating Income ("NOI")[1], According to the Company's Operating Regions:



(1) The Company's share ("by proportionate consolidation"), including its equity in an affiliate - see section G.2 below.

G. The Company's Assets:

1. The following table presents a summary of the Company's assets as of June 30, 2007, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions) [1]	Market value as of June 30, 2007 (NIS in millions)
EQY [2]	Shares (NYSE)	17.1	23.2	1,471	1,854
FCR	Shares (TSX)	41.4	53.4	3,835	4,210
FCR	Convertible debentures (TSX)	105.3	42.1	436	440
Citycon	Shares (OMX)	76.0	39.5	1,924	2,006
Citycon	Convertible debentures (OMX)	37	33.6	215	271
RSC	Income-producing property	-	-	268	-
Property in Europe	Income-producing property	-	-	670	-
ProMed	Income-producing property	-	-	1,051	-
Property in Israel	Income-producing property	-	-	1,364	-
Total				**11,234**	**-**

(1) According to the fair value of the assets in conformance with Israel Accounting Standard No. 16 and at depreciated cost in conformance with Israel Accounting Standard No. 27.

(2) Represents only the Company's direct interest in EQY. (In adddition, FCR owns 14 million shares of EQY).

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

Debentures and debts to financial institutions *	6,243
Monetary liabilities, other than debentures and debts to financial institutions	347
Total monetary liabilities	6,590
Less – monetary assets	866
Monetary liabilities, net	5,724

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

Year	Total	%
2007	74	1
2008	102	2
2009	160	3
2010	341	6
2011	491	8
2012	465	8
2013	448	7
2014	893	14
2015	485	8
2016	465	7
2017	209	3
2018	446	7
2019	461	7
2020	463	7
2021	614	10
2022 and after	126	2
Total	**6,243**	**100**

2. Additional information is presented below concerning the Company's share in the income-producing properties owned by the Group as of June 30, 2007, based on capitalized net operating income ("NOI")[1] methodology. The presentation of this information is intended to provide additional information, based on methodology that is generally accepted in the regions in which the Company operates, which might serve as an additional method in analyzing the value of the Company's properties on the basis of the Company's financial results for the reporting period. It is emphasized that this information does not represent the Company's present or future value of its assets.

   The sensitivity analyses shown in the table below describe the implied value of the income-producing properties[2] owned by the Group according to the range of different cap rates generally accepted in the regions in which the Group operates, as of the date of publishing the financial statements. It should be noted that this presentation does not take into account additional building rights that exist in respect of the Group's income-producing properties.

   In calculating the NOI, the following assumptions were made:

   a. The NOI for the period for each of the Group companies.

   b. The Company's proportionate share in the NOI of the Group companies:

	For the three months ended June 30		**For the year ended December 31,**
	2007	**2006**	**2006**
	NIS in millions		
Property rental revenue	683	626	2,552
Property operating expenses	(218)	(214)	(868)
NOI for the period	465	412	1,684
Less – minority's share in NOI	(239)	(221)	(893)
Add – Company's share in Citycon's NOI	56	41	180
NOI for the period	**282**	**232**	**971**
NOI for the year	**[3]1,129**	**[3]929**	**971**

Cap Rate:	**5.75%**	**6.00%**	**6.25%**	**6.50%**
Value of proportionately consolidated income-producing property (NIS in millions)[4]	19,631	18,813	18,060	17,366

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[1] NOI - Property rental revenue, net of property operating expenses.
[2] NOI divided by the cap rate.
[3] NOI for the second quarter of 2007 multiplied by 4.
[4] In accordance with the NOI for the second quarter of 2007.

New properties and properties under development, which have not yet come on line and which are presented at their carrying values in the Company's books (according to the proportionate consolidation method) as of June 30, 2007, amounted to NIS 1,110 million.

The Group's liabilities, net of monetary assets (by the proportionate consolidation method) as of June 30, 2007, amounted to NIS 12,352 million.

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

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

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

Presented below is the calculation[1] of the EPRA NAV and EPRA NNNAV:

	As of June 30, 2007
	NIS in thousands
a. EPRA NAV	
Shareholders' equity per financial statements	5,509,768
Adjustments for neutralization of fair value of financial instruments	79,153
Add – Provision for tax on revaluation of investment property to fair value (net of minority's share)	968,659
Net asset value - EPRA NAV	6,557,580
EPRA NAV per share (in NIS)	55.6
b. EPRA NNNAV	
EPRA NAV	6,557,580
Adjustment for addition of fair value of financial instruments	(19,007)
Adjustments of financial liabilities to fair value	(194,762)
Other adjustments to provision for deferred taxes	-
"Adjusted" net asset value - EPRA NNNAV	6,343,811
EPRA NNNAV per share (in NIS)	53.8

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

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

H. Change in Shareholders' Equity and Reported Income Due to Changes in Accounting Standards:

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16, "Investment Property" (hereinafter – "the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements with regard to investment property.

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation (or both) and which is not held for use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

The main changes prescribed by the Standard as compared to the accounting principles that were applied prior to January 1, 2007, are:

Investment property is to be presented according to the cost model or at fair value. The Company has opted to apply the fair value model as its accounting policy for the presentation of investment property. The Company has reported the effect of adopting the Standard from January 1, 2007 as an adjustment to the opening balance of the retained earnings at that date.

Property rights held by a lessee under an operating lease from the Israel Lands Administration are classified as investment property. The Company will apply the fair value model in respect thereto.

Presented below are details of the effect of the Standard, which has been carried directly to shareholders' equity:

	Company's share	Minority's share	Total
	NIS in millions		
Increase in balance of investment property	**2,527**	**3,722**	**6,249**
Increase in provision for deferred taxes [1]	**(780)**	**(285)**	**(1,065)**
Increase in minority interest	**-**	**(3,437)**	**(3,437)**
Total increase in balance of retained earnings	**1,747**	**-**	**1,747**

[1] See note 2b.1 to the financial statements.

I. **<u>Disclosure Concerning Adoption of International Financial Reporting Standards</u>:**

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

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

1. Effect on shareholders' equity as of January 1, 2005, December 31, 2005 and December 31, 2006.

2. Effect on statements of income for each of the two years ended December 31, 2006.

3. Effect of transition to IFRS on the balance of retained earnings on the transition date.

4. Effect as of June 30, 2007 and for the six months ended on June 30, 2007.

5. Exemptions that the Company will take advantage of in the transition to IFRS.

6. The main differences between the accounting principles that will be applied under IFRS and the accounting principles that are applied under Israeli GAAP.

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

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 2.5 billion. In addition, Citycon invested NIS 1 billion in acquiring and developing properties during the reporting period. The effect of these investments on the operating results will be reflected in the remainder of the year.

A. Property Activities

1. During the reporting period, the Group acquired 18 income-producing properties, with a total G.L.A. of approximately 208,000 square meters and seven plots of land for future development. The aggregate consideration for these acquisitions totaled NIS 2.1 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, 2007, EQY and FCR had nine properties of approximately 64,300 square meters under development, 22 properties being redeveloped and expanded and additional land reserves, which have been earmarked for future development. The total cost of these properties and land reserves totals NIS 1.1 billion. The cost to complete these development, redevelopment and expansion projects is expected to amount to a further NIS 0.8 billion.

   The total cost of the properties and land as described above, which are being developed or are intended for future development, as well as the properties of Gazit Development, RSC and Gazit Europe that are being developed, is approximately NIS 1.6 billion. These properties and land did not generate any rental revenue during the reporting period.

4. As of June 30, 2007, EQY and FCR's average basic monthly rental revenue was US$ 10.58 per square meter. During the second quarter of 2007, EQY and FCR renewed leases on 49,000 square meters, while increasing the average basic monthly rent on these leases by 13.1% to an average monthly rent of US$ 13.44 per square meter. Additionally, the companies signed new leases on 30,000 square meters at a basic average monthly rent of US$ 8.77 per square meter. The net operating income from the same properties increased by an average of 4.5%, compared to the corresponding period last year.

   EQY's and FCR's core properties had an average occupancy rate of 94.5% as of June 30, 2007 (the rate was 95.1% as of June 30, 2006).

5. As of June 30, 2007, RSC's properties had an occupancy rate of 90.9% (the rate was 94.5% as of June 30, 2006). The average monthly rental revenue was US$ 3,240 per unit and the NOI margin for the reporting period was 30%.

   RSC has land reserves of two plots for the construction of additional senior housing communities for a total investment of US$ 8.5 million (approximately NIS 36.1 million). The latter will consist of 471 units and the additional investment to bring them to completion is expected to be US$ 71 million (approximately NIS 302 million).

6. As of June 30, 2007, Gazit Development's properties had an occupancy rate of 93.6% and yielded average monthly rental revenues of NIS 73.1 per square meter.

   As of June 30, 2007, Gazit Development had a stake in 15 properties in Israel, as detailed below (data presented in thousands of NIS, except for rental areas):

	Qty.	Book value *	Additional investment to complete development	Rental area (square meters in thousands)
Income-producing properties	8	964,900	-	107
Properties and plots of land under development	7	366,544	480,000	118

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

In addition, as of June 30, 2007, Gazit Development owns in Bulgaria an income-producing property with a G.L.A. of approximately 7,000 square meters and an office building. It also owns two plots of land in Bulgaria that are intended for the development of shopping centers and offices with an area of approximately 153,000 square meters, representing an investment of €8.8 million (approximately NIS 50.3 million). The expected additional cost of bringing these properties to completion, in a number of stages, is €20.1 million (approximately NIS 115 million), with the first stage expected to add approximately 40,000 square meters out of the total of approximately 200,000 square meters, whose development will be completed in a number of stages, as stated.

7. As of June 30, 2007, Gazit Europe's properties in Germany had an occupancy rate of 97.1% and yielded average monthly rental revenues of €11 per square meter.

   As of June 30, 2007, Gazit Europe had a stake in properties in Germany, as detailed below (data presented in thousands of euros, except for rental areas):

	Qty.	**Book value ***	**Additional investment to complete development**	**Rental area (square meters in thousands)**
Income-producing properties	4	85,673	-	40
Properties and plots of land under development	2	12,514	75,300	38

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

8. In the reporting period, Citycon invested €158.7 million (approximately NIS 900 million) in the acquisition of income-producing properties and in increasing its stake in existing shopping centers, and also in the redevelopment, at a cost of €22.7 million (approximately NIS 130 million), of income-producing properties.

   The net operating income from the same properties increased by 8.8%, compared to the corresponding period last year.

   As of June 30, 2007, Citycon's properties had an occupancy rate of 95.8% (the rate was 96.7% as of June 30, 2006).

   As of June 30, 2007, Citycon had two properties under development at an investment of €22.5 million (approximately NIS 128 million); the expected additional cost of bringing these properties to completion is €21.4 million (approximately NIS 122 million) and their completion is expected to add approximately 22,000 square meters.

B. As to the issuance of capital by the Company – see note 3a to the financial statements.

C. As to the public debt financing by the Company by way of a shelf prospectus – see note 3c to the financial statements.

D. As to the placement of debentures by EQY – see note 3d to the financial statements.

E. As to the issuance of debentures and convertible debentures by FCR – see notes 3e, 3f and 3g to the financial statements.

F. As to an agreement for the provision of an unsecured credit line to FCR – see note 3h to the financial statements.

G. As to the issuance of capital by Citycon and the Company's participation in this issue – see note 3i to the financial statements.

H. As to the sale of MLS shares – see note 3b to the financial statements.

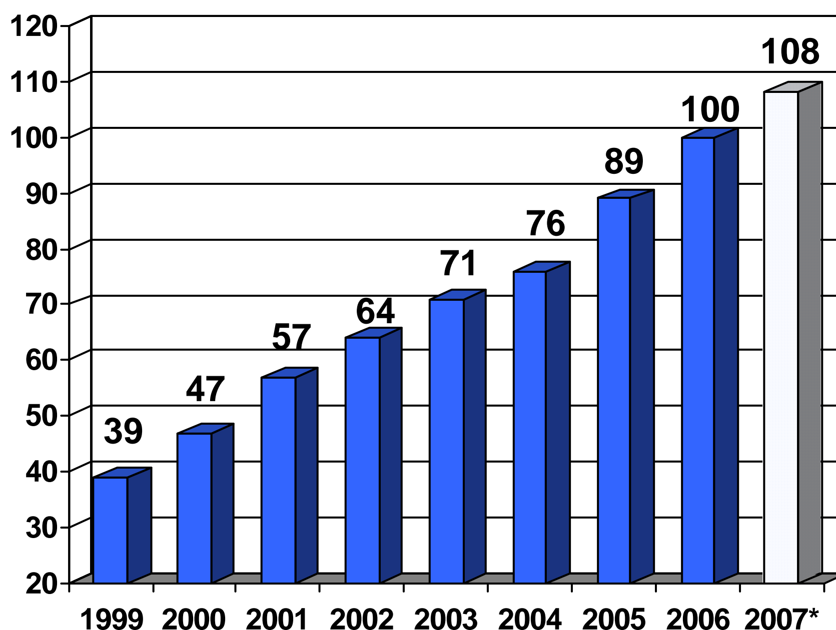
I. Dividend Distribution Policy:

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 2006, the Company decided that the dividend to be declared in 2007 would not be less than NIS 0.27 per share per quarter (NIS 1.08 per share on an annualized basis).

The above is subject to the existence of adequate amounts of distributable income at the relevant dates and is subject to the provisions of any law relating to dividend distributions and to decisions that the Company is permitted to take. This includes the appropriation of its income for other purposes and the revision of this policy.

The Company's dividend growth in the years 1999-2007 is shown in the graph below:

Agurot per share
(100 Agurot = NIS 1)



* 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,
	2007	2006	2007	2006	2006
	NIS in thousands (other than net earnings per share data)				
Property rental revenue	1,326,735	1,286,822	682,937	625,537	2,552,296
Property rental operating expenses	433,636	439,742	218,430	213,717	867,838
Property rental depreciation	4,759	226,207	2,875	113,276	453,259
Gross profit	**888,340**	**620,873**	**461,632**	**298,544**	**1,231,199**
Increase in fair value of investment property	502,309	-	148,711	-	-
General and administrative expenses	203,062	120,378	104,203	65,558	283,418
Operating income	**1,187,587**	**500,495**	**506,140**	**232,986**	**947,781**
Financing expenses, net	410,063	378,867	232,983	207,780	757,617
	777,524	**121,628**	**273,157**	**25,206**	**190,164**
Other income (expenses), net	(5,214)	324,977	2,786	317,251	514,101
Income before taxes on income	**772,310**	**446,605**	**275,943**	**342,457**	**704,265**
Taxes on income	131,806	48,593	49,602	24,319	84,211
Income after taxes on income	**640,504**	**398,012**	**226,341**	**318,138**	**620,054**
Equity in earnings of affiliates	367,225	152,799	293,732	115,127	270,566
Minority interest in earnings of subsidiaries	(404,569)	(384,059)	(152,210)	(306,801)	(529,242)
Net income	**603,160**	**166,752**	**367,863**	**126,464**	**361,378**
Fully diluted earnings per share	**5.02**	**1.59**	**3.06**	**1.15**	**3.17**
Number of shares used in computing fully diluted earnings per share (thousands of shares)	**118,409**	**103,406**	**118,470**	**106,016**	**108,334**

B. Analysis of Results of Operations for the First Half of 2007:

Property rental revenue

The 3% increase compared to the corresponding 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 development properties coming on-line and the increase in the average rent per square meter received on the Group's properties. This increase was partly set-off by the changes in the average exchange rates of the Canadian dollar and the U.S. dollar between the periods.

Property operating expenses

The decrease in rental operating expenses, compared to the corresponding period last year, is mainly due to the changes in exchange rates. Rental property operating expenses, as a percentage of property rental revenue, fell to 32.7% from 34.2% for the corresponding period last year. This is mainly due to an improvement in this percentage in FCR and also to EQY's reclassification of general property operating expenses in the amount of NIS 8 million to administrative expenses.

Property depreciation

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company no longer records depreciation expenses for investment property, see also section 1H above.

Gross profit

Gross profit totaled NIS 888 million (67% of property rental revenue); this compares to NIS 621 million (48.2% of property rental revenue) for the corresponding period last year – an increase of 43%. The increase in gross profit as a percentage of property rental revenue is mainly due to the implementation of Israel Accounting Standard No. 16, as explained above.

