GAZIT-GLOBE LTD.

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

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

1. A. General

The Company – directly and through its subsidiaries (hereinafter, collectively – "the Group") and an affiliate – is engaged in the acquisition, development and management of income-producing properties in North America, Europe and Israel, focusing mainly on supermarket-anchored shopping centers. In addition, the Company is an owner and operator of senior housing communities and the medical office buildings in North America and, since September 2007, is also active in Israel and Eastern Europe in the development and construction of residential and commercial buildings and the performance of contract work in the infrastructure field. The Company also continues to seek and realize opportunities within its core business and similar asset classes, both in regions where it operates and also in new geographical areas.

B. Properties

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

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

The above properties have a gross leasable area ("G.L.A.") of approximately 4.7 million square meters. They are recorded in the Company's books and in the affiliate's books at their fair value of NIS 44 billion and generate annual rental revenue of NIS 3.7 billion (annual rental revenue data is based on the gross annual rental revenue from the properties currently owned at the exchange rate on the signing date of the financial statements).

In the U.S.A., the Company operates mainly through its subsidiary Equity One Inc. (hereinafter – "EQY"), a public company listed on the New York Stock Exchange (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for U.S. tax purposes. As of the signing date of the financial statements, the Company owns, directly and indirectly (through the subsidiary, First Capital Realty Inc., as described below), 45% of EQY. EQY's properties are located primarily in growing metropolitan areas in the southeastern United States, mainly in Florida and Georgia, and in the Boston, Massachusetts metropolitan area. EQY owns 173 operating shopping centers, with a G.L.A. of 1.7 million square meters, as well as three land parcels for future development.

The Company is also active in the United States through Royal Senior Care (hereinafter – "RSC") and ProMed Properties Inc. (hereinafter – "ProMed"). RSC, in which the Company holds a 50% interest, is active in the senior housing sector in the southeastern United States. RSC owns 13 senior housing communities, encompassing approximately 1,306 units, as well as two that are currently under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings. ProMed owns seven medical office buildings in North America (the U.S.A. and Canada), with a G.L.A. of 69,000 square meters and a multi-story parking garage.

In Canada, the Company operates primarily through First Capital Realty Inc. ("FCR"), a public company listed on the Toronto Stock Exchange (TSX: FCR). As at the signing date of the financial statements, the Company holds 54.7% of FCR. FCR's properties are located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 157 properties in Canada, with a G.L.A. of approximately 1.8 million square meters and six shopping centers under development. In addition, FCR owns 14 million shares in EQY.

In Israel, the Company operates through Gazit-Globe Israel (Development) Ltd. (hereinafter – "Gazit Development"), which is 75% owned by the Company. Gazit Development is an owner, developer and operator of shopping centers in Israel and Bulgaria. It owns eight income-producing shopping centers in Israel, with a G.L.A. of approximately 110,000 square meters and has seven shopping centers under development. In addition, the Company owns an office building in Tel-Aviv, part of which serves as the Group's headquarters.

In addition, since September 2007, the Company also operates in Israel through Acad Building & Investments Ltd. (hereinafter – "Acad"), 50% of whose shares had been acquired as of the above date, and which is consolidated according to the proportionate consolidation method. Acad's main activity is the holding, directly and indirectly, of 73.8% (54.4% on a fully diluted basis) of the share capital and voting rights of U. Dori Engineering Works Corp. Ltd. (hereinafter – "U. Dori"), a public company that is listed on the Tel Aviv Stock Exchange and that is primarily engaged in the development and construction (both for itself and for third parties) of residential and commercial buildings and the performance of contract work in the infrastructure field. U. Dori also operates in developing residential projects in Eastern Europe; additionally, U. Dori (together with others) is involved in the construction of an electricity generating power station in Israel. Apart from its holdings in U. Dori, Acad also operates as a contractor in Nigeria and is the part-owner of rights in an income-producing property in Israel.