Increase in fair value of investment property

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company made an adjustment, in the first half of 2007, to the fair value of its properties in the gross amount of NIS 502 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 276 million, (approximately NIS 228 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 9.3%, compared to 6.8% for the corresponding period last year.

The higher percentage referred to above is mainly due to the following factors:

1) An increase in the Group's salary expenses as a result of taking on additional staff to cope with the growth in the Group's operations, salary expenses in respect of EQY employees that, in the past, were classified as general property operating expenses and salary expenses linked to the increase in the Company's net income.
2) A non-recurring charge relating to the evaluation of transactions that did not ultimately take place.
3) An increase in non-recurring fees to professional service providers, mainly in respect of the transition to reporting under IFRS and the valuations of investment property.

Financing expenses, net:

The change in financing expenses results from the following factors:

1) An increase in the Group's loans from an average balance of NIS 14.5 billion in the first half of 2006 to an average balance of NIS 17.6 billion in the first half of 2007. Interest expenses reflect an average nominal interest rate of approximately 5.8% on the Group's indebtedness, compared to 6.1% in the corresponding period last year.

2) The financing expenses are net of gross income of NIS 56.4 million from investments in marketable securities, which includes NIS 30.5 million from dividends, compared to NIS 38 million received in the corresponding period last year, which included NIS 29.2 million from dividends.

Other income (expenses), net

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

As a result of the dilution of holdings in investee companies (primarily in respect of the issuance of shares and stock options and also the conversion of debentures redeemable into shares), the Company recorded a loss of NIS 3.6 million, compared to a gain of NIS 29 million in the corresponding period last year.

Additionally, EQY sold an income-producing property and three plots of land, which produced a gross gain for the Group of NIS 6.6 million (the Company's share being NIS 2.2 million), compared to the gain of NIS 393 million (the Company's share being NIS 127 million), which was mainly due to the sale of the Texas property portfolio by EQY in the corresponding period last year.

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

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon totaling NIS 363.4 million, compared to NIS 145.4 million in the corresponding period last year.

In the first half of 2007, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of €191.6 million (approximately NIS 1,056 million) in their gross value (the Company's share, net of related taxes, is approximately NIS 329 million (approximately NIS 116 million in the corresponding period last year)).

Minority interest in earnings of subsidiaries

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

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

Property rental revenue

The 9% increase compared to the corresponding 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 development properties coming on-line and the increase in the average rent per square meter received on the Group's properties. This increase was partly set-off by the changes in the average exchange rates of the Canadian dollar and the U.S. dollar between the periods.

Property operating expenses

The decrease in rental operating expenses, compared to the corresponding period last year, is mainly due to the changes in exchange rates. Rental property operating expenses, as a percentage of property rental revenue, fell to 32% from 34.2% for the corresponding period last year. This is mainly due to an improvement in this percentage in FCR and also to EQY's reclassification of general property operating expenses in the amount of NIS 8 million to administrative expenses.

Property depreciation

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company no longer records depreciation expenses for investment property, see also section 1H above.

Gross profit

Gross profit totaled NIS 462 million (67.6% of property rental revenue); this compares to NIS 299 million (47.7% of property rental revenue) for the corresponding period last year – an increase of 55%. The increase in gross profit as a percentage of property rental revenue is mainly due to the implementation of Israel Accounting Standard No. 16, as explained above.

Increase in fair value of investment property

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company made an adjustment, in the second quarter of 2007, to the fair value of its properties in the gross amount of NIS 149 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 86 million, (approximately NIS 71 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 9.2%, compared to 6.2% for the corresponding period last year.

The higher percentage referred to above is mainly due to the following factors:

1) An increase in the Group's salary expenses as a result of taking on additional staff to cope with the growth in the Group's operations, salary expenses in respect of EQY employees that, in the past, were classified as general property operating expenses and salary expenses linked to the increase in the Company's net income.
2) A non-recurring charge relating to the evaluation of transactions that did not ultimately take place.
3) An increase in non-recurring fees to professional service providers, mainly in respect of the transition to reporting under IFRS and the valuations of investment property.

Financing expenses, net:

The change in financing expenses results from the following factors:

1) An increase in the Group's loans from an average balance of NIS 15 billion in the second quarter of 2006 to an average balance of NIS 18.3 billion in the second quarter of 2007. Interest expenses reflect an average nominal interest rate of approximately 5.8% on the Group's indebtedness, compared to 6% in the corresponding period last year.

2) The financing expenses are net of gross income of NIS 7.6 million from investments in marketable securities, which includes NIS 3.6 million from dividends, compared to NIS 5.9 million received in the corresponding period last year, which included NIS 4.3 million from dividends.

Other income (expenses), net

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

As a result of the dilution of holdings in investee companies (primarily in respect of the issuance of shares and stock options and also the conversion of debentures redeemable into shares), the Company recorded a gain of NIS 1.5 million, compared to a gain of NIS 25.7 million in the corresponding period last year.

Additionally, EQY sold two plots of land, which produced a gross gain for the Group of NIS 2.2 million (the Company’s share being NIS 0.7 million), compared to the gain of NIS 390 million (the Company’s share being NIS 126 million), which was mainly due to the sale of the Texas property portfolio by EQY in the corresponding period last year.

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

Equity in earnings of affiliates

The increase in this item is attributable to the Company’s equity in the earnings of Citycon totaling NIS 292.4 million, compared to NIS 107.7 million in the corresponding period last year.

In the second quarter of 2007, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation of €160 million (approximately NIS 882 million) in their gross value (the Company’s share, net of related taxes, is approximately NIS 278 million (approximately NIS 92 million in the corresponding period last year)).

Minority interest in earnings of subsidiaries

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

D. FFO and FFO per share:

The Company's practice is to publish its FFO results, which is the net reported income, after neutralizing income and expenditure of a non-recurring nature (including gains and losses resulting from the sale of properties, the adjustment of the fair value of investment property[(1)] and the changes in the percentage stake held in investee companies) and with the addition of the Company's share of depreciation of rental properties[(2)] and amortization. It also publishes FFO per share results, as is already the accepted practice in those countries in which the Company operates and in accordance with the position paper issued by the NAREIT – the U.S.-based National Association of Real Estate Investment Trusts.

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

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

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(1) With regard to those assets that fall within the definition of Israel Accounting Standard No. 16.
(2) With regard to those assets that fall within the definition of Israel Accounting Standard No. 27.

The Company is of the opinion that FFO and FFO per share accurately reflect an additional aspect of the Company's operating results, providing a more appropriate basis for comparing the Company's operating results for a given period to those for previous periods and for comparing the Company's operating results to those of other property companies.

The table below presents the breakdown of the Company's FFO and FFO 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,
	2007	**2006**	**2007**	**2006**	**2006**
	NIS in thousands (other than FFO per share data)				
Net income	**603,160**	**166,752**	**367,863**	**126,464**	**361,378**
Adjustments to net income:					
Increase in fair value of investment property	(276,469)	-	(86,135)	-	-
Depreciation and amortization	28,751	[(1)]202,840	6,630	[(1)]151,602	[(1)]231,644
Gains from dilution in holdings of consolidated subsidiaries	2,133	(28,680)	(1,606)	(25,663)	(33,301)
Losses (gains) from the sale of properties	30	(118,918)	405	(118,310))	(147,197)
Deferred tax expenses	62,911	15,643	26,508	11,615	34,863
Equity in earnings of affiliates[(2)]	(367,225)	(152,799)	(293,732)	(115,127)	(270,566)
Equity in FFO of affiliates	43,556	39,376	24,755	24,882	82,190
Other adjustments[(3)]	33,499	9,423	20,551	6,254	21,473
Total adjustments to FFO net income	**(472,814)**	**(33,115)**	**(302,624)**	**(64,747)**	**(80,894)**
FFO	**130,346**	**133,637**	**65,239**	**61,717**	**240,484**
Primary FFO per share (in NIS)	**1.11**	**1.30**	**0.55**	**0.58**	**2.60**
Fully diluted FFO per share (in NIS)	**1.10**	**1.29**	**0.55**	**0.58**	**2.59**
Number of shares used in computing fully diluted earnings per share (thousands of shares)	**118,409**	**103,406**	**118,470**	**106,016**	**108,334**

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

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

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

4. Financial Status:

Liquidity

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

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

As of June 30, 2007, the liquid assets available to the Group, including short-term investments, totaled NIS 439 million, compared to NIS 342 million as of December 31, 2006. In addition, as of June 30, 2007, the Group had unutilized credit facilities available for immediate drawdown of NIS 4.4 billion, compared to NIS 3.8 billion as of December 31, 2006.

Furthermore, as of June 30, 2007, the Group had unpledged investment property, which is carried in the books at NIS 15.3 billion.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown totaling NIS 4.8 billion.

Current Assets

Current assets, as of June 30, 2007, totaled NIS 1 billion, compared to NIS 0.8 billion as of December 31, 2006. The increase relates mainly to the item, "cash and cash equivalents", which increased due to the sale of the MLS shares at the end of the first quarter of 2007.

Investments in Affiliates

Investments in affiliates, totaling NIS 2,151 million as of June 30, 2007, relate primarily to the investment in 76 million shares of Citycon and in convertible debentures of Citycon with a nominal value of €37 million; investments in affiliates as of December 31, 2006 totaled NIS 1,429 million. During the reporting period, the Company acquired additional Citycon shares, by means of purchases on the stock exchange and through participation in an issuance of Citycon shares, at an overall cost of NIS 326 million.

Long-Term Investments

Long-term investments, as of June 30, 2007, totaled NIS 841 million, compared to NIS 1,151 million as of December 31, 2006.

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

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

Investment property, investment property under development and fixed assets, net, as of June 30, 2007, totaled NIS 31.5 billion, compared to NIS 20.7 billion at the end of 2006. The increase is mainly due to the effect of the first-time implementation of Israel Accounting Standard No. 16 totaling NIS 6.2 billion, see also section 1H above.

During the reporting period, the Group acquired income-producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 2.5 billion. In addition, the strengthening of the U.S. dollar, the Canadian dollar and the euro against the shekel at the end of the reporting period caused an increase of NIS 1.6 billion in these items.

Current Liabilities

Current liabilities, as of June 30, 2007, totaled NIS 1.8 billion, compared to NIS 1.6 billion at the end of 2006. The balance mainly consists of the line item "credit from banks and others", which mainly consists of the current maturities of long-term liabilities in the amount of NIS 1 billion, compared to NIS 0.9 billion at the end of 2006.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.6 billion (at the end of 2006 – NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, as of June 30, 2007, totaled NIS 20.1 billion, compared to NIS 15.7 billion at the end of 2006.

The increase in this item derives principally from the issuance of debentures and the taking of new loans, which primarily financed investments in fixed assets, the acquisition of long-term investments and investments in investee companies, as well as from the increase in net deferred taxes, which rose by an amount of NIS 1.1 billion as a result of the fair value adjustment to the Company's investment property.

Minority Interests

Minority interests, as of June 30, 2007, mainly consist of the interests of EQY's other shareholders, who, as of June 30, 2007, accounted for 57.8% of EQY's equity, and also the interests of FCR's other shareholders. At the above date, FCR's other shareholders accounted for 46.6% of FCR's equity.

The increase in this item is due to the effect of the first-time implementation of Israel Accounting Standard No. 16, as referred to above, totaling NIS 3.4 billion and FCR's issuance of shares during the reporting period to its shareholders. Another factor affecting the increase is the devaluation of the U.S. dollar and Canadian dollar against the shekel at the end of the reporting period, which increased the shekel amount of EQY's and FCR's shareholders' equity.

Shareholders' Equity

The change in shareholders' equity, from NIS 2,865 million as of December 31, 2006, to NIS 5,510 million as of June 30, 2007, results mainly from the effect of the first-time implementation of Israel Accounting Standard No. 16, totaling NIS 1,747 million, from the income for the reporting period, totaling NIS 603 million, from the increase in the item "other capital surpluses", totaling NIS 348 million, and from the sale of treasury stock by the Company, totaling NIS 9 million. These were partly offset by the dividends of NIS 64 million paid and declared by the Company.

Shareholders' equity per share, as of June 30, 2007, totaled NIS 46.7 per share, compared to NIS 24.3 per share as of December 31, 2006. This is after a dividend distribution of NIS 0.54 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes accumulated depreciation in respect of fixed assets) stood at 53.8% as of June 30, 2007, compared to 63.1% as of December 31, 2006.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 52.4% as of June 30, 2007, compared to 49.4% as of December 31, 2006.

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

Cash Flows

Cash inflows from operating activities for the reporting period and the second quarter totaled NIS 404 million and NIS 234 million, respectively, compared to NIS 338 million and NIS 183 million, respectively, for the corresponding periods last year.

In the reporting period, the Group's activities were funded by means of capital raised by the Company and its consolidated subsidiaries totaling NIS 147 million, long-term debentures and convertible debentures issued in a net amount of NIS 2,044 million, loans received and credit facilities drawn on in a net amount of NIS 169 million and long-term investments sold totaling NIS 419 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets and investment property, which totaled NIS 2,506 million and for further investments in investee companies totaling NIS 344 million.

In the second quarter of 2007, the Group's activities were funded by means of capital raised by the Company and its consolidated subsidiaries totaling NIS 93 million and long-term debentures and convertible debentures issued in an amount of NIS 1,405 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets and investment property, which totaled NIS 1,028 million, for the repayment of loans and credit facilities totaling NIS 849 million, for further long-term investments totaling NIS 55 million, net and for further investments in investee companies totaling NIS 18 million.

5. Donations

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

The Company makes donations to Tel-Aviv University, which 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$ 150,000 for a period of seven years.

The Company donates to the "College for All" charity – a not-for-profit organization working to close the gaps in education by means of creating equal opportunities. The organization strives to realize its vision of excellence through the provision of learning and other tools to students with ability and motivation, who come from underprivileged neighborhoods. The goal is to encourage such students into academic studies. Within the framework of this organization, the Company has pledged to provide assistance to a group of students for a period of five years.

During the reporting period, the Group's donations amounted to NIS 1.688 million.

6. Additional Information and Subsequent Events:

A. From the balance sheet date through the signing date of the financial statements, the Group and the affiliate invested a total of NIS 183 million in acquiring new properties and plots of land for future development. In addition, Citycon entered into a binding agreement for the acquisition of an income-producing property for €329 million.

B. As to the issuance of a new series of debentures by the Company – see note 4a to the financial statements.

C. In July and August 2007, a wholly owned subsidiary of the Company acquired – through purchases on the New York Stock Exchange (NYSE) – 2.1 million EQY shares for a consideration of US$ 50.7 million (approximately NIS 216 million). As a result of the aforesaid acquisition, the Group's holding in EQY has risen from 42.2% to 45%.

D. As to the sale of MLS Preferred shares – see note 4c to the financial statements.

E. In July 2007, the international rating company "DBRS" raised FCR's credit rating from BBB(Low) to BBB.

7. Critical Accounting Estimates

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

Changes in fair value of investment property

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

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

8. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's President, and Mr. Gil Kotler, the Company's Chief Financial Officer. Since the publication of the Company's annual report for 2006 on March 25, 2007, there have been no significant changes in the market risks or the way in which they are managed. Attached as Appendix B is the Company's linkage bases balance sheet as of June 30, 2007.

9. Disclosure Regarding Financial Statements Approval Process

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

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

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

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

August 16, 2007		
Date of Approval of Directors' Report	**Chaim Katzman** Chairman of the Board of Directors	**Dori Segal** President and Director

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

1. Reconciliations of shareholders' equity:

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands								
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents		52,807	-	52,807	282,212	-	282,212	194,221	118,397	312,618
Short-term investments		56,021	-	56,021	68,691	(143)	68,548	147,717	-	147,717
Derivative financial instruments	6.j	-	-	-	-	-	-	-	2,365	2,365
Tenants		103,123	-	103,123	110,732	-	110,732	132,817	5,642	138,459
Accounts receivables		125,811	(2,859)	122,952	188,952	(6,260)	182,692	210,697	33,301	243,998
Rental properties held for sale	6.f	54,888	9,215	64,103	1,298,902	487,394	1,786,296	130,739	3,346	134,085
Current tax assets	6.k	-	3,592	3,592	-	4,799	4,799	-	18,977	18,977
		392,650	9,948	402,598	1,949,489	485,790	2,435,279	816,191	182,028	998,219
NON-CURRENT ASSETS:										
Long-term investments	6.i	216,105	(180,001)	36,104	650,056	(616,277)	33,779	1,151,209	(1,118,556)	32,653
Long-term loans and receivables	6.a	88,687	(35,206)	53,481	116,503	(61,760)	54,743	151,432	(97,813)	53,619
Investments in available-for-sale financial assets	6.i	-	216,710	216,710	-	642,772	642,772	-	986,746	986,746
Derivative financial instruments	6.j	-	12,306	12,306	-	21,160	21,160	-	55,252	55,252
Investments in affiliates	6.e,g	533,867	2,479	536,346	721,864	630	722,494	1,429,340	(1,427,286)	2,054
Investment property	6.a	-	17,192,360	17,192,360	-	20,633,124	20,633,124	-	33,160,546	33,160,546
Investment property under development	6.a	-	317,711	317,711	-	793,902	793,902	-	1,566,790	1,566,790
Fixed assets, net	5.c	14,613,735	(14,225,572)	388,163	17,045,266	(16,807,998)	237,268	20,419,451	(20,137,790)	281,661
Goodwill	6.e	60,516	10,033	70,549	44,652	19,614	64,266	44,199	69,817	114,016
Other intangible assets, net	6.a,i	196,579	(196,225)	354	273,894	(273,502)	392	179,208	(178,787)	421
Deferred taxes	6.a,d,k	50,356	(35,529)	14,827	-	15,135	15,135	-	67,868	67,868
		15,759,845	3,079,066	18,838,911	18,852,235	4,366,800	23,219,035	23,374,839	12,946,787	36,321,626
TOTAL ASSETS		16,152,495	3,089,014	19,241,509	20,801,724	4,852,590	25,654,314	24,191,030	13,128,815	37,319,845

(*) Including in respect of the full consolidation of Citycon – see section 6.g below.

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands								
EQUITY AND LIABILITIES										
CURRENT LIABILITIES:										
Credit from banks and others	6.i	755,391	(3,469)	751,922	1,291,091	(290,267)	1,000,824	966,558	483,590	1,450,148
Trade payables		152,474	-	152,474	207,621	-	207,621	195,594	25,156	220,750
Other accounts payable		256,216	(17,987)	238,229	345,404	(16,186)	329,218	402,194	168,615	570,809
Dividend declared		-	-	-	22,610	-	22,610	29,457	-	29,457
Liabilities associated with rental properties held for sale	6.f	-	-	-	-	250,610	250,610	-	-	-
Derivative financial instruments	6.j	-	6,869	6,869	-	377	377	-	18,236	18,236
Current tax liabilities	6.k	-	11,262	11,262	-	9,051	9,051	-	43,084	43,084
		1,164,081	(3,325)	1,160,756	1,866,726	(46,415)	1,820,311	1,593,803	738,681	2,332,484

(*) Including in respect of the full consolidation of Citycon – see section 6.g below.

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands								
NON-CURRENT LIABILITIES:										
Liabilities to financial institutions and others	6.i	7,182,308	(39,582)	7,142,726	7,951,227	(8,462)	7,942,765	7,014,366	3,524,496	10,538,862
Convertible debentures redeemable into shares of subsidiaries	6.c	479,220	2,552	481,772	351,827	(29,328)	322,499	468,134	303,117	771,251
Debentures	6.i	2,298,157	(21,150)	2,277,007	4,176,037	(49,784)	4,126,253	8,024,421	37,214	8,061,635
Linked stock options	6.b	-	13,418	13,418	-	14,693	14,693	-	1,188	1,188
Receipts from issuance of stock options in subsidiaries	6.b	-	-	-	1,284	(1,284)	-	5,909	(5,909)	-
Equity component of convertible debentures redeemable into shares of subsidiaries	6.c	-	-	-	-	-	-	19,762	(19,762)	-
Deposits from lessees and tenants		267,416	-	267,416	65,068	-	65,068	67,084	-	67,084
Derivative financial instruments	6.j	-	11,800	11,800	-	43,642	43,642	-	87,839	87,839
Employee benefits liability		1,042	-	1,042	164	-	164	259	-	259
Deferred taxes	5.a,6.a	-	671,096	671,096	85,981	883,124	969,105	168,176	1,377,603	1,545,779
Minority interest	6.h	3,458,056	(3,458,056)	-	4,395,154	(4,395,154)	-	3,963,738	(3,963,738)	-
Total non-current liabilities:		13,686,199	(2,819,922)	10,866,277	17,026,742	(3,542,553)	13,484,189	19,731,849	1,342,048	21,073,897
EQUITY:										
Issued capital		144,014	-	144,014	160,781	-	160,781	171,412	-	171,412
Share premium	6.b	922,900	(2,140)	920,760	1,409,685	31,726	1,441,411	2,071,145	52,886	2,124,031
Dividend declared subsequent to balance sheet date		17,200	-	17,200	25,419	-	25,419	31,813	-	31,813
Capital reserve for translation differences on foreign operations	5.b	124,974	(124,974)	-	257,360	(71,815)	185,545	82,620	(197,903)	(115,283)
Loans for purchase of shares		(9,418)	9,418	-	(10,818)	10,818	-	(9,844)	9,844	-
Treasury stock		(116,004)	-	(116,004)	(203,159)	-	(203,159)	(24,574)	-	(24,574)
Retained earnings		219,573	615,274	834,847	263,089	1,099,385	1,362,474	507,938	1,676,650	2,184,588
Other capital reserves	6.i,j	(1,024)	6,402	5,378	5,899	15,796	21,695	34,868	54,788	89,656
Total equity attributable to equity holders of the Company		1,302,215	503,980	1,806,195	1,908,256	1,085,910	2,994,166	2,865,378	1,596,265	4,461,643
Minority interest	6.h	-	5,408,281	5,408,281	-	7,355,648	7,355,648	-	9,451,821	9,451,821
Total equity		1,302,215	5,912,261	7,214,476	1,908,256	8,441,558	10,349,814	2,865,378	11,048,086	13,913,464
Total liabilities and equity		16,152,495	3,089,014	19,241,509	20,801,724	4,852,590	25,654,314	24,191,030	13,128,815	37,319,845

(*) Including in respect of the full consolidation of Citycon – see section 6.g below.

2. Reconciliations of income:

	Note	Year ended December 31, 2005			Year ended December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in thousands (except per share amounts)					
Propert rental revenue	6.a	2,195,821	(18,717)	2,177,104	2,552,296	502,039	3,054,335
Propert rental operating expenses	6.a	717,762	(4,179)	713,583	867,838	156,220	1,024,058
Propert rental depreciation	6.a	360,800	(349,743)	11,057	453,259	(442,724)	10,535
Gross profit		1,117,259	335,205	1,452,464	1,231,199	788,543	2,019,742
Increase in fair value of investment property	6.a	-	1,187,642	1,187,642	-	2,678,091	2,678,091
General and administrative expenses		189,102	1,511	190,613	283,418	55,291	338,709
Operating income		928,157	1,521,336	2,449,493	947,781	3,411,343	4,359,124
Financing expenses	6.b,j,k	(622,058)	(128,908)	(750,966)	(757,617)	(303,698)	(1,061,315)
Financing income	6.k	-	75,304	75,304	-	114,400	114,400
		306,099	1,467,732	1,773,831	190,164	3,222,045	3,412,209
Other income (expenses), net	6.a	122,353	(61,539)	60,814	514,101	(682,201)	(168,100)
Income before taxes on income		428,452	1,409,193	1,834,645	704,265	2,539,844	3,244,109
Taxes on income	6.a,d	74,545	169,926	244,471	84,211	466,417	550,628
Income after taxes on income		353,907	1,236,267	1,590,174	620,054	2,073,427	2,693,481
Equity in earnings of affiliates	6.g	129,960	686	130,646	270,566	(234,152)	36,414
Minority interest in earnings of subsidiaries	6.g,h	(295,965)	295,965	-	(529,242)	529,242	-
Income before cumulative effect as of the beginning of the year of change in accounting principles		187,902	1,532,918	1,720,820	361,378	2,368,517	2,729,895
Cumulative effect as of the beginning of the year of change in accounting principles	6.d	(56,525)	56,525	-	-	-	-
Net income		131,377	1,589,443	1,720,820	361,378	2,368,517	2,729,895
Attributable to:							
Equity holders of the parent				615,750			938,615
Minority interest				1,105,070			1,791,280
				1,720,820			2,729,895
Net earnings per share attributable to ordinary equity holders of the Company (in NIS):							
Basic net earnings		1.48	5.35	6.83	3.34	5.38	8.72
Diluted net earnings		1.40	5.24	6.64	3.17	5.24	8.41

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

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

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

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

4. **<u>Effect of the transition to IFRS for the interim period</u>:**

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

4.1 Balance sheet items:

Item	Note	Israeli GAAP	Effect of consolidation of Citycon (*)	Other effects of transition to IFRS	IFRS
		As of June 30, 2007			
		NIS in millions			
Asset items:					
Cash and cash equivalents		357	229	-	586
Tenants		146	13	-	159
Accounts receivable		281	41	-	322
Securities available for sale	6.i	-	-	788	788
Long-term investments	6.i	841	-	(796)	45
Long-term loans and receivables		55	-	9	64
Derivative financial instruments		-	81	56	137
Investments in affiliates	6.g	2,151	(2,147)	-	4
Investment property		29,548	10,279	-	39,827
Investment property under development		1,600	78	-	1,678
Fixed assets, net		314	4	-	318
Other assets	6.e	61	49	36	146
Total of relevant asset items		35,354	8,627	93	44,074
Liability items:					
Credit from banks and others		960	583	-	1,543
Trade payables		202	29	-	231
Other accounts payable		628	137	-	765
Liabilities to financial institutions and others		7,683	3,942	-	11,625
Debentures	6.i,j	10,426	-	(69)	10,357
Convertible debentures		511	351	-	862
Receipts from issuance of convertible options in subsidiary	6.c	29	-	(29)	-
Receipts from issuance of stock options in subsidiaries	6.b	16	-	(16)	-
Derivative financial instruments	6.j	-	11	60	71
Deferred taxes	6.a	1,427	461	3	1,891
Total of relevant liability items		21,882	5,514	(51)	27,345
Minority interest		8,049	-	(8,049)	-
Equity items:					
Share premium	6.b	2,077	-	62	2,139
Capital reserve for translation differences on foreign operations	5.b	401	-	(198)	203
Loans for purchase of shares		(9)	-	9	-
Retained earnings		2,794	-	235	3,029
Other capital reserves	6.i,j	64	-	(**) -	64
Minority interest	6.h	-	3,113	8,086	11,199
Total of relevant equity items		5,327	3,113	8,194	16,634

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

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

4.2 Statement of income items:

Item	Note	Israeli GAAP	Effect of consolidation of Citycon (*)	Other effects of transition to IFRS	IFRS
		For the six-month period ended June 30, 2007			
		NIS in millions			
Property rental revenue		1,327	387	-	1,714
Property rental operating expenses		434	116	-	550
Property rental depreciation		5	-	-	5
Gross profit		888	271	-	1,159
Increase in fair value of investment property		502	1,056	-	1,558
General and administrative expenses		203	48	-	251
Operating income		1,187	1,279	-	2,466
Financing income (expenses), net	6.j	(410)	(107)	114	(403)
Other income (expenses), net	6.i	(5)	-	196	191
Income before taxes on income		772	1,172	310	2,254
Taxes on income	6.i	132	232	70	434
Income after taxes on income		640	940	240	1,820
Equity in earnings of affiliates		367	(363)	-	4
Minority interest in earnings of subsidiaries	6.h	(404)	(577)	981	-
Net income		603	-	1,221	1,824
Attributable to:					
Equity holders of the parent		603			840
Minority interest		-			984

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

5. Exemptions to be adopted by the Company on transition to IFRS:

IFRS 1, which deals with the first-time adoption of IFRS, permits twelve exemptions whose restatement in all reporting periods prior to the transition date to IFRS is not required. The Company has elected to adopt the following exemptions:

a. Business combinations

Business combinations (IFRS 3) that took place prior to the transition date with regard to the acquisition of subsidiaries, affiliates and jointly controlled entities will not be restated.

b. Translation differences

The Company will not recognize cumulative translation differences prior to transition date for any foreign operations. The balance of the capital reserve for translation differences on foreign operations at the transition date, totaling NIS 125 million has been carried to the credit of retained earnings. As of June 30, 2007, the capital reserve will be reduced by an estimated amount of NIS 198 million, as a result of the transition to IFRS.

c. Deemed cost

The Company will present fixed assets, investment property under development and deferred charges, as of the transition date, on the basis of "deemed" cost as defined in IFRS 1. In other words, these items are presented at the reported amounts at which they were presented in the financial statements to December 31, 2004. Investment property will be presented at transition date at its fair value.

d. Embedded financial instruments

The Company does not split embedded financial instruments into their equity and liability components, with regard to liabilities that did not exist as of the transition date.

e. Share-based payment

IFRS 2, which deals with share-based payment transactions, will not be applied with regard to equity instruments granted subsequent to November 7, 2002, which had vested by the transition date.

6. The principle differences between the accounting policies to be applied in the financial statements drawn-up in accordance with IFRS and the accounting principles applied under Israeli GAAP are as follows:

a. Investment property

Under Israeli GAAP, until Accounting Standard No. 16 of the Israel Accounting Standards Board (hereinafter – "the IASB") went into effect in January 2007, investment property was presented as part of the fixed assets according to the cost model. Pursuant to International Accounting Standard No. 40 ("IAS 40"), investment property that is held by the owner or by the lessee under a finance lease for the purpose of generating rental revenue or for capital appreciation (or for both objectives) may be presented according to the fair value model.

Furthermore, under IAS 40, a property held under an operating lease can be presented as investment property, but only if the property otherwise complies with the definition of investment property and the company applies the fair value model. Investment property under development is presented at its deemed cost until ready to generate rental revenue. Once it is ready, it is classified as investment property and measured at fair value.

The Company will apply the fair value model in its IFRS statements. The fair value has been assessed mainly on the basis of valuations performed by independent external appraisers and includes the long-term receivables and intangible assets that stem from the investment property; these balances are thus classified as part of the fair value of the investment property. Accordingly, the amount charged to investment property on the transition date totals NIS 3,100 million; against this, NIS 653 million has been added to the provision for taxes and NIS 1,895 million to minority interest, net, with the balance of NIS 552 million being added to retained earnings.

The amortization of incentives granted to tenants is recorded as a set-off against rental revenue. With effect from 2007, the transition to IFRS will not affect the financial statements, since the Company is applying Accounting Standard No. 16.

b. Stock options

Under Israeli GAAP, stock options that have an exercise price that is linked to a foreign currency (other than the company's functional currency) or to the consumer price index are presented in shareholders' equity. Under IFRS, such equity instruments are to be classified as liabilities that are measured at their fair value in each reporting period, with changes in fair value being carried to the financing item in the statement of income. When the stock options are exercised, the balance is carried to shareholders' equity. Accordingly, the balance of the liabilities in respect of linked stock options at transition date, totaling NIS 13 million, have been charged against the balance of retained earnings (NIS 10 million) and against discount on debentures (NIS 3 million), which were issued together with the stock options in a package offering. As of June 30, 2007, the Company has no liabilities in respect of linked stock options and the cumulative increase in the premium amounts to NIS 62 million.

Under Israeli GAAP, stock options issued by subsidiaries are presented between liabilities and shareholders' equity, while, under IFRS, such options are presented within the framework of the minority interest.

c. Convertible debentures redeemable into subsidiaries' shares

Under the Israeli GAAP in effect until December 31, 2005, convertible debentures redeemable into a subsidiary's shares were presented in the balance sheet as a quasi-capital instrument between long-term liabilities and shareholders' equity at the higher of their equity or capital values, when their conversion into shares was probable, and under long-term liabilities at their liability value, when their conversion into shares was not probable. Under IFRS, debentures convertible into a subsidiary's shares have to be split into their equity component, which is presented within the framework of the minority interest, and their liability component, which is presented under long-term liabilities. As part of the exemptions granted upon the first-time adoption, the aforementioned split need only be performed for debentures for which there is still a liability balance on the transition date. The balance of the equity component that is included as part of the minority interest at transition date amounts to NIS 36.3 million.