In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – "Citycon" or "the affiliate"), a Finnish public company, whose shares are listed on the Helsinki Stock Exchange (OMX:CTYIS). As of the signing date of the financial statements, the Company owns approximately 39.4% of Citycon's share capital. Citycon is active in northern Europe (as of the signing date of the financial statements, in Finland, Sweden, Estonia and Latvia) and owns 85 shopping centers and retail properties. These properties are leased primarily to supermarkets and other retail chains, with a total G.L.A. of approximately 0.9 million square meters, and a shopping center that is currently under development. The Company also operates in the European shopping centers sector (in Germany, as of the signing date of the financial statements) through wholly owned subsidiaries (hereinafter – "Gazit Europe") and owns five shopping centers with a G.L.A. of approximately 48,000 square meters and two shopping centers under development. The Company is also active in Bulgaria, through wholly owned subsidiaries of Gazit Development (hereinafter – "Gazit Development (Bulgaria)"), where it owns a shopping center with a G.L.A. of approximately 7,000 square meters, two plots of land for the future development of shopping centers and offices, with an area of approximately 153,000 square meters and also an office building that is used by the Group.

Other publicly accessible data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets, liabilities and other information (please note that such information is not intended to and does not constitute part of this report nor a recommendation of such securities), can be found on the Group's Internet website and the Internet websites of the Group's companies:

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

C. Highlights – Third quarter of 2007:

- **The Group and the affiliate's investments totaled NIS 2.8 billion, a similar amount as in the corresponding quarter last year.**

- **Property rental revenue totaled NIS 727 million, an increase of 18% compared to the corresponding quarter last year. The increase is due to the enlargement of the property portfolio as a result of the net acquisition of new properties, development properties coming on-line and the increase in the average rent per square meter received on the Group's properties.**

- **Property Net Operating Income ("NOI") [1] totaled NIS 492 million, compared to NIS 412 million in the corresponding quarter last year, an increase of 19%.**

- **Funds from Operations ("FFO") [2] totaled NIS 79.6 million or NIS 0.67 per share, compared to NIS 71.7 million or NIS 0.66 per share, for the corresponding quarter last year, an increase of 11%.**

- **Gross profit totaled NIS 490 million, compared to NIS 298 million in the corresponding quarter last year, an increase of 64%, which is mainly due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.**

- **Cash inflows from operating activities totaled NIS 164 million, a similar amount as in the corresponding quarter last year.**

- **Net income totaled NIS 101 million or NIS 0.81 per share, compared to NIS 50.1 million or NIS 0.39 per share, in the corresponding quarter last year, an increase of 102%.**

- **At the end of the quarter, the Group and the affiliate had 23 properties under development with a gross area of approximately 306,000 square meters, 30 properties being redeveloped and additional land reserves, costing approximately NIS 2.2 billion, which have been earmarked for future development. The additional cost to complete such properties approximates NIS 3.2 billion.**

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

- **Capital reserves [1] (included within the line item “shareholders’ equity”) fell by NIS 92.2 million (NIS 0.78 per share), compared to a fall of NIS 101.4 million (NIS 0.93 per share) in the corresponding quarter last year. The decrease in the capital surpluses is due to the weakening of the U.S. dollar, the Canadian dollar, and the euro against the NIS (an “appreciation” of the NIS) in the aforesaid periods.**

- **As of September 30, 2007, debt to market capitalization (derived from the market value of the Group’s holdings) was 54.8%, compared to 51.5% and 49.4% as of September 30, 2006 and December 31, 2006, respectively.**

- **The Company is applying Israel Accounting Standard No. 16, “Investment Property”, for the first time commencing from January 1, 2007. As a result of implementing this standard, the Company’s shareholders’ equity as of December 31, 2006 increased from approximately NIS 2.9 billion to approximately NIS 4.6 billion. Moreover, in the third quarter of 2007, the Company recognized income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 44 million (approximately NIS 33 million after providing for taxes).**

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

- **The Group and the affiliate’s investments totaled NIS 6.3 billion, a similar amount as in the corresponding period last year.**

- **Property rental revenue totaled NIS 2.1 billion, an increase of 8% compared to the corresponding period last year. The increase is due to the enlargement of the property portfolio as a result of the net acquisition of new properties, development properties coming on-line and the increase in the average rent per square meter received on the Group’s properties.**

- **NOI totaled NIS 1.4 billion, compared to NIS 1.3 billion in the corresponding period last year, an increase of 10%.**

- **FFO totaled NIS 210 million or NIS 1.77 per share, compared to NIS 205.7 million or NIS 1.95 per share, for the corresponding period last year.**

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

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

[1] Capital reserves resulting from translation of the financial statements of foreign operations.

2. **A NIS 6.1 million (NIS 0.05 per share) increase in non-recurring administrative expenses, mainly due to transactions that did not ultimately take place.**
3. **Sale of the Texas property portfolio in April** 2006.