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

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

d. Deferred tax liability in respect of a plot of land acquired in business combinations

Under Israeli GAAP, a deferred tax liability was not recognized for the temporary differences relating to a plot of land, which arose on business combinations prior to January 1, 2005. Under IFRS, the Company recognizes this liability.

e. Goodwill

Under Israeli GAAP, until Israel Accounting Standard No. 20 (Revised) of the IASB became effective on January 1, 2006, goodwill that arose on business combinations was systematically amortized over a period of up to 20 years. Since the above date, goodwill is not written down except in the event of its impairment. Under IFRS 3, including the exemption permitted upon its implementation by virtue of IFRS 1, the amortization of goodwill is discontinued with effect from the transition date, subject to review for impairment. As a result of recognizing business combinations in accordance with IFRS 3, pursuant to which investment property is presented at fair value, the balance of goodwill as of June 30, 2007 will increase by an estimated amount of NIS 36 million.

f. Assets held for sale and discontinued operations

Under Israeli GAAP, there is no requirement for assets held for sale to be measured differently. Under IFRS 5, an asset held for sale is presented separately and is to be measured at the lower of its carrying value or its fair value, less costs of sale, and depreciation or amortization is not to be included for such an asset.

g. Consolidation of the financial statements

In the financial statements drawn up in accordance with IFRS, the Company applies the IASB's statement regarding tests for the existence of effective control. Accordingly, in its financial statements drawn up in accordance with IFRS, the Company will consolidate both EQY and Citycon (Citycon has been consolidated commencing from the end of the first quarter of 2006 in accordance with when the particular circumstances existed that testify to effective control having been obtained). However, in the financial statements drawn up in accordance with Israeli GAAP, the Company only consolidates EQY on the basis of effective control, with this being in line with the approach of the Israel Securities Authority, which distinguishes between effective control after dilution of formal control and effective control without there ever having been formal control previously.

Under Israeli GAAP, potential voting rights are not taken into account when assessing whether control is exerted over a company. Pursuant to International Accounting Standard No. 27, the effect of potential voting rights exercisable at balance sheet date has been taken into account.

h. Minority interest

Under Israeli GAAP, the minority interest is presented in the balance sheet outside the framework of shareholders' equity, while under IFRS, the minority interest is presented as part of the equity. Accordingly, under Israeli GAAP, the minority's share in the results of subsidiaries is included as part of the results in the income statement, while under IFRS, the minority's share in the results is not included in the income statement, but is presented as part of the attribution of earnings to the shareholders.

The increase in the minority interest at the transition date, amounting to NIS 1,950 million, stems from the increase in the minority's share in the shareholders' equity of subsidiaries, due primarily to the presentation of investment property at fair value, amounting to NIS 1,895 million (net of related taxes). The increase in the minority interest as of June 30, 2007 is due to the reason explained above and to an additional increase in respect of the consolidation of Citycon (see 6.g above) amounting to NIS 3.1 billion.

i. Financial instruments

Under Israeli GAAP, the Company presents its investment in marketable securities that fall within the definition of a "permanent investment" at cost, net of any impairment that is not of a temporary nature, while securities that are included as a "current investment" are presented at their fair value, with changes in the valuation being carried to income. On the other hand, under International Accounting Standard No. 39, the Company presents its investments in financial instruments available for sale at their fair value, with valuation differences being carried to capital reserve, except in the case of an impairment, which is charged to the statement of income. The increase in the item "securities available for sale", which is charged against capital reserve, amounted to NIS 13 million at transition date, and includes NIS 5 million in respect of an unrealized gain that has been charged against the balance of retained earnings. As of June 30, 2007, the capital reserve from revaluation is estimated to amount to NIS 0.1 million in debit, and the balance charged to the debit of retained earnings in respect of the unrealized gain amounts to NIS 1.3 million.

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

Financial liabilities – Under Israeli GAAP, the Company applies Israel Accounting Standard No. 22 with effect from January 1, 2006, whereby the discount, premium and deferred expenses relating to obtaining loans, are amortized according to the effective interest method and are presented as a deduction from the balance of the liability. Under International Accounting Standard No. 32, this policy is applied from the date of the assumption of the liability, and thus deferred expenses have been removed from "other assets" and reclassified as a reduction of the balance of liabilities.

j. Derivative financial instruments

Under IFRS, derivative financial instruments are initially recognized at fair value and this is remeasured at each reporting date. Gains or losses during the year arising from changes in the fair value of the derivatives, where these do not meet the criteria for hedge accounting, are carried immediately to income, as explained below:

Cash flow hedges - Under Israeli GAAP, the results of the intrinsic value of a derivative financial instrument that meets the criteria of a hedge instrument are deferred and are recognized in the income statement concurrently with the result of the hedged item. Under International Accounting Standard No. 39, the effective portion of the gain or loss resulting from the change in the fair value of the hedge instrument is recognized directly in shareholders' equity, while the ineffective portion is immediately recognized in the statement of income.

Hedges of a net investment - Under Israeli GAAP, the intrinsic value of an instrument hedging a net investment in a foreign operation is carried to the capital reserve for translation differences on foreign operations. Under International Accounting Standard No. 39, the hedging of a net investment in foreign operations, including a hedge of a monetary item that is reported as part of the net investment, is reported in a similar fashion to a cash flow hedge. The effective portion of gains or losses resulting from a change in the fair value of the hedge instrument is carried to shareholders' equity, while gains or losses deriving from the ineffective portion of the hedge are charged to the statement of income. In instances where documentation does not exist to assign the derivative to the objectives of the hedge and to examine the effectiveness of the hedge, the derivative cannot be recognized as a hedge instrument.

As of June 30, 2007, an amount of NIS 64 million, which had been credited to the debentures, pursuant to Israeli GAAP, as a result of measuring the intrinsic value of the exchange transactions, has been reclassified to the item "derivative financial instruments" in the balance sheet. As of June 30, 2007, the balance of the fair value of the exchange transactions is estimated to amount to NIS 137 million (on the assets side) and to NIS 71 million (on the liabilities side). As a result of recognizing these transactions at fair value, financing expenses have been reduced by an estimated amount of NIS 114 million in the reporting period. The Company's share in the capital reserve for the revaluation of exchange transactions to fair value in subsidiaries amounts to NIS 50 million (in credit) as of June 30, 2007.

k. Financial statements presentation

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

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

Appendix B to the Directors' Report

Linkage Bases Balance Sheet

as of June 30, 2007

	Linked to the consumer price index	In US$ or linked thereto	In C$ or linked thereto	In unlinked NIS	In euros	Unlinked	Total
	NIS in thousands						
Monetary assets							
Cash and cash equivalents	-	71,096	250,160	10,871	24,529	-	356,656
Short-term investments	-	25,441	5,201	-	-	51,751	82,393
Tenants, accounts receivable and other debit balances	31,296	103,432	168,111	6,721	32,299	85,695	427,554
Investments in affiliates	-	-	-	-	214,627	-	214,627
Long-term investments	3,802	27,449	14,197	-	-	795,881	841,329
Long-term loans and debit balances	5,436	38,856	10,419	-	-	-	54,711
	40,534	266,274	448,088	17,592	271,455	933,327	1,977,270
Non-monetary assets [(1)]	-	14,174,029	15,366,584	1,477,282	2,493,730	60,884	33,572,509
	40,534	**14,440,303**	**15,814,672**	**1,494,874**	**2,765,185**	**994,211**	**35,549,779**
Liabilities							
Short-term credit from banks and others	-	2,868	-	-	-	-	2,868
Trade and other payables and other credit balances	16,797	289,539	368,823	147,622	20,318	18,946	862,045
Debentures	1,773,906	4,491,876	3,363,767	794	863,713	-	10,494,056
Liabilities to financial institutions and others	169,012	3,299,957	4,819,464	-	282,723	-	8,571,156
Deposits from tenants	2,529	44,636	31,260	-	-	-	78,425
Liabilities for employee rights upon retirement	-	-	-	222	-	-	222
Deferred taxes	-	-	-	-	-	1,426,470	1,426,470
Convertible debentures redeemable for subsidiary's shares	-	-	511,304	-	-	-	511,304
	1,962,244	8,128,876	9,094,618	148,638	1,166,754	1,445,416	21,946,546
Receipts in respect of subsidiary's convertible options	-	-	28,824	-	-	-	28,824
Receipts from issue of subsidiaries' stock options	-	7,848	7,860	-	-	-	15,708
Minority interests	-	-	-	-	-	8,048,933	8,048,933
Shareholders' equity	-	-	-	-	-	5,509,768	5,509,768
	1,962,244	**8,136,724**	**9,131,302**	**148,638**	**1,166,754**	**15,004,117**	**35,549,779**

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

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

UNAUDITED

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ERNST & YOUNG

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The Board of Directors
Gazit-Globe Ltd.

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

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of June 30, 2007, 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 46.83% of total consolidated assets as of June 30, 2007, and whose revenues constitute approximately 53.5% and 53.76% 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 16, 2007

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

CONSOLIDATED BALANCE SHEETS

	June 30, 2007	June 30, 2006	December 31, 2006
	Unaudited	Unaudited	Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	356,656	167,522	194,221
Short-term investments	82,393	264,193	147,717
Tenants	146,335	98,890	132,817
Accounts receivable	281,219	222,970	210,697
Rental properties held for sale	113,850	88,735	130,739
	980,453	842,310	816,191
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	2,150,915	1,034,718	1,429,340
Long-term investments	841,329	969,251	1,151,209
Long-term loans and receivables	54,711	*) 34,946	*) 47,937
Investment property	29,547,810	*) 17,964,559	*) 18,753,177
Investment property under development	1,599,833	*) 1,321,352	*) 1,658,594
	34,194,598	21,324,826	23,040,257
FIXED ASSETS:			
Cost	355,873	*) 272,531	*) 315,429
Less - accumulated depreciation	42,029	*) 31,084	*) 35,115
	313,844	241,447	280,314
OTHER ASSETS AND DEFERRED CHARGES, NET	60,884	*) 59,456	*) 54,268
	35,549,779	22,468,039	24,191,030

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

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	959,908	968,584	966,558
Trade payables	202,042	140,687	195,594
Other accounts payable	628,143	392,539	402,194
Dividend declared	31,860	27,113	29,457
	1,821,953	1,528,923	1,593,803
LONG-TERM LIABILITIES:			
Debentures	10,425,592	4,976,411	8,024,421
Convertible debentures redeemable into shares of subsidiary	511,304	344,015	468,134
Liabilities to financial institutions and others	7,682,580	8,629,799	7,014,366
Tenants' security deposits	78,425	66,507	67,084
Accrued severance pay, net	222	164	259
Deferred taxes, net	1,426,470	107,449	168,176
	20,124,593	14,124,345	15,742,440
RECEIPTS FROM CONVERSION OPTION IN SUBSIDIARY	28,824	10,683	19,762
RECEIPTS FROM ISSUANCE OF STOCK OPTIONS IN SUBSIDIARIES	15,708	3,277	5,909
MINORITY INTEREST	8,048,933	4,314,960	3,963,738
SHAREHOLDERS' EQUITY	5,509,768	2,485,851	2,865,378
	35,549,779	22,468,039	24,191,030

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

August 16, 2007			
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,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	1,326,735	1,286,822	682,937	625,537	2,552,296
Rental property operating expenses	433,636	439,742	218,430	213,717	867,838
Rental property depreciation	4,759	226,207	2,875	113,276	453,259
Gross profit	888,340	620,873	461,632	298,544	1,231,199
Appreciation of investment property	502,309	-	148,711	-	-
General and administrative expenses	203,062	120,378	104,203	65,558	283,418
Operating income	1,187,587	500,495	506,140	232,986	947,781
Financial expenses, net	410,063	378,867	232,983	207,780	757,617
	777,524	121,628	273,157	25,206	190,164
Other income (expenses), net	(5,214)	324,977	2,786	317,251	514,101
Income before taxes on income	772,310	446,605	275,943	342,457	704,265
Taxes on income	131,806	48,593	49,602	24,319	84,211
Income after taxes on income	640,504	398,012	226,341	318,138	620,054
Equity in earnings of affiliates	367,225	152,799	293,732	115,127	270,566
Minority interest in earnings of subsidiaries	(404,569)	(384,059)	(152,210)	(306,801)	(529,242)
Net income	603,160	166,752	367,863	126,464	361,378
Net earnings per share (in reported NIS):					
Basic net earnings	5.10	1.65	3.11	1.20	3.34
Diluted net earnings	5.02	1.59	3.06	1.15	3.17

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Six months ended June 30, 2007 (unaudited)								
	Share capital	**Share premium**	**Capital reserves**	**Foreign currency translation adjustments for foreign autonomous entities**	**Retained earnings**	**Dividend declared subsequent to the balance sheet date**	**Less - shares held by the Company**	**Less - loans for purchase of shares**	**Total**
	Reported NIS in thousands								
Balance at beginning of period (audited)	171,412	2,071,145	34,868	82,620	507,938	31,813	(24,574)	(9,844)	2,865,378
Exercise of stock options into shares	2	81	-	-	-	-	-	-	83
Sale of shares held by the Company	-	5,854	-	-	-	-	3,520	-	9,374
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	318,565	-	-	-	-	318,565
Revaluation of derivatives in affiliate to market value	-	-	27,213	-	-	-	-	-	27,213
Measurement of investment property at the fair value model (1)	-	-	-	-	1,746,772	-	-	-	1,746,772
Net income	-	-	-	-	603,160	-	-	-	603,160
Cost of share-based payment	-	-	2,322	-	-	-	-	-	2,322
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	574	574
Revaluation of loans for purchase of shares	-	-	-	-	40	-	-	(40)	-
Dividend paid	-	-	-	-	-	(31,813)	-	-	(31,813)
Dividend declared	-	-	-	-	(31,860)	-	-	-	(31,860)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,860)	31,860	-	-	-
Balance at end of period	171,414	2,077,080	64,403	401,185	2,794,190	31,860	(21,054)	(9,310)	5,509,768

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

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 reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of period (audited)	160,781	1,409,685	-	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,295	69,862	-	-	-	-	-	-	-	72,157
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	-	-	-	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	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at end of period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2007 (unaudited)								
	Share capital	Share premium	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period	171,414	2,071,226	40,901	32,211	2,514,117	31,860	(24,574)	(9,248)	4,827,907
Sale of shares held by the Company	-	5,854	-	-	-	-	3,520	-	9,374
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	368,974	-	-	-	-	368,974
Revaluation of derivatives in affiliate to market value	-	-	22,475	-	-	-	-	-	22,475
Measurement of investment property at the fair value model (1)	-	-	-	-	(55,992)	-	-	-	(55,992)
Net income	-	-	-	-	367,863	-	-	-	367,863
Cost of share-based payment	-	-	1,027	-	-	-	-	-	1,027
Revaluation of loans for purchase of shares	-	-	-	-	62	-	-	(62)	-
Dividend declared	-	-	-	-	-	(31,860)	-	-	(31,860)
Dividend declared subsequent to the balance sheet date (2)	-	-	-	-	(31,860)	31,860	-	-	-
Balance at end of period	171,414	2,077,080	64,403	401,185	2,794,190	31,860	(21,054)	(9,310)	5,509,768

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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 30, 2006 (unaudited)									
	Share capital	Share premium	Receipts on account of stock options	Capital reserves	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands									
Balance at beginning of period	163,055	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	-	-	-	-	-	(27,113)	27,113	-	-	-
Balance at end of period	163,076	1,689,023	7,658	21,546	257,981	375,675	27,113	(45,428)	(10,793)	2,485,851

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2007	Six months ended June 30, 2006	Three months ended June 30, 2007	Three months ended June 30, 2006	Year ended December 31, 2006
	Unaudited				Audited
	Reported NIS in thousands				
Cash flows from operating activities:					
Net income	603,160	166,752	367,863	126,464	361,378
Adjustments to reconcile net income to net cash provided by operating activities (a)	(198,750)	170,963	(133,922)	56,681	228,579
Net cash provided by operating activities	404,410	337,715	233,941	183,145	589,957
Cash flows from investing activities:					
Investment in initially consolidated companies (b)	-	(20,425)	-	(20,425)	(198,077)
Investment in investees	(343,773)	(167,882)	(17,835)	(158,140)	(550,365)
Investments in fixed assets, investment property and investment property under development	(2,505,676)	(2,672,903)	(1,027,522)	(707,834)	(5,008,411)
Repayment of loans to partners in property under development, net	21,191	15,509	21,191	2,504	14,454
Proceeds from sale of fixed assets, investment property and investment property under development	73,407	1,693,580	7,556	1,664,016	1,825,338
Long-term loans granted	(2,044)	(2,593)	(322)	(2,593)	(42,295)
Repayment of long-term loans granted	933	25,767	-	20,690	26,122
Short-term investments, net	5,750	(197,413)	5,530	(199,364)	(7,291)
Purchase of marketable securities and long-term investments	(504,675)	(570,263)	(247,127)	(221,446)	(1,121,793)
Proceeds from realization of long-term investments	923,817	104,708	192,233	36,265	474,880
Withdrawal of long-term deposits, net	-	1,563	-	525	822
Net cash provided by (used in) investing activities	(2,331,070)	(1,790,352)	(1,066,296)	414,198	(4,586,616)

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,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
Cash flows from financing activities:					
Repayment of loans granted for the purchase of Company and subsidiary's shares	574	85	-	-	1,148
Issuance of share capital, net	-	-	-	-	256,249
Exercise of stock options into shares	83	72,157	-	-	164,986
Sale of shares held by the Company	9,374	367,207	9,374	318,250	421,210
Issuance of stock options	-	7,658	-	7,658	7,658
Issuance of shares to minorities in subsidiaries, net	137,583	256,734	83,413	193,766	338,396
Dividend paid	(61,270)	(48,029)	(31,813)	(25,419)	(103,268)
Dividend paid to minorities in subsidiary	(190,048)	(390,457)	(97,583)	(287,423)	(582,649)
Receipt of long-term loans	1,192,525	1,682,128	498,120	624,839	1,897,398
Repayment of long-term loans	(715,009)	(1,250,119)	(471,356)	(766,003)	(2,081,351)
Repayment of long-term credit lines from banks, net	(243,808)	(154,043)	(874,110)	(417,322)	(254,764)
Repayment and early redemption of debentures and convertible debentures	(11,876)	(352,460)	-	(218,976)	(681,011)
Sale of Company's debentures by subsidiaries	-	300,622	-	185,711	300,622
Short-term bank credit, net	(65,164)	13,931	(1,548)	24,802	(80,101)
Issuance of debentures and convertible debentures	2,056,271	1,059,018	1,405,170	68,539	4,615,639
Purchase of subsidiary's shares by subsidiary	-	(225,435)	-	(225,435)	(301,935)
Net cash provided by (used in) financing activities	2,109,235	1,338,997	519,667	(517,013)	3,918,227
Effect of exchange rate differences from cash balances of foreign autonomous entities	(20,140)	(1,050)	(29,618)	(5,071)	(9,559)
Increase (decrease) in cash and cash equivalents	162,435	(114,690)	(342,306)	75,259	(87,991)
Cash and cash equivalents at beginning of period	194,221	282,212	698,962	92,263	282,212
Cash and cash equivalents at end of period	356,656	167,522	356,656	167,522	194,221

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,
	2007	2006	2007	2006	2006
	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:					
Gain from realization and revaluation of marketable securities, net	(25,864)	(8,958)	(4,035)	(3,900)	(44,890)
Appreciation of investment property	(502,309)	-	(148,711)	-	-
Minority interest in earnings of subsidiaries	404,569	384,059	152,210	306,801	529,242
Equity in earnings of affiliates, net of dividend received	(316,551)	(109,920)	(293,732)	(111,998)	(225,617)
Depreciation	8,180	206,075	4,794	102,293	462,661
Deferred taxes, net	104,368	19,774	34,609	7,801	42,821
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(2,887)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(6,298)	28,038	(4,159)	20,986	27,737
Write-down of long-term investments	10,056	98,840	235	98,840	16,923
Amortization of other assets and deferred charges	-	26,197	-	20,120	25,002
Capital gain from sale of fixed assets, investment property and investment property under development	(7,745)	(375,359)	(1,050)	(371,992)	(447,326)
Increase (decrease) in accrued severance pay, net	(37)	-	(34)	-	95
Loss (gain) from issuance of shares to third party, net	3,601	(29,191)	(1,475)	(25,916)	(33,535)
Cost of share-based payment	5,594	4,505	3,889	3,361	9,898
Bad debts	4,267	812	2,998	812	3,203
Changes in asset and liability items:					
Decrease (increase) in tenants and accounts receivable	(89,489)	(58,574)	(13,095)	12,429	(208,485)
Increase (decrease) in trade payables and other accounts payable	200,784	(18,296)	129,826	(2,545)	65,930
Increase (decrease) in tenants' security deposits, net	8,124	2,961	3,808	(411)	7,807
	(198,750)	170,963	(133,922)	56,681	228,579

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,
	2007	*) 2006	2007	*) 2006	*) 2006
	Unaudited				Audited
	Reported NIS in thousands				
(b) Investment in initially consolidated companies:					
Consolidated companies' assets and liabilities at date of purchase:					
Working capital (excluding cash and cash equivalents):					
Current assets	-	(1,898)	-	(1,898)	(1,898)
Current liabilities	-	24,694	-	24,694	90,679
	-	22,796	-	22,796	88,781
Fixed assets, long-term investments and loans (mainly real estate)	-	(185,579)	-	(185,579)	(511,056)
Long-term liabilities	-	142,358	-	142,358	224,198
	-	(43,221)	-	(43,221)	(286,858)
	-	(20,425)	-	(20,425)	(198,077)
(c) Significant non-cash operations:					
Dividend declared	31,860	27,113	31,860	27,113	29,457

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

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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2007, 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, 2006 and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

b. Initial adoption of new Accounting Standards:

1. Accounting Standard No. 16 - Investment Property:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

*) The balance includes an amount of approximately NIS 56 million which was credited to retained earnings at the beginning of the second quarter of 2007, due to additional information received from a subsidiary as to the tax base of its assets and that was unknown to the Company upon the approval of the financial statements for the first quarter. This information has not been reflected in the financial statements by way of restatement due to immateriality.

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

4. Accounting Standard No. 30 - Intangible Assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company is in advance preparation process of transition to report according to IFRS, but has not yet completed all examinations of the implications of the transition to IFRS. Management's discussion as of June 30, 2007, which is attached to these financial statements, includes in section 1i the Company's description of the effect of the adoption of IFRS as of January 1, 2005 and December 31, 2005 and 2006 and for the years 2005 and 2006 and as of June 30, 2007 and for the six months period then ended.

d. Below are data about the Israeli CPI and the exchange rates of the U.S. dollar, the Canadian dollar and the Euro:

	Israeli CPI	**Representative exchange rate of**		
		U.S.$	**C$**	**Euro**
	Points *)		**NIS**	
As of				
June 30, 2007	186.7	4.249	4.0195	5.7132
June 30, 2006	187.9	4.440	3.9998	5.6435
December 31, 2006	184.9	4.225	3.6408	5.5643
Change during the period	%	%	%	%
June 2007 (6 months)	1.0	0.6	10.4	2.7
June 2007 (3 months)	1.2	2.3	11.6	3.2
June 2006 (6 months)	1.5	(3.5)	0.9	3.6
June 2006 (3 months)	1.0	(4.8)	(0.5)	(0.3)
December 2006 (12 months)	(0.1)	(8.2)	(8.2)	2.2

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

NOTE 3:- ADDITIONAL INFORMATION

a. In April 2007, institutional entities exercised 175 thousand non-marketable stock options which they were allocated in May 2006 into 175 thousand shares for the total consideration of approximately NIS 9.4 million.

b. On March 29, 2007, the Company sold all the Ordinary shares which it had owned in The Mills Corporation ("MLS") (5.5 million Ordinary shares) to a third party for the total consideration of approximately U.S.$ 139 million (NIS 580 million). As a result of the sale, the Company recorded a capital loss of approximately NIS 10 million. The sale, as above, was made in the context of a proposal made by a third party which addressed all holders of Ordinary shares in MLS.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

c. In March 2007, the Company issued NIS 290 million par value of debentures (series F), by way of series extension, in consideration of approximately NIS 300 million.

Also, in April 2007, the Company issued NIS 400 million par value of debentures (series D), by way of series extension, in consideration of approximately NIS 421 million.

d. In April 2007, EQY issued by private placement a series of debentures in the scope of U.S.$ 150 million (approximately NIS 623 million). The debentures are non-secured, redeemable in one sum in September 2017 and bear fixed annual interest rate of 6%.

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

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

f. In April 2007, FCR issued debentures (series F) in the scope of C$ 100 million (approximately NIS 360 million). The debentures are non-secured, bear annual interest rate of 5.32% and are redeemable in one sum in October 2014.

g. In June 2007, FCR issued C$ 50 million par value of convertible debentures (series A), by way of series extension, in consideration of C$ 54 million (approximately NIS 215 million). The Company's wholly owned subsidiary has acquired approximately C$ 38 million par value of convertible debentures (series A) in the context of this issuance, in consideration of approximately C$ 41 million (approximately NIS 165 million).

h. In March 2007, FCR signed an unsecured credit line agreement in the amount of C$ 250 million (approximately NIS 900 million) over a period of three years which renews from time to time with a consortium of banks and financial institutions headed by RBS Capital Markets.

i. In February 2007, Citycon Oyj. ("Citycon") issued 25 million shares to international and Finnish institutional entities for the total consideration of approximately € 134 million (approximately NIS 746 million). The Company has acquired 10 million shares in the context of this issuance with an investment of approximately € 54 million (approximately NIS 298 million).

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In July 2007, the Company issued NIS 500 million par value of debentures (series E) in consideration of approximately NIS 496 million. The debentures (series E) are unlinked, bear annual interest at the Telbor rate (deriving from the average annual interest rates on NIS deposits for 6-month period) plus a fixed margin of 0.7%. The debentures (series E) are redeemable in two equal payments in 2017.

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

b. In July and August 2007, the Company's wholly owned subsidiary has acquired during trade on the New York Stock Exchange (NYSE), 2.1 million of EQY shares in consideration of approximately U.S.$ 50.7 million (approximately NIS 216 million). As a result of these acquisitions, the Group's holding in EQY increased from 42.2% to 45%.

c. In August 2007, the Company's wholly owned subsidiary sold its investment in 4 series of Preferred shares of MLS in consideration of approximately U.S.$ 12.5 million (approximately NIS 53 million).

d. In August 2007, the Company declared a dividend in the amount of NIS 0.27 per share, to be paid in October 2007. The record date is September 24, 2007.

NOTE 5:- GEOGRAPHIC SEGMENTS

	Six months ended June 30, 2007 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	594,690	673,452	40,069	18,524	1,326,735
Segment results	396,391	945,754	39,168	9,336	1,390,649

	Six months ended June 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Europe	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

	Three months ended June 30, 2007 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	302,514	347,961	23,075	9,387	682,937
Segment results	193,890	384,771	27,694	3,988	610,343

NOTE 5:- GEOGRAPHIC SEGMENTS (Cont.)

	Three months ended June 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Europe	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

	Year ended December 31, 2006 (audited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	1,199,161	1,277,487	54,855	20,793	2,552,296
Segment results	615,627	587,467	21,588	6,517	1,231,199

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

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

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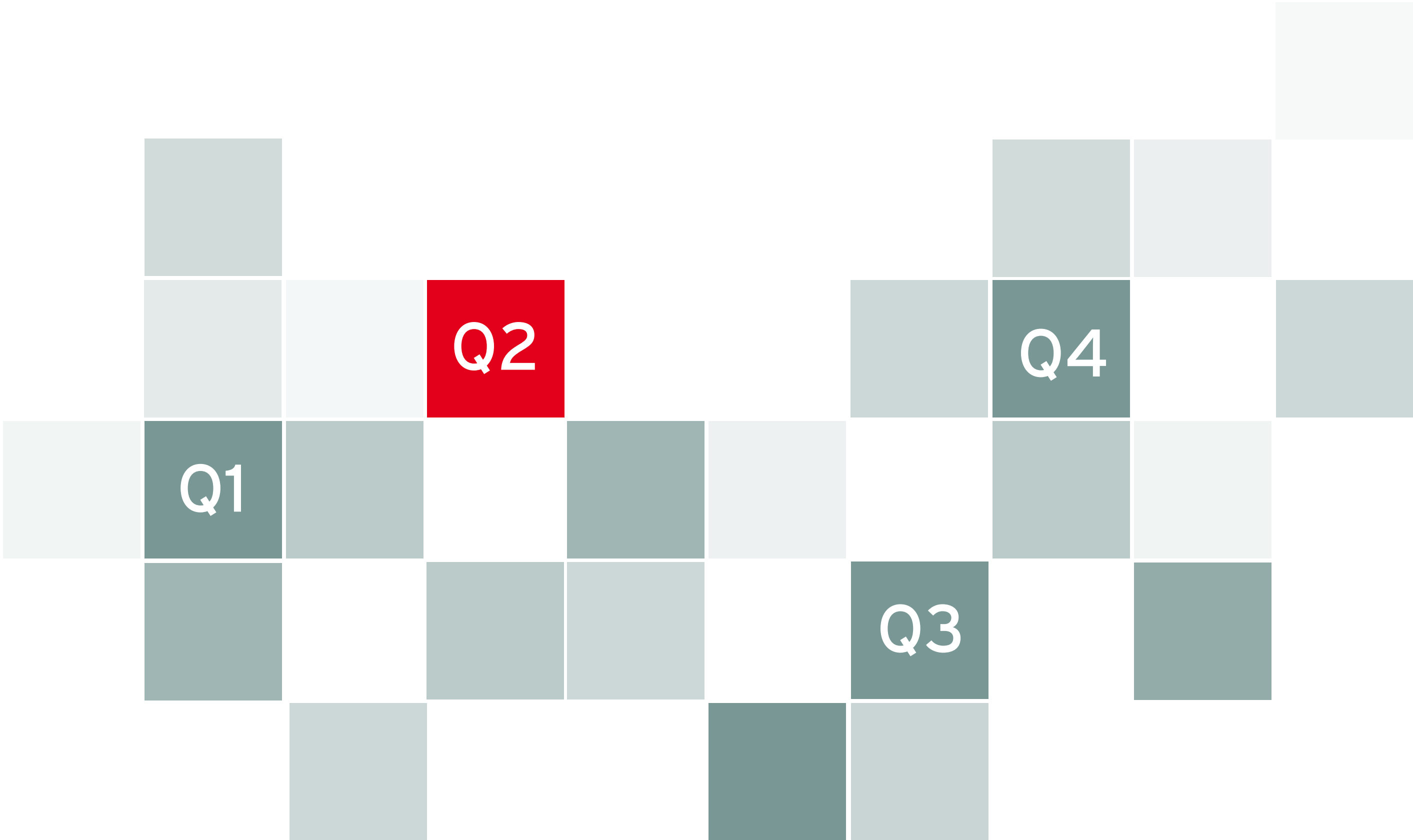

CITYCON

Citycon Interim Report for 1 January–30 June 2007

Summary of the Second Quarter Compared to the First Quarter

- Net rental income increased to EUR 25.8 million in the second quarter (EUR 23.2 million).
- Citycon's second-quarter earnings per share amounted to EUR 0.70 (EUR 0.18 in the first quarter). Earnings per share exclusive of changes in fair value were EUR 0.04 (EUR 0.04).
- The fair value of investment properties increased substantially, by EUR 160.1 million, mainly due to lower valuation yield resulting from continued yield compression. The fair value of investment properties was EUR 1,799.2 million (EUR 1,546.9 million).
- The shopping centre Duo was opened in Hervanta, Tampere, as well as a retail centre in Kaarina in the Turku region.
- In Umeå, the company acquired 75 per cent of the shopping centre Strömpilen and the retail property Länken. An agreement was signed to acquire the shopping centre Magistral in Tallinn. Closing of the transaction took place on 16 July.
- In the beginning of July, Citycon was upgraded from mid cap to large cap companies on the Nordic Exchange based on its market capitalisation in May.