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

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

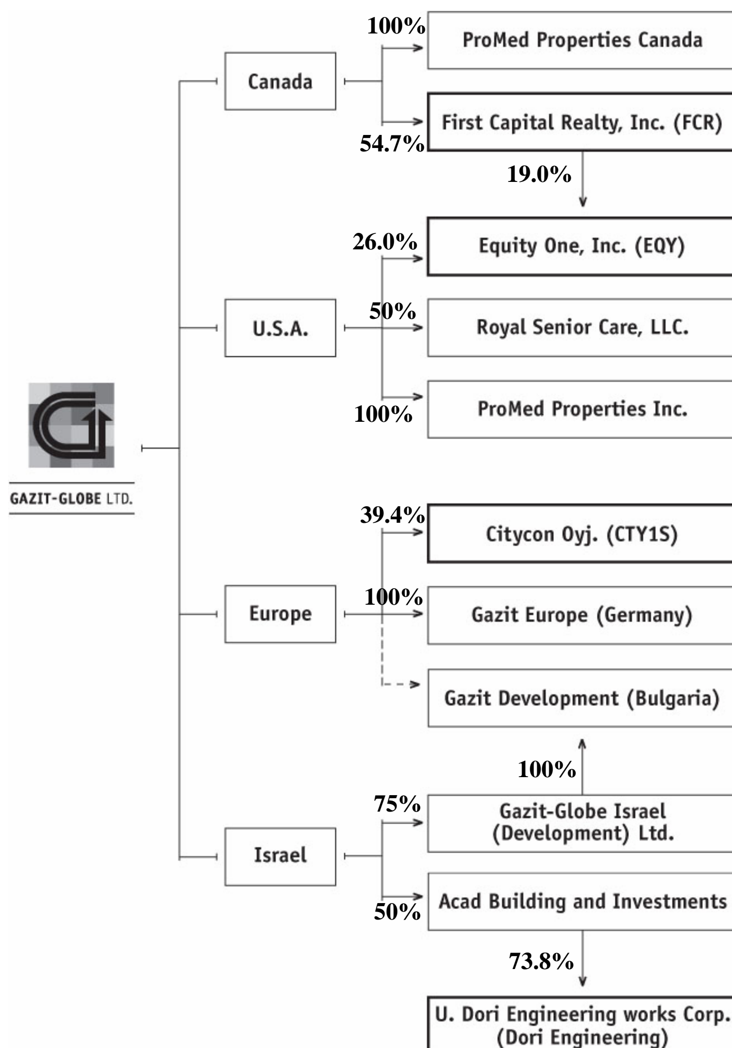
- **Gross profit totaled NIS 1,378 million, compared to NIS 919 million in the corresponding period last year, an increase of 50%, which is due to the first-time implementation of Israel Accounting Standard No. 16, see section H. below.**

- **Cash inflows from operating activities totaled NIS 569 million, compared to NIS 505 million for the corresponding period last year, an increase of 13%.**

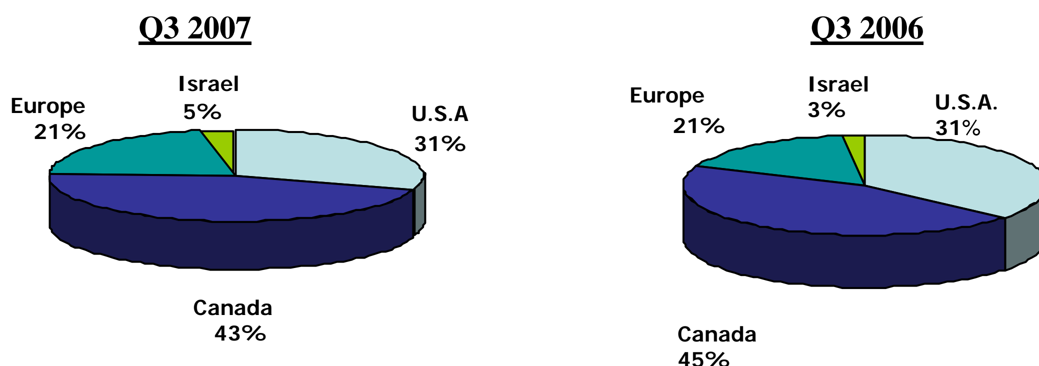
- **Net income totaled NIS 704.2 million or NIS 5.80 per share, compared to NIS 216.8 million or NIS 1.97 per share, for the corresponding period last year, an increase of 225%.**

- **The Company is applying Israel Accounting Standard No. 16, "Investment Property", for the first time commencing from January 1, 2007. As a result of implementing this standard, the Company recognized, in the reporting period, income from adjustments to the fair value of properties, according to its proportionate share, in the gross amount of approximately NIS 321 million (approximately NIS 261 million after providing for taxes).**

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



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



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

G. The Company's Assets:

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

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions) [1]	Market value as of September 30, 2007 (NIS in millions)
EQY [2]	Shares (NYSE)	19.2	26.0	1,589	2,097
FCR	Shares (TSX)	42.5	53.9	3,906	4,375
FCR	Convertible debentures (TSX)	107.6	45.2	446	445
Citycon	Shares (OMX)	86.7	39.4	2,180	2,205
Citycon	Convertible debentures (OMX)	37	33.6	215	261
U. Dori [3]	Shares	42.5	37.9	188	151
RSC	Income-producing property	-	-	279	-
Property in Europe	Income-producing property	-	-	771	-
ProMed	Income-producing property	-	-	1,023	-
Property in Israel	Income-producing property	-	-	1,395	-
Total				**11,992**	**-**

[1] According to the fair value of the assets in conformance with Israel Accounting Standard No. 16 and at depreciated cost in conformance with Israel Accounting Standard No. 27.
[2] Represents only the Company's direct interest in EQY. (In adddition, FCR owns 14 million shares of EQY).
[3] Represents linked holding in U. Dori.

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

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

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

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

2. Additional information is presented below concerning the Company's share in the income-producing properties owned by the Group as of September 30, 2007, based on capitalized NOI methodology. This information is intended to provide additional details, based on methodology that is generally accepted in the regions in which the Company operates, which might serve as an additional method of estimating the value of the Group's properties on the basis of the Group's financial results for the reporting period. It is emphasized that this information does not represent the Company's present or future value of its assets.

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

   In calculating the NOI, the following assumptions were made:

   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 3 months ended September 30		**For the year ended December 31,**
	2007	**2006**	**2006**
	NIS in millions		
Property rental revenue	727	618	2,552
Property operating expenses	(235)	(206)	(868)
NOI for the period	492	412	1,684
Less – minority interest's share of NOI	(241)	(213)	(893)
Add – Company's share of Citycon's NOI	61	47	180
NOI for the period	**312**	**246**	**971**
NOI, annualized	**[2]1,246**	**[3]982**	**971**

Cap Rate:	**5.75%**	**6.00%**	**6.25%**	**6.50%**
Value of proportionately consolidated income-producing property (NIS in millions)[3]	**21,667**	**20,764**	**19,933**	**19,167**

[1] NOI divided by the cap rate.
[2] NOI for the third quarter multiplied by 4.
[3] In accordance with the NOI for the third quarter of 2007.

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

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

3. **Net Asset Value (EPRA NAV and EPRA 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").EPRA NAV is an index that reflects the net asset value of the Company, with certain adjustments, e.g., the neutralization of the fair value revaluation adjustments in respect of derivative financial instruments, which are treated as hedging instruments from an economic perspective, but which do not meet the criteria for hedge accounting, and deferred taxes in respect of the revaluation of assets to their fair value. The Company also publishes EPRA 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 additional information to assist investors in understanding the Company's results in accordance with the recommendations of EPRA.

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

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

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

4. As of September 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 are not presented on the basis of fair value.

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

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

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

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

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

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

Presented below are details of the effect of the Standard, which has been carried directly to shareholders' equity as of January 1, 2007:

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

I. Disclosure Concerning Adoption of International Financial Reporting Standards:

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

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

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

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

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

4. Effect as of September 30, 2007 and for the nine and three months ended on September 30, 2007.

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

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

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

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 3.2 billion, with a further NIS 0.2 billion being invested in other investments. In addition, Citycon invested NIS 3.1 billion in acquiring and developing properties during the reporting period. The effect of these investments on the operating results will be reflected in the remainder of the year and in 2008.

A. Property Activities

1. During the reporting period, the Group acquired 22 income-producing properties, with a total G.L.A. of approximately 222,000 square meters and seven plots of land for future development. The aggregate consideration for these acquisitions totaled NIS 2.4 billion.

2. During the reporting period, the Group invested a total of NIS 0.8 billion in developing new properties and in the redevelopment of existing properties.