Key Figures

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change[1]	1-12/2006
Turnover, EUR million	35.9	27.8	34.2	70.2	55.0	27.5%	119.4
Net rental income, EUR million	25.8	19.6	23.2	49.0	39.0	25.6%	82.8
Operating profit, EUR million	181.6	76.8	50.4	231.9	108.7	113.4%	196.5
% of turnover	505.3%	276.5%	147.1%	330.5%	197.5%	–	164.6%
Profit before taxes, EUR million	171.6	70.9	40.9	212.5	95.8	121.9%	165.6
Profit attributable to parent company shareholders, EUR million	134.6	54.3	33.0	167.6	72.4	131.4%	124.9
Earnings per share (basic), EUR	0.70	0.34	0.18	0.90	0.47	90.5%	0.78
Earnings per share (diluted), EUR (EPRA EPS)	0.62	0.33	0.17	0.80	0.47	70.0%	0.74
Earnings per share (basic), excluding the effects of changes in fair value, gains on sale and other extraordinary items, EUR	0.04	0.05	0.04	0.08	0.10	-21.6%	0.20
Net cash from operating activities per share, EUR	0.06	0.00	0.05	0.11	0.10	10.0%	0.20
Fair market value of investment properties, EUR million			1,546.9	1,799.2	1,143.2	57.4%	1,447.9
Equity per share, EUR (EPRA NAV)				4.42	2.98	48.5%	3.38
EPRA NNNAV				4.27	3.00	42.7%	3.22
Equity ratio, %				46.9	42.3	–	39.1
Gearing, %				96.2	122.9	–	136.6
Net interest-bearing debt (fair value), EUR million				863.3	608.5	41.9%	811.2
Net rental yield, % [2]				6.4	8.0	–	7.1
Occupancy rate, %				95.8	96.7	–	97.1
Personnel (at the end of the period)				94	61	54.1%	73

[1] Change-% is calculated based on exact figures and refers to the change between Q1-Q2/2006 and Q1-Q2/2007.

[2] Includes the lots for development projects.

Summary of the Reporting Period 1 January–30 June 2007

- Turnover increased by 27.5 per cent, to EUR 70.2 million (Q1-2/2006: EUR 55.0 million), due mainly to property acquisitions.
- Profit before taxes improved to EUR 212.5 million (EUR 95.8 million), including a EUR 191.6 million (EUR 75.3 million) increase in the fair value of investment properties.
- Reported net rental income increased by 25.6 per cent, to EUR 49.0 million (EUR 39.0 million), and that of like-for-like properties increased by 8.8 per cent.
- Earnings per share were EUR 0.90 (EUR 0.47).
- Earnings per share excluding the effects of fair value changes were EUR 0.08 (EUR 0.10). The decline derives from a one-time exchange rate gain in the comparison period, divestment of non-core properties, higher number of shares as well as from increased development activities and costs related to expanded business operations.
- Net cash flow from operating activities per share grew in spite of increased interest rates and amounted to EUR 0.11 (EUR 0.10).
- Per-share net asset value (EPRA NAV) grew to EUR 4.42 (EUR 2.98).
- According to an external appraiser, the average net yield requirement for investment properties stood at 5.8 per cent at the end of the reporting period.
- Occupancy rate remained at a good level at 95.8 per cent, but suffered from the increased number of premises temporarily vacated due to redevelopment projects.
- In addition to the acquisitions of Strömpilen, Länken and Magistral referred to above, acquisitions during the period include Tumba Centrum close to Stockholm and the Hansa property within the Trio shopping centre in Lahti.
- During the period, the company decided to initiate development and redevelopment projects in Estonia and Sweden for an estimated total aggregate value of EUR 178 million.
- The equity ratio increased to 46.9 per cent (42.3 per cent).
- In February, the company carried out a directed share issue worth EUR 133.8 million by issuing 25,000,000 new shares.

CEO Petri Olkinuora:

"Citycon continued implementing its growth strategy through continuous redevelopment and proactive management of its portfolio and reported growth in like-for-like net rents. Additionally, the net cash flow from operating activities per share remained strong and the increase in fair value resulted in a significant growth in earnings per share. The recent very active property market resulted in a reduction of valuation yields and substantial valuation gains as assessed by the external appraiser. During the period, the company also grew successfully through acquisitions. In Sweden, Citycon's business expanded to Umeå, where the company acquired a majority holding in the region's leading shopping centre Strömpilen and the retail property Länken.

I am delighted with the level of the activity in development and redevelopment, which is a direct execution of our strategy and will lead to strong internal growth and improved quality of our portfolio. We are seeking better long-term return from development projects compared to acquisitions. The company has already demonstrated its ability to deliver successful development and redevelopment of its properties with the opening of the shopping centre Duo during the reporting period. The company currently has six significant development and redevelopment projects underway, with investments totalling approximately EUR 340 million."

Business Environment

During the first six months of 2007, demand for retail premises remained strong in Citycon's operating regions in Finland, Sweden and the Baltic countries and occupancy rates remained high.

Economic growth has continued and retail trade has been active in all of Citycon's operating countries. Investor interest in retail properties has also remained high in all of the company's operating regions. Since competition for offered investment properties has remained tough, yield requirements for properties have fallen and property prices have risen, in addition to which the general interest rate level has increased. The increase in interest rate levels has been especially fast in the Baltic countries. Property market liquidity has remained at a good level and the company's operating regions have plenty of investment properties that are, or will soon be, on sale.

Business and Property Portfolio in Summary

Specialising in shopping centres and other large retail units, Citycon is a property investment company operating in Finland, Sweden and the Baltic countries. Citycon is the market leader in the Finnish shopping centre business and has achieved a substantial position in the Swedish shopping centre market. In the Baltic countries, the company has established a firm foothold. Citycon's core competence lies in the development of shopping centres into commercially more attractive retail properties through property development and retail property management, as well as competence associated with new retail property acquisitions.

On 30 June 2007, Citycon owned 30 (23) shopping centres and 53 (133) other retail units. Of the shopping centres, 20 (18) were located in Finland, eight (3) in Sweden and two (2) in the Baltic countries. At the end of the period, the market value of Citycon's property portfolio totalled EUR 1,799.2 million, Finnish properties accounting for 66.0 per cent (83.2 per cent), Swedish properties for 29.0 per cent (10.0 per cent) and properties in the Baltic countries for 5.0 per cent (6.8 per cent). The gross leasable area at the end of the period was 824,300 square metres.

Changes in Investment Property Portfolio's Fair Value

Citycon measures its investment property at fair value, under IAS 40, according to which changes in its fair value are recognised through profit or loss. Using International Valuation Standards (IVS), an external professional appraiser conducts the valuation of the company's property at least once a year. In 2007, the valuations by an external appraiser will be conducted quarterly, due to active market conditions.

Citycon has appointed a new external appraiser, with Realia Management Oy having conducted its first appraisal of Citycon's property portfolio for this interim report. Realia Management Oy is part of the Realia Group and works in association with the world's leading provider of real estate services, the international company CB Richard Ellis. A Property Valuation Statement on the June-end status, prepared by Realia Management Oy, can be found at www.citycon.fi.

During the reporting period, the fair value of Citycon's property portfolio rose by EUR 191.6 million as a result of changes in general market conditions and the leasing business. The period saw a total value increase of EUR 197.6 million and a total value decrease of EUR 6.0 million.

The average net yield requirement defined by Realia Management Oy for Citycon's property portfolio fell to 5.8 per cent, due mainly to the very active property market.

Lease Portfolio and Occupancy Rate

On 30 June 2007, Citycon had a total of 3,415 (2,373) leases. The length of the leases averaged 2.9 (2.9) years. On the same date, the occupancy rate for the company's property portfolio stood at 95.8 per cent (96.7 per cent) and net rental yield at 6.4 per cent (8.0 per cent). Occupancy rate suffered from the increased number of premises temporarily vacated due to redevelopment projects.

Reported net rental income increased by 25.6 per cent, to EUR 49.0 million, and the gross leasable area (GLA) grew by 25.3 per cent, to 824,300 square metres. Net rental income for like-for-like properties rose by 8.8. per cent. Like-for-like properties refer to properties held by Citycon throughout the 24-month reference period, excluding properties under development and expansion as well as lots. During the reporting period, all of Citycon's like-for-like properties were located in Finland as the first acquisitions outside Finland were carried out in July 2005.

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

Lease portfolio summary

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12 2006
Number of leases started during the period	122	79	114	236	201	17.4%	369
Total area of leases started, sq.m.	28,745	9,521	17,960	46,705	48,986	-4.7%	73,300
Occupancy rate at end of the period , %			96.7	95.8	96.7	-0.9%	97.1
Average length of lease portfolio at the end of the period, year			2.9	2.9	2.9	0.0%	2.9

Development Projects

Maintaining its properties as attractive and dynamic centres for shopping both for the customers and lessees is the key element in Citycon's business. Citycon aims to increase the cash flow and return from its shopping facilities in the long term through development projects. In the short term, however, development projects may weaken the returns from some properties as part of the retail premises have to be temporarily vacated for refurbishment. This will impact the rental income from properties under development in the short term.

The table below shows a list of the most significant development and redevelopment projects in progress, decided by the Board of Directors. In addition, Citycon is planning and preparing a number of other development projects. More information on projects under planning can be found in the management presentations and Annual Report available at www.citycon.fi.

Development projects in progress

Property	Location	Total estimated expenditure (EUR million)	Actual gross-expenditure up to 30 June 2007 (EUR million)	Estimated year of completion
Lippulaiva	Espoo, Finland	60-70 [1]	8.4	2008
Trio	Lahti, Finland	50.5	4.2	2009
Lentola	Kangasala, Finland	16.6	–	2007
Torikeskus	Seinäjoki, Finland	4.0	1.9	2008
Åkersberga	Österåker, Sweden	27 [2]	4.1	2009
Liljeholmen	Stockholm, Sweden	110	6.6	2009
Rocca al Mare	Tallinn, Estonia	68 [3]	4.2	2010

[1] Both planned stages included in the figure.
[2] Citycon owns 75 per cent of the Åkersberga shopping centre. The estimated total value of the redevelopment project is EUR 40 million.
[3] All three planned stages included in the figure.

Completed and partially completed development projects

Property	Location	Total estimated expenditure (EUR million)	Actual gross-expenditure up to 30 June 2007 (EUR million)	Estimated year of completion
Duo	Tampere, Finland	27.3	22.5	2007
Lillinkulma [1]	Kaarina, Finland	8.2	10.9 [2]	Completed

[1] Lillinkulma was previously referred to as Piispanristi.
[2] Includes stages 1 and 2. The 2nd stage was completed earlier than anticipated.

The most significant project, which started during the period, is the construction of a new shopping centre at Liljeholmen in Stockholm. The value of the project is approximately EUR 110 million in addition to the EUR 60.6 million paid for the property, and it is the largest individual development project in Citycon's history. The gross area of the shopping centre will be approximately 91,000 square metres, including an underground car park. The new shopping centre will open its doors in or around October–November 2009.

In early February, Citycon announced that it would begin to extend the Rocca al Mare shopping centre in Tallinn, acquired in the summer of 2005. Its first stage investment is worth a total of some EUR 25 million, increasing the gross leasable area by around 16,000 square metres, while the project investment, covering several stages, totals an estimated EUR 68 million.

An extension to the shopping centre Duo located in Finland's largest suburb, Hervanta in Tampere, was completed in April. The leasable area of the shopping centre is 15,500 square metres, consisting of the old Hervanta retail centre (5,200 m2) and the new extension (10,300 m2). The number of customers in the first week after the opening day, 80,000 people, exceeded expectations. The project was completed on budget and schedule. Refurbishment of the old section will be completed for Christmas 2007.

Koskikeskus in Tampere also underwent commercial upgrading, and its service offering was expanded during the period. A food court will be opened at Myyrmanni in Vantaa in 2007, doubling the number of the shopping centre's existing restaurants. The project's value is approximately EUR 2 million. In the centre of the town of Salo, which lies some 120 kilometres west of Helsinki, a retail property owned by Citycon will be redeveloped into a shopping centre. The investment amounts to approximately EUR 1.8 million, and the centre will be opened for Christmas 2007.

Business Units

Since the end of 2006, Citycon's business is divided into three business units, Finland, Sweden and the Baltic Countries, which are further divided into business areas Retail Properties and Property Development.

Finland

Citycon leads the Finnish market in the shopping centre business. Reported net rental income rose by 4.8 per cent, to EUR 35.7 million and that of like-for-like properties increased by 8.8 per cent. Business unit Finland accounted for 72.9 per cent of Citycon's total net rental income.

Rolling twelve month occupancy cost ratio for like-for-like properties was 8.6 per cent (8.5 per cent). Occupancy cost ratio has been calculated as a share of net rent and potential service charges, paid by the tenant to Citycon, of tenant's sales excluding VAT. VAT-percentage is an estimate.

Lease portfolio summary, Finland

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Number of leases started during the period	101	76	106	207	189	9.5%	321
Total area of leases started, sq.m.	24,350	8,419	16,900	41,250	45,885	-10.1%	66,500
Occupancy rate at end of the period , %			96.4	95.9	96.5	-0.6%	97.2
Average length of lease portfolio at the end of the period, year			3.2	3.4	2.9	17.2%	3.1

Financial performance, Finland

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Turnover, EUR million	24.7	23.7	23.9	48.6	47.1	3.3%	95.8
Net fair value gains on investment property, EUR million	120.3	56.2	14.0	134.3	71.1	88.7%	104.8
Operating profit, EUR million	137.1	72.5	30.2	167.3	103.2	62.0%	176.1
Gross rental income, EUR million	23.7	22.9	23.3	47.0	45.7	3.0%	93.1
Net rental income, EUR million	18.2	17.2	17.5	35.7	34.1	4.8%	68.8
Capital expenditure, EUR million	20.5	8.6	22.9	43.3	59.9	-27.6%	152.8
Fair market value of investment properties, EUR million			1,046.6	1,187.4	950.9	24.9%	1,009.7
Net rental yield, % [1]			7.3	7.0	8.3	–	7.6
Net rental yield, like-for-like properties, %			7.9	7.7	8.4	–	7.9

1) Includes the lots for development projects

During the reporting period, Citycon acquired all shares in Kiinteistö Oy Lahden Hansa, adjacent to the Trio shopping centre in Lahti, at a debt-free price of EUR 17.0 million. The acquired property is an integral part of Trio, currently being refurbished by Citycon. The leasable area of Hansa is about 11,000 square metres. As a result of this acquisition, Citycon is almost the sole owner of the Trio shopping centre, the gross leasable area in its possession increasing to 46,000 square metres.

In May, Citycon acquired all shares in Lillinkulma Oy for EUR 0.8 million. The acquisition relates to the company's retail centre construction project in Kaarina completed in May. The total investment in the development project was EUR 10.9 million. In addition, the company made several smaller investments during the reporting period when it purchased shares in shopping centres from minority shareholders, such as Isomyyri in Vantaa and Heikintori in Tapiola, Espoo.

The largest ongoing shopping centre development projects in Finland are listed in the table above under Development Projects.

New acquisitions carried out in Finland during the reporting period were worth a total of EUR 29.8 million (EUR 48.7 million), while development investments totalled EUR 13.6 million (EUR 11.1 million). On 30 June 2007, Citycon owned 20 (18) shopping centres and 46 (127) other retail properties in Finland.

Sweden

Citycon has achieved a substantial position in the Swedish shopping centre market and has 15 (9) retail properties in Sweden, located in the Greater Stockholm and Gothenburg areas and in Umeå. Business unit Sweden's net rental income grew by 275.2 per cent, to EUR 10.4 million accounting for 21.3 per cent of Citycon's total net rental income.

Lease portfolio summary, Sweden

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Number of leases started during the period	15	2	3	18	3	500.0%	32
Total area of leases started, sq.m.	4,138	492	270	4,408	599	635.9%	3,900
Occupancy rate at end of the period , %			97.2	95.0	97.2	-2.3%	96.3
Average length of lease portfolio at the end of the period, year			1.9	1.8	2.4	-25.0%	2.2

Financial performance, Sweden

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Turnover, EUR million	9.3	2.7	8.6	17.8	5.3	235.0%	17.3
Net fair value gains on investment property, EUR million	35.5	1.2	15.1	50.6	1.1	4,515.4%	8.7
Operating profit, EUR million	40.6	2.4	18.8	59.4	3.4	1,627.7%	16.8
Gross rental income, EUR million	8.4	2.5	7.9	16.3	4.9	235.4%	15.9
Net rental income, EUR million	6.0	1.3	4.4	10.4	2.8	275.2%	9.3
Capital expenditure, EUR million	72.2	4.8	61.7	133.9	38.1	251.0%	267.2
Fair market value of investment properties, EUR million			414.8	521.9	114.3	356.6%	354.8
Net rental yield, %[1]			4.6	4.6	6.2	–	5.1

[1] Includes the lots for development projects

On 5 June 2007, Citycon acquired 75 per cent of the real estate company Balticgruppen Handel AB from the Swedish Balticgruppen AB for approximately SEK 490 million (approximately EUR 53.3 million). The acquisition resulted in Citycon owning 75 per cent of the shopping centre Strömpilen and the retail property Länken. Strömpilen is the leading shopping centre in Umeå and has a leasable area of approximately 25,000 square metres, with retail premises accounting for approximately 22,300 square metres. Länken is a modern retail property consisting of two buildings with a gross leasable area of approximately 7,200 square

metres. Both properties have potential for substantial development and extension.

As agreed in December 2006, Citycon bought Tumba Centrumfastigheter AB shares in late January. The company owns Tumba Centrum, a shopping centre in the municipality of Botkyrka, south of Stockholm. The property's debt-free purchase price amounted to SEK 547.7 million (approx. EUR 60.5 million). Its gross leasable area is around 31,000 square metres, some 18,600 square meters of which are retail premises.

The development projects underway in Sweden are listed in the table under Development Projects. The most significant project, which started during the period, is the construction of a new shopping centre at Liljeholmen in Stockholm.

In Sweden, reported capital expenditure totalled roughly EUR 133.9 million, of which new acquisitions and development investments accounted for EUR 128.9 million (EUR 36.2 million) and EUR 5.0 million (EUR 2.0 million), respectively. On 30 June 2007, Citycon owned eight (3) shopping centres and seven (6) other retail properties in Sweden.

Baltic Countries

At the end of the reporting period, Citycon owned two shopping centres in the Baltic countries: Rocca al Mare in Tallinn, Estonia, and Mandarinas in Vilnius, Lithuania. Furthermore, Citycon agreed in June to acquire the shopping centre Magistral in Tallinn for approximately EUR 16.5 million. The closing of the acquisition took place on 16 July 2007.

Due to the limited size of the Baltic market, competition and the limited availability of suitable properties, Citycon has been cautious with investments in the region. However, the company is continuously looking for potential investment opportunities. Citycon's net rental income grew by 31.9 per cent, to EUR 2.8 million. The Baltic Countries accounted for 5.6 per cent of the company's total net rental income.

Lease portfolio summary, Baltic Countries

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Number of leases started during the period	6	1	5	11	9	22.2%	16
Total area of leases started, sq.m.	257	610	790	1,047	2,502	-58.2%	2,900
Occupancy rate at end of the period , %			100.0	99.9	100.0	-0.1%	100.0
Average length of lease portfolio at the end of the period, year			3.2	3.0	3.8	-21.1%	3.3

Financial performance, Baltic Countries

	Q2/2007	Q2/2006	Q1/2007	Q1-Q2/2007	Q1-Q2/2006	Change -%	1-12/2006
Turnover, EUR million	1.9	1.4	1.8	3.7	2.7	39.3%	6.2
Net fair value gains on investment property, EUR million	4.3	2.4	2.4	6.7	3.1	118.2%	6.6
Operating profit, EUR million	5.6	3.4	3.5	9.1	5.0	81.9%	10.9
Gross rental income, EUR million	1.9	1.2	1.6	3.5	2.3	54.8%	6.1
Net rental income, EUR million	1.4	1.1	1.3	2.8	2.1	31.9%	4.8
Capital expenditure, EUR million	3.6	16.2	0.3	3.9	16.2	-76.0%	16.2
Fair market value of investment properties, EUR million			85.6	89.9	77.9	15.3%	83.3
Net rental yield, % [1]			6.6	6.6	7.0	–	6.7

[1] Includes the lots for development projects

The shopping centre Magistral referred to above is located in the Mustamäe district of Tallinn having around 64,000 inhabitants. Magistral, constructed in 2000, has a leasable area of 9,450 square metres. This shopping centre provides significant opportunities for development and extension and, in connection with the property transaction, Citycon has also agreed on purchasing some 8,500 square metres of building rights for the sum of EUR 2 million if a pending amendment to the town plan becomes legally valid. The acquisition is Citycon's third shopping centre acquisition in the Baltic countries and the second one in Estonia.

A major redevelopment and extension project is going on in the Rocca al Mare shopping centre. More details on the project can be found under Development Projects.

In the Baltic Countries, reported capital expenditure totalled roughly EUR 3.9 million, of which new acquisitions and development investments accounted for EUR 0.0 million (EUR 16.2 million) and EUR 3.9 million (EUR 0.0 million), respectively.

Turnover and Profit

Turnover for the period came to EUR 70.2 million (EUR 55.0 million), mainly coming from the rental income generated by Citycon's retail premises, of which gross rental income accounted for 95.3 per cent (96.0 per cent).

Operating profit rose to EUR 231.9 million (EUR 108.7 million). Profit before taxes came to EUR 212.5 million (EUR 95.8 million) and profit after tax was EUR 170.4 million (EUR 72.7 million). The increase in operating profit was chiefly due to changes in the fair value of the property portfolio, and the operating profit generated by the acquired properties.

The effect of investment property fair value gains, gains on the sale of investment property and other non-recurring items, including the related tax effect, on the profit for the period attributable to parent company shareholders came to EUR 152.7 million (EUR 56.8 million). Taking this into account, the reported profit attributable to parent company shareholders after tax is EUR 0.7 million below the Q2/2006 level. The decline derives from a one-time exchange rate gain in the comparison period, divestment of non-core properties, higher number of shares as well as from increased development activities and costs related to expanded business operations.

Earnings per share were EUR 0.90 (EUR 0.47). Earnings per share excluding fair value gains, gains on sale on investment property, other non-recurring items and the resulting tax effects were EUR 0.08 (EUR 0.10).

Net cash flow from operating activities per share amounted to EUR 0.11 (EUR 0.10).

Human Resources and Administrative Expenses

On 30 June 2007, Citycon Group had a total of 94 (61) employees, 70 of whom worked in Finland, 18 in Sweden, five in Estonia and one in Lithuania. Administrative expenses grew to EUR 8.6 million (EUR 5.9 million), including EUR 0.5 million (EUR 0.4 million) in share-based, non-cash implicit expenses related to employee stock options and the share-based incentive scheme announced in April. Higher expenses were also attributable to expanding company operations and expenses resulting from the creation of the new regional organisation.

Capital Expenditure

Reported gross capital expenditure totalled EUR 181.3 million (EUR 114.2 million), of which property acquisitions accounted for EUR 158.7 million (EUR 101.0 million), property development for EUR 22.5 million (EUR 13.1 million) and other investments for EUR 0.2 million (EUR 0.1 million).

These investments were mainly financed with the proceeds from the EUR 133.8 million directed share issue carried out during the reporting period.

Balance Sheet and Financial Position

The period-end balance sheet total stood at EUR 1,878.1 million (EUR 1,170.6 million), and liabilities totalled EUR 998.5 million (EUR 675.4 million), with short-term liabilities accounting for EUR 131.8 million (EUR 104.9 million). The Group's financial position remained at a healthy level throughout the reporting period.

Year-on-year, reported interest-bearing debt increased by EUR 259.8 million, to EUR 886.0 million (EUR 626.2 million). The fair value of Group interest-bearing debt stood at EUR 903.5 million (EUR 626.2 million) while cash and cash equivalents came to EUR 40.1 million (EUR 17.7 million), resulting in EUR 863.3 million (EUR 608.5 million) in the fair value of net interest-bearing debt.

The interest rate of interest-bearing debt averaged 4.60 per cent (4.33 per cent). The average loan maturity, weighted according to loan principals, extended to 4.5 years (2.5 years) while the average time to fixing lengthened to 3.4 years (2.4 years). On 30 June 2007, the interest rate of interest-bearing debt, interest-rate swaps included, averaged 4.65 per cent.

The Group's equity ratio stood at 46.9 per cent (42.3 per cent). Period-end gearing was 96.2 per cent (122.9 per cent). A directed share issue carried out during the period and good financial performance pulled down gearing and improved the equity ratio.

Citycon's period-end interest-bearing debt included 79.4 per cent (88.5 per cent) of floating-rate loans, of which 68.1 per cent (71.3 per cent) had been converted to fixed-rate ones by means of interest-rate swaps. Fixed-rate debt accounted for 74.7 per cent of the Group's period-end interest-bearing debt, the interest-rate swaps included. On 30 June 2007, the nominal amount of derivative contracts was EUR 627.6 million (EUR 395.1 million) while the fair value stood at EUR 11.1 million (EUR -5.6 million).

Citycon applies hedge accounting, whereby changes in the fair value of interest-rate swaps subject to hedge accounting are recognised under equity. The period-end nominal amount of interest-rate swaps totalled EUR 539.1 million (EUR 395.1 million), with hedge accounting applied to interest-rate swaps whose nominal amount totalled to EUR 489.1 million (EUR 395.1 million).

Net financial expenses increased by EUR 6.5 million, to EUR 19.4 million (EUR 12.9 million), due mainly to higher interest-bearing debt and reported expenses resulting from an option on convertible bonds, as well as a non-recurring exchange rate gain of EUR 1.0 million recognised in the comparison period. Net financial expenses shown in the income statement include EUR 0.9 million (EUR 0.0 million) in non-cash expenses related to the option component on convertible bonds.

Share Capital and Shares

At the beginning of 2007, Citycon Oyj's registered share capital totalled EUR 225.7 million and the number of shares 167.2 million. During January–June, the company increased its share capital by EUR 33.9 million and 25.3 million shares, as a result of share subscriptions based on a directed share issue and stock options. The table below shows the changes in share capital in more detail. The company's period-end registered share capital amounted to EUR 259.6 million and the number of shares totalled 192.5 million. The company has a single series of shares, with each share entitling its holder to one vote at the shareholders' meeting. The shares have no nominal value.

Changes in share capital between 1 January and 30 June 2007

Date 2007	Reason	Change, EUR	Change in no. of shares	Share capital, EUR	Number of shares
1 Jan.				225,697,293.00	167,183,180
9 Feb.	Increase (stock options)	123,217.20	91,272	225,820,510.20	167,274,452
15 Feb.	Increase (directed share issue)	33,750,000.00	25,000,000	259,570,510.20	192,274,452
27 April	Increase (stock options)	-	206,441	-	192,480,893
14 June	Increase (stock options)	-	21,854	-	192,502,747
30 June				259,570,510.20	192,502,747

Since company shares no longer bear any nominal value and the AGM amended the stock options' terms and conditions in such a way that the share subscription price of shares subscribed on the basis of stock options would be recognised under the invested unrestricted equity fund, the company's share capital will no longer increase as a result of share subscriptions based on stock options.

During January–June, the number of Citycon shares traded on the Helsinki Stock Exchange totalled 66.4 million (29.1 million) at a total value of EUR 357.6 million (EUR 108.4 million). The highest quotation was EUR 6.09 (EUR 4.23) and the lowest EUR 4.61 (EUR 3.02). The trade-weighted average price was EUR 5.39 (EUR 3.73) and the share closed at EUR 4.77 (EUR 3.61). The company's market capitalisation at the end of June totalled EUR 918.2 million (EUR 595.7 million).

Directed Share Issue

Citycon strengthened its balance sheet by a directed share issue in February. The issue of new shares was based on the authorisation by the Extraordinary General Meeting of 26 January 2007. The new shares were offered to subscription to Finnish and international institutional investors in a directed issue, waving the shareholders' pre-emptive rights, and was carried out in an accelerated book-building process between 12 February and 13 February 2007. A total of 25 million new shares were subscribed for at a per-share price of EUR 5.35. The new shares entitle their holders to a dividend as of the financial year starting on 1 January 2007.

More detailed information on the directed share issue can be found in Citycon's stock exchange releases published in February and available on the company's website at www.citycon.fi.

Board Authorisations

The AGM of 13 March authorised the Board of Directors to decide on issuing new shares and disposing of treasury shares held by the company, through a rights or a free share issue. The company may issue new shares and transfer its treasury shares to its shareholders in proportion to their current shareholdings in the company or, waiving the shareholders' pre-emptive right, through a directed share issue, if the company has a weighty financial reason for doing so. The Board may also decide on a bonus issue to the company itself. In addition, the AGM authorised the Board of Directors to grant special rights, as referred to in Chapter 10, Section 1 of the Companies Act, entitling their holders to receive, against payment, new company shares or treasury shares held by the company. The combined number of new shares to be issued and treasury shares to be transferred, including the shares granted on the basis of the special rights, may not exceed 100 million. These authorisations are valid for five years from the date of the AGM.

Other decisions made at the Annual General Meeting have been reported in the previous interim report and the company's stock exchange release published on 13 March 2007 and available on the company's website at www.citycon.fi.

Notification of Changes in Ownership

In February, Fidelity International Limited notified that Fidelity International Limited's and its direct and indirect subsidiaries' shareholding in Citycon Oyj had fallen below ten (10) per cent. According to the notification, on 14 February 2007 Fidelity International Limited and its direct and indirect subsidiaries held a total of 17,297,574 Citycon shares, accounting for nine per cent of the company's fully paid share capital and votes at the time.

Stock Options

Citycon has two option schemes in force, the 1999 A/B/C scheme and the 2004 A/B/C scheme, which form part of the Group's employee incentive and motivation programme. The stock options 1999 and 2004 A are listed on the Helsinki Stock Exchange.

The table below shows basic information on the stock option schemes.

Stock options

	1999 A	1999 B	1999 C	2004 A	2004 B	2004 C
Number of options granted	1,800,000	1,800,000	1,727,500	1,040,000	1,090,000	1,250,000
Held by Veniamo-Invest Oy, number [1]			172,500	260,000	210,000	50,000
Subscription ratio, stock option/share	1:1,0927	1:1,0927	1:1,0927	1:1,0611	1:1,0611	1:1,0611
Subscription price/share, EUR	1.35	1.35	1.35	2.1636 [2]	2.6066 [2]	4.55 [2]
Share subscription period starts	1.9.2000	1.9.2002	1.9.2004	1.9.2006	1.9.2007	1.9.2008
Share subscription period ends	30.9.2007	30.9.2007	30.9.2007	31.3.2009	31.3.2010	31.3.2011

[1] Veniamo-Invest Oy has no right to subscribe for its parent company's shares.

[2] After dividend distribution for 2006. The subscription price will be reduced by half of the amount of annual dividends paid. However, the share subscription price will always amount to at least EUR 1.35.

In January–June, the number of new shares subscribed exercising Citycon's 1999 and 2004 stock options totalled 228,295. The number of shares subscribed exercising the 1999 A/B/C stock options totalled 98,343 at a per-share subscription price of EUR 1.35 and that exercising the 2004 A stock options 129,952 at a per-share subscription price of EUR 2.1636.

After the reporting period, a total of 307,524 new shares were subscribed for exercising stock options under Citycon's option schemes. The number of shares subscribed exercising the 1999 A/B/C stock options totalled 303,068 at a per-share subscription price of EUR 1.35 and that exercising the 2004 A stock options 4,456 at a per-share subscription price of EUR 2.1636. The new shares are estimated to be registered in the Trade Register on 24 July 2007 and traded on the Helsinki Stock Exchange starting from 25 July 2007. Shares subscribed for in 2007 entitle their holders to a dividend for the financial year 2007.

The unexercised stock options under Citycon's 1999 option scheme entitle their holders to subscribe for a further 613,077 new shares, and the stock options A under the 2004 scheme for a further 1,155,307 new shares. The share subscription period for the 1999 stock options will expire at the end of September this year.

Pages 34–36 in the Financial Statements Appendix to the Annual Report 2006 provide more detailed information on the company's stock option schemes.

Near-term Risks and Uncertainties

Citycon estimates that major near-term risks and uncertainties are associated with economic development in the company's operating regions, and changes in the fair value of investment properties and interest rates. As the focus of Citycon's growth strategy is shifting from property acquisitions to own property development and construction, also the risks associated with project management and with increasing construction costs will be more significant. A marked increase in interest rates, materialization of a major project risk considerably higher construction costs, a decline in the fair value of investment properties or a sharp economic slowdown in Finland, Sweden or the Baltic countries could have an adverse effect on Citycon's business and profit performance.

Events after the Reporting Period

Through share transactions concluded after the reporting period, Citycon Oyj acquired a majority holding in the Myllypuro retail centre in Eastern Helsinki. The transaction is associated with a more extensive refurbishment and development project in and around the Myllypuro retail centre in co-operation with the City of Helsinki.

Outlook

Citycon will remain active in seeking acquisition and development opportunities while implementing its expansion strategy in toughening competitive environment. The company expects the development and redevelopment projects to play a growing role in its business. Citycon estimates that its operating profit, excluding fair value changes and gains on sale of investment properties, will grow in 2007. This outlook is based on expected growth in the company's leasable area, resulting from major acquisitions carried out and development and redevelopment projects coming on line.