3. As of September 30, 2007, EQY and FCR had nine properties of approximately 56,300 square meters under development, 22 properties being redeveloped and expanded and additional land reserves, which have been earmarked for future development. The total cost of these properties and land reserves totals NIS 1.2 billion. The cost to complete these development, redevelopment and expansion projects is expected to amount to a further NIS 0.7 billion.

   The total cost of the properties and land as described above, which are being developed or are intended for future development, as well as the properties of Gazit Development, RSC and Gazit Europe that are being developed, is approximately NIS 1.8 billion. These properties and land did not generate any rental revenue during the reporting period.

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

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

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

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

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

7. As of September 30, 2007, Gazit Development's properties had an occupancy rate of 93.3% and yielded average monthly rental revenues of NIS 79.0 per square meter.

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

	Qty.	**Book value ***	**Additional investment to complete development**	**Rental area (square meters in thousands)**
Income-producing properties	8	1,003,729	-	110
Properties and land parcels under development	7	360,663	450,000	103

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

   In addition, as of September 30, 2007, Gazit Development owns in Bulgaria an income-producing property with a G.L.A. of approximately 7,000 square meters and an office building. It also owns two land parcels in Bulgaria that are intended for the development of shopping centers and offices with an area of approximately 153,000 square meters, representing an investment of €25 million (approximately NIS 143 million). The expected additional cost of bringing the first stage to completion is €20 million (approximately NIS 115 million), with this expected to add approximately 40,000 square meters out of the total of approximately 200,000 square meters which is entitled.

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

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

	Qty.	Book value *	Additional investment to complete development	Rental area (square meters in thousands)
Income-producing properties	4	85,725	-	41
Properties and land parcels under development	2	15,848	81,250	45

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

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

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

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

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

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

C. As to the public debt financing by the Company by way of a shelf prospectus – see notes 3g and 3h to the financial statements.

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

E. As to the issuance of debentures and convertible debentures by FCR – see notes 3j and 3k to the financial statements.

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

G. As to issuances of capital by Citycon and the Company's participation in these issuances, and the acquisition of Citycon shares from the public – see note 3c to the financial statements.

H. As to the sale of MLS common and preferred stock – see note 3b to the financial statements.

I. As to the acquisition of EQY shares by a wholly owned subsidiary of the Company - see note 3d to the financial statements.

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

K. As to the acquisition of 50% of the share capital and voting rights of Acad – see section 1B above and note 3f to the financial statements.

L. As to the investment by a wholly owned subsidiary of the Company in a real estate investment fund in India – see note 3e to the financial statements.

M. The Company's Board of Directors, at its meeting in September 2007, resolved to examine the making of initial investments in the energy sector, including renewable energy in particular, both by means of investing in companies operating in this sector and also by means of directly acquiring and developing income-producing energy properties. The Company also resolved to examine acquiring the shares of Ormat Industries Ltd. (a company in the renewable energy business) held by Gazit Inc., the Company's controlling shareholder. As of the approval date of the financial statements, the Company had not yet completed the process of examining its entry into the energy sector, as referred to above, and it is continuing to review investments in this sector.

N. With regard to the issuance of stock options to employees and officers, who are not interested parties of the Company – see note 3m to the financial statements.

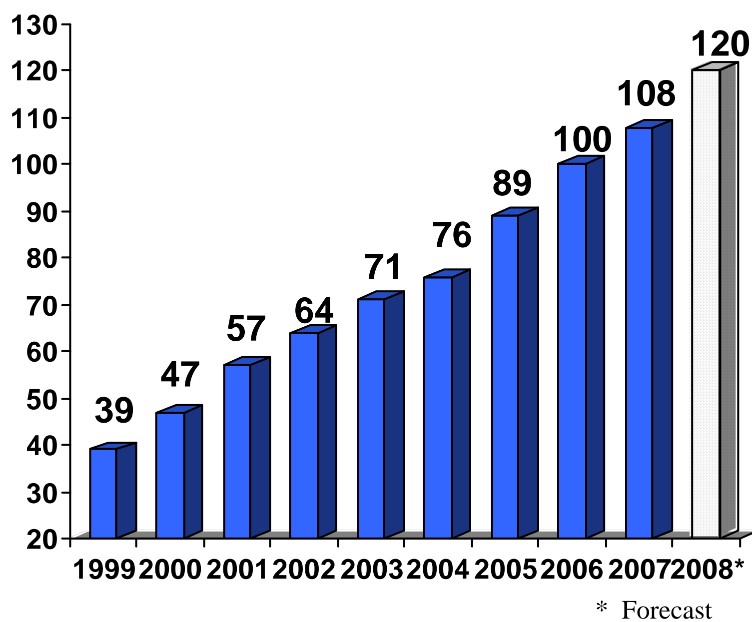
O. Dividend Distribution Policy:

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be declared in 2008 will not be less than NIS 0.30 per share per quarter (NIS 1.20 per share on an annualized basis).

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

<u>The Company's dividend growth in the years 1999-2008 is shown in the graph below:</u>

Agurot per share
(100 Agurot = NIS 1)



3. A. Results of Operations:

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

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

Property rental revenue

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

Property operating expenses

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

Property depreciation

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

Gross profit

Gross profit totaled NIS 1,378 million (67.1% of property rental revenue); this compares to NIS 919 million (48.3% of property rental revenue) for the corresponding period last year – an increase of 50%. The increase in gross profit as a percentage of property rental revenue is mainly due to the implementation of Israel Accounting Standard No. 16, as explained above.

Increase in fair value of investment property

Effective January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company made an adjustment, in the reporting period, to the fair value of its properties in the gross amount of NIS 552 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 321 million, (approximately NIS 261 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 9.7%, compared to 7.6% for the corresponding period last year.

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

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

Financing expenses, net:

The change in financing expenses results from the following factors:

1) An increase in the Group's loans from an average balance of NIS 14.7 billion in the first nine months of 2006 to an average balance of NIS 18.4 billion in the first nine months of 2007. Interest expenses reflect an average nominal interest rate of approximately 5.9% on the Group's indebtedness, compared to 6.1% in the corresponding period last year.

2) The financing expenses are net of gross income of NIS 102.8 million from investments in marketable securities, which includes NIS 37.9 million from dividends, compared to NIS 59.1 million received in the corresponding period last year, which included NIS 34.6 million from dividends.

Other income (expenses), net

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

As a result of the dilution of holdings in investee companies (primarily in respect of the issuance of shares and stock options and also the conversion of debentures redeemable into shares), the Company recorded a loss of NIS 5.8 million, compared to a gain of NIS 31 million in the corresponding period last year.

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

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

Equity in earnings of affiliates

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

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

Minority interest in earnings of subsidiaries

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

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

Property rental revenue

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

Property operating expenses

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

Property depreciation

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

Gross profit

Gross profit totaled NIS 490 million (67.4% of property rental revenue); this compares to NIS 298 million (48.3% of property rental revenue) for the corresponding period last year – an increase of 64%. The increase in gross profit as a percentage of property rental revenue is mainly due to the implementation of Israel Accounting Standard No. 16, as explained above.

Increase in fair value of investment property

With effect from January 1, 2007, the Company applies Israel Accounting Standard No. 16 – Investment Property. As a result of implementing this standard, the Company made an adjustment, in the third quarter of 2007, to the fair value of its properties in the gross amount of NIS 49.5 million; the Company's proportionate share in this adjustment totals a gross amount of NIS 44 million, (approximately NIS 33 million, net of related taxes).

General and administrative expenses:

General and administrative expenses as a percentage of total revenues totaled 10.7%, compared to 9.5% for the corresponding period last year.

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

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

Financing expenses, net:

The change in financing expenses results from the following factors:

1) An increase in the Group's loans from an average balance of NIS 15.1 billion in the third quarter of 2006 to an average balance of NIS 20 billion in the third quarter of 2007. Interest expenses reflect an average nominal interest rate of approximately 6.3% on the Group's indebtedness, similar to that in the corresponding period last year.

2) The financing expenses are net of gross income of NIS 46.4 million from investments in marketable securities, which includes NIS 7.4 million from dividends, compared to NIS 21.1 million received in the corresponding period last year, which included NIS 5.4 million from dividends.

3) The 2.5% rise in the "known" Israeli consumer price index (which reflects an annual inflation rate of 10%) caused a NIS 10.9 million increase in financing expenses in respect of the revaluation of loans that are linked to changes in the consumer price index, compared to NIS 2.4 million in the corresponding period last year.

Other income (expenses), net

This item consists mainly of gains and losses in respect of capital transactions, such as the dilution of holdings in investee companies, and real estate sales.