Helsinki, 20 July 2007

Citycon Oyj

Board of Directors

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS 30 JUNE 2007

Condensed Consolidated Income Statement, IFRS

EUR million	Note	Q2/2007	Q2/2006	Change	Q1-Q2/2007	Q1-Q2/2006	Change	1-12/2006
Gross rental income		34.1	26.7	27.8%	66.9	52.8	26.6%	115.1
Service charge income		1.8	1.1	66.3%	3.3	2.2	49.2%	4.2
Turnover	3	**35.9**	**27.8**	**29.4%**	**70.2**	**55.0**	**27.5%**	**119.4**
Property operating expenses		10.0	8.0	24.7%	21.1	15.9	33.0%	36.0
Other expenses from leasing operations		0.1	0.1	-12.4%	0.1	0.2	-42.3%	0.6
Net rental income		**25.8**	**19.6**	**31.5%**	**49.0**	**39.0**	**25.6%**	**82.8**
Administrative expenses		4.3	2.7	58.4%	8.6	5.9	44.9%	12.9
Other operating income and expenses		-0.1	0.0	-	-0.1	0.3	-	0.6
Net fair value gains on investment property		160.1	59.8	167.7%	191.6	75.3	154.4%	120.1
Net gains on sale of investment property		–	–	–	–	–	–	5.9
Operating profit		**181.6**	**76.8**	**136.4%**	**231.9**	**108.7**	**113.4%**	**196.5**
Net financial income and expenses		10.0	5.9	69.5%	19.4	12.9	50.5%	30.9
Profit before taxes		**171.6**	**70.9**	**142.0%**	**212.5**	**95.8**	**121.9%**	**165.6**
Current taxes		-2.8	-1.6	76.7%	-4.2	-3.0	40.1%	-7.4
Change in deferred taxes		-33.1	-15.6	112.4%	-37.9	-20.1	88.4%	-31.8
Profit for the period		**135.8**	**53.8**	**152.4%**	**170.4**	**72.7**	**134.5%**	**126.4**
Attributable to								
Parent company shareholders		134.6	54.3	147.7%	167.6	72.4	131.4%	124.9
Minority interest		1.2	-0.6	-	2.8	0.2	1,269.0%	1.5
Earnings per share (basic), EUR		0.70	0.34	106.7%	0.90	0.47	90.5%	0.78
Earnings per share (diluted), EUR		0.62	0.33	85.7%	0.80	0.47	70.0%	0.74

Condensed Consolidated Balance Sheet, IFRS

EUR million	Note	30 June 2007	30 June 2006	31 Dec. 2006
Assets				
Non-current assets				
Investment property	4	1,799.2	1,143.2	1,447.9
Development property	5	13.6	–	–
Other property, plant and equipment		0.7	0.7	0.6
Derivative financial instruments and other non-current assets	7	14.2	0.4	4.8
Total non-current assets		1,827.7	1,144.3	1,453.3
Current assets				
Derivative financial instruments	7	0.3	–	0.4
Trade and other receivables		10.0	8.6	11.3
Cash and cash equivalents	6	40.1	17.7	21.3
Total current assets		50.3	26.3	33.1
Total assets		**1,878.1**	**1,170.6**	**1,486.4**
Liabilities and Shareholders' Equity				
Equity attributable to parent company shareholders				
Share capital		259.6	222.8	225.7
Share issue		–	–	0.1
Share premium fund and other restricted reserves		131.1	116.0	131.1
Fair value reserve	7	6.9	-4.2	-1.3
Invested unrestricted equity funds		99.2	–	–
Retained earnings		354.1	156.7	209.7
Total equity attributable to parent company shareholders		850.9	491.4	565.3
Minority interest		28.6	3.8	15.0
Total shareholders' equity		879.5	495.2	580.3
Liabilities				
Interest-bearing liabilities		783.9	536.9	726.3
Derivative financial instruments and other non-interest bearing liabilities	7	2.0	5.8	4.9
Deferred tax liabilities		80.7	27.7	40.4
Total long-term liabilities		866.7	570.5	771.7
Interest-bearing liabilities		102.1	89.3	87.6
Trade and other payables		29.7	15.7	46.8
Short-term liabilities		131.8	104.9	134.4
Total liabilities		998.5	675.4	906.1
Total liabilities and shareholders' equity		**1,878.1**	**1,170.6**	**1,486.4**

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	Invested unrestricted equity fund	Retained earnings	Equity attributable to parent company shareholders	Minority interest	Shareholders' equity total
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**	**0.2**	**79.0**
Share subscriptions based on stock options	38.7	-1.1	37.2				74.8		74.8
Dividends (Note 8)			-6.6			-12.6	-19.2		-19.2
Share-based payment						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**
Balance at 1 Jan. 2007	**225.7**	**0.1**	**131.1**	**-1.3**	**–**	**209.7**	**565.3**	**15.0**	**580.3**
Cash flow hedges				8.2			8.2		8.2
Profit for the period						167.6	167.6	2.8	170.4
Total recognized income and expense for the period				**8.2**		**167.6**	**175.8**	**2.8**	**178.6**
Change in share capital	33.8				98.8		132.5		132.5
Share subscriptions based on stock options	0.1	-0.1	0.0		0.4		0.4		0.4
Dividends (Note 8)						-23.4	-23.4		-23.4
Translation differences						-0.3	-0.3	-0.3	-0.6
Share-based payment						0.5	0.5		0.5
Other changes			0.0				0.0	11.2	11.2
Balance at 30 June 2007	**259.6**	**0.0**	**131.1**	**6.9**	**99.2**	**354.1**	**850.9**	**28.6**	**879.5**

Condensed Consolidated Cash Flow Statement, IFRS

EUR million	Note	Q1-Q2/2007	Q1-Q2/2006	1-12/2006
Cash flow from operating activities				
Profit before taxes		212.5	95.8	165.6
Adjustments		-171.5	-62.2	-94.0
Cash flow before change in working capital		41.0	33.5	71.6
Change in working capital		-2.7	0.0	-0.5
Cash generated from operations		38.3	33.5	71.1
Paid interest and other financial charges		-15.2	-17.0	-34.1
Received interest and other financial income		1.0	0.2	0.9
Taxes paid		-3.7	-2.1	-5.9
Net cash from operating activities		**20.5**	**14.7**	**32.0**
Cash flow from investing activities				
Acquisition of subsidiaries, less cash acquired		-165.3	-66.7	-331.8
Acquisition of investment property	4	–	-32.3	-33.6
Capital expenditure on investment properties	4	-15.4	-13.2	-35.6
Capital expenditure on development properties, other PP&E and intangible assets	5	-7.3	–	–
Sale of investment property		–	–	73.9
Net cash used in investing activities		**-188.0**	**-112.1**	**-327.1**
Cash flow from financing activities				
Proceeds from share issue		132.5	73.6	77.4
Proceeds from short-term loans		130.0	180.0	421.2
Repayments of short-term loans		-115.5	-132.0	-392.2
Proceeds from long-term loans		209.3	30.0	675.3
Repayments of long-term loans		-146.4	-32.8	-461.8
Dividends paid	8	-23.4	-19.2	-19.2
Net cash from/used in financing activities		**186.6**	**99.6**	**300.8**
Net change in cash and cash equivalents		**19.0**	**2.1**	**5.7**
Cash and cash equivalents at period-start	6	21.3	15.6	15.6
Effects of exchange rate changes		-0.2	0.0	–
Cash and cash equivalents at period-end	6	**40.1**	**17.7**	**21.3**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basic company data

Citycon is a real estate company investing in retail premises. Citycon operates mainly in Finland, Sweden and the Baltic countries. Citycon is a Finnish, public limited company established under Finnish law and domiciled in Helsinki. The Board of Directors approved the interim financial statements on 20 July 2007.

2. Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the disclosures required in the annual financial statements. Therefore, they should be read in conjunction with Citycon's annual financial statements for the year ended 2006.

Accounting policies

Citycon changed its accounting policies related to IAS 23 Borrowing Costs -standard as of 1 January 2007 and started to apply an alternative treatment allowed by IAS 23. The standard allows that the borrowing costs such as interest expenses and arrangement fees are capitalised as part of the cost of development properties.

Otherwise, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of Citycon's annual financial statements for the year ended 31 December 2006.

Acquisitions in the balance sheet

Balticgruppen Handel AB was acquired in June 2007. The identifiable assets and liabilities of Balticgruppen Handel AB, corresponding to the shares acquired, have been recognized at preliminary fair value in the company's balance sheet.

Reporting to Gazit-Globe Ltd.

The company's main shareholder, Gazit-Globe Ltd, holding approximately 38.9 per cent of the shares in the company, has announced that it will start applying International Financial Reporting Standards (IFRS) in its financial reporting in 2007. According to IFRS one company may exercise a controlling interest in another company even if its shareholding it that company does not exceed 50 per cent. Gazit-Globe Ltd. holds the view that it exercises controlling interest, as defined in IFRS, in Citycon Oyj based on the fact that it has been able to exercise controlling interest in Citycon Oyj's shareholders' meetings pursuant to its shareholding. In accordance with an agreement concluded between the companies, Citycon Oyj will provide Gazit-Globe Ltd. with a more detailed breakdown of the accounting information it discloses in its interim and full-year reports so that Gazit-Globe Ltd. can consolidate Citycon Group figures into its own IFRS financial statements.

3. Segment Information

Citycon's business consists of the regional business units Finland, Sweden and the Baltic Countries.

EUR million	Q2/2007	Q2/2006	Change	Q1-Q2/2007	Q1-Q2/2006	Change	1-12/2006
Turnover							
Finland	24.7	23.7	4.2%	48.6	47.1	3.3%	95.8
Sweden	9.3	2.7	245.8%	17.8	5.3	235.0%	17.3
Baltic Countries	1.9	1.4	38.3%	3.7	2.7	39.3%	6.2
Total	**35.9**	**27.8**	**29.4%**	**70.2**	**55.0**	**27.5%**	**119.4**
Operating profit							
Finland	137.1	72.5	89.1%	167.3	103.2	62.0%	176.1
Sweden	40.6	2.4	1,599.6%	59.4	3.4	1,627.7%	16.8
Baltic Countries	5.6	3.4	65.1%	9.1	5.0	81.9%	10.9
Other	-1.8	-1.5	17.7%	-3.8	-3.0	28.0%	-7.2
Total	**181.6**	**76.8**	**136.4%**	**231.9**	**108.7**	**113.4%**	**196.5**

EUR million	30 June 2007	31 Dec. 2006	Change
Assets			
Finland	1,190.5	1016.6	17.1%
Sweden	535.8	358.0	49.6%
Baltic Countries	94.7	83.6	13.2%
Other	57.2	28.2	103.0%
Total	**1,878.1**	**1486.4**	**26.3%**

The significant increase in segment assets for Sweden is due to the acquisition of the shopping centres Tumba Centrum and Strömpilen as well as the retail centre Länken.

4. Investment property

EUR million	30 June 2007	30 June 2006	31 Dec. 2006
At period-start	**1,447.9**	**956.6**	**956.6**
Additions	181.1	109.9	436.2
Disposals	-	-	-67.9
Transfer into the development properties	-13.6	-	-
Net fair value gains	191.9	75.3	120.1
Exchange differences	-8.1	1.3	2.9
At period-end	**1,799.2**	**1,143.2**	**1,447.9**

An external professional appraiser has conducted the valuation of the company's properties with a net rental income based cash flow analysis. Market rents, occupancy rate, operating expenses and yield requirement form the key variables used in the cash flow analysis. The segments' yield requirements used by the external appraiser in the cash flow analysis were as follows at 30 June 2007 and 31 December 2006:

Yield requirement (%)	30 June 2007	31 Dec. 2006
Finland	5.9	6.6
Sweden	5.5	6.4
Baltic Countries	6.3	7.1
Average	**5.8**	**6.6**

5. Development property

When Citycon redevelops its existing investment properties, the properties remain as the investment properties in the balance sheet, and they are measured based on fair value model in accordance with IAS 40. The significant development projects, in which a new building or significant extension is constructed, are exceptions and they are treated in accordance with IAS 16 Property, Plant and Equipment standard. The significant extension projects are presented separately from the property, plant and equipment in the balance sheet based on the recommendations of the European Public Real Estate Association (EPRA). As at 30 June 2007, the development properties consisted of the capital expenditure relating to extension projects in Rocca al Mare, Åkerbserga and Liljeholmen shopping centres. Investments in development properties during the six months ended 30 June 2007 amounted to EUR 7.1 million (EUR 0.0 million) and the development property in the balance sheet totalled EUR 13.6 million at 30 June 2007.

6. Cash and cash equivalents

EUR million	30 June 2007	30 June 2006	31 Dec. 2006
Cash in hand and at bank	24.9	14.2	19.4
Restricted cash in hand and at bank	-	1.0	-
Short-term deposits	15.2	2.5	1.9
Total	**40.1**	**17.7**	**21.3**

7. Derivative Financial Instruments

EUR million	30 June 2007		30 June 2006		31 Dec. 2006	
	Nominal amount	Fair value	Nominal amount	Fair value	Nominal amount	Fair value
Interest rate derivatives						
Interest rate swaps						
Maturity:						
less than 1 year	50.0	0.3	78.2	0.6	50.0	0.4
1-2 years	60.0	0.4	50.0	-0.4	40.0	0.0
2-3 years	149.0	-2.0	143.9	-2.6	86.0	-2.6
3-4 years	40.0	1.1	83.0	-3.4	83.0	-2.6
4-5 years	0.0	0.0	40.0	0.1	40.0	-0.8
over 5 years	240.1	11.8	0.0	0.0	242.7	3.8
Total	**539.1**	**11.5**	**395.1**	**-5.6**	**541.7**	**-1.8**
Foreign exchange derivatives						
Forward agreements						
Maturity:						
less than 1 year	88.5	-0.4	0.0	0.0	14.8	0.0
Total	**88.5**	**-0.4**	**0.0**	**0.0**	**14.8**	**0.0**

The fair value of derivative financial instruments represents the market value of the instrument with prices prevailing on the balance sheet date. Derivative financial instruments are used in hedging the interest rate risk of the interest bearing liabilities and foreign currency risk.

The fair values include foreign exchange loss of EUR 0.9 million (EUR 0.0 million) which is recognized in the income statement.

Hedge accounting is applied for interest rates swaps which have nominal amount of EUR 489.1 million (EUR 395.1 million). The fair value gain recognized in the fair value reserve under shareholders' equity taking account the tax effect totals EUR 6.9 million (EUR -4.2 million).

8. Dividends

In accordance with the proposal by the Board of Directors and the decision by the Annual General Meeting held on 13 March 2007 dividend for the financial year 2006 amounted to EUR 0.14 per share (EUR 0.14 for the financial year 2005). Dividends paid amounted to EUR23.4 million (EUR19.2 million) during the period.

9. Contingent Liabilities

EUR million	30 June 2007	30 June 2006	31 Dec. 2006
Mortgages on land and buildings	47.6	7.8	21.1
Bank guarantees	20.1	5.4	37.1
Capital commitments	84.7	–	40.7

At 30 June 2007, Citycon had capital commitments of EUR 84.7 million relating mainly to development projects.

10. Key Figures

	Q2/2007	Q2/2006	Change	Q1-Q2/2007	Q1-Q2/2006	Change	1-12/2006
Earnings per share (basic), EUR	0.70	0.34	106.7%	0.90	0.47	90.5%	0.78
Earnings per share (diluted), EUR (EPRA EPS)	0.62	0.33	85.7%	0.80	0.47	70.0%	0.74
Equity per share, EUR (EPRA NAV)				4.42	2.98	48.5%	3.38
Equity ratio, %				46.9	42.3	–	39.1

The formulas for key figures can be found from the 2006 annual financial statements.

The figures are unaudited.

Financial reports in 2007

The next interim report for the period Q1-Q3/2007 will be published on Thursday, 18 October 2007, at approximately 12 noon.

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

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Report on the general review of Citycon Oyj's interim report for the period 1.1.-30.6.2007

We have generally reviewed the interim report of Citycon Oyj for the period 1.1.-30.6.2007. 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 a.

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, July 20, 2007

Ernst & Young Oy

Tuija Korpelainen, Authorized Public Accountant