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

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

Equity in earnings of affiliates

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

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

Minority interest in earnings of subsidiaries

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

D. FFO and FFO per share:

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

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

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

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

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

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

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

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

4. Financial Status:

Liquidity

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

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

As of September 30, 2007, the liquid assets available to the Group, including short-term investments, totaled NIS 944 million, compared to NIS 342 million as of December 31, 2006. In addition, as of September 30, 2007, the Group had unutilized credit facilities available for immediate drawdown of NIS 4 billion, compared to NIS 3.8 billion as of December 31, 2006.

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

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

Current Assets

Current assets, as of September 30, 2007, totaled NIS 2.3 billion, compared to NIS 0.8 billion as of December 31, 2006. The increase relates mainly to the item, "cash and cash equivalents", which increased due to the issuance of debentures at the end of the quarter and to the first-time consolidation of Acad in the amount of NIS 0.7 billion (see section 1B above and note 3f to the financial statements).

Investments in Affiliates

Investments in affiliates, totaling NIS 2.4 billion as of September 30, 2007, relate primarily to the investment in 86.7 million shares of Citycon and in convertible debentures of Citycon with a nominal value of €37 million; investments in affiliates as of December 31, 2006 totaled NIS 1.4 billion. During the reporting period, the Company acquired additional Citycon shares, by means of purchases on the stock exchange and through participation in an issuance of Citycon shares, at an overall cost of NIS 545 million.

Long-Term Investments

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

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

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

Investment property, investment property under development and fixed assets, net, as of September 30, 2007, totaled NIS 31.3 billion, compared to NIS 20.7 billion at the end of 2006. The increase is mainly due to the effect of the first-time implementation of Israel Accounting Standard No. 16 totaling NIS 6.2 billion; see also section 1H above.

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

Current Liabilities

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

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.4 billion (at the end of 2006 – NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, as of September 30, 2007, totaled NIS 21.4 billion, compared to NIS 15.7 billion at the end of 2006.

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

Minority Interests

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

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

Shareholders' Equity

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

Shareholders' equity per share, as of September 30, 2007, totaled NIS 46.5 per share, compared to NIS 24.3 per share as of December 31, 2006. This is after a dividend distribution of NIS 0.81 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes accumulated depreciation in respect of fixed assets) stood at 56% as of September 30, 2007, compared to 63.1% as of December 31, 2006.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 54.8% as of September 30, 2007, compared to 49.4% as of December 31, 2006.

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

Cash Flows

Cash inflows from operating activities for the reporting period and the third quarter totaled NIS 569 million and NIS 164 million, respectively, compared to NIS 505 million and NIS 167 million, respectively, for the corresponding periods last year.

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

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

5. Donations

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

The Company makes donations to Tel-Aviv University, which operates an institute focusing on research and studies of all manner of real estate-related topics (The Chaim Katzman – Gazit-Globe Real Estate Institute). In this connection, the Company has pledged to make an annual donation of US$ 150,000 for a period of seven years.

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

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

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

6. Additional Information and Subsequent Events:

A. From the balance sheet date through the signing date of the financial statements, the Group and the affiliate invested a total of NIS 113 million in acquiring new properties and plots of land for future development.

B. As to the offering made by a subsidiary of a subsidiary of U. Dori on the Warsaw Stock Exchange in Poland – see note 4a to the financial statements.

C. As to the approval by the Board of Directors of the appointment of a new President for the Company – see note 4b to the financial statements.

D. As to the shelf offering for the rights issue and listing of stock options – see note 4c to the financial statements.

7. Critical Accounting Estimates

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

Changes in fair value of investment property

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

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

8. Reporting of Exposures to Market Risks and their Management

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

9. Disclosure Regarding Financial Statements Approval Process

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

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

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

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

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

November 25, 2007		
Date of Approval of Directors' Report	**Chaim Katzman** Chairman of the Board of Directors	**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:

		January 1, 2005			December 31, 2005			December 31, 2006		
	Note	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 millions								
CURRENT ASSETS:										
Cash and cash equivalents		53	-	53	282	-	282	194	119	313
Short-term investments		56	-	56	68	-	68	148	-	148
Tenants		103	-	103	111	-	111	133	5	138
Accounts receivables	6.j,k	126	(3)	123	189	(6)	183	210	36	246
Rental properties held for sale	6.f	55	9	64	1,299	487	1,786	131	3	134
Current tax assets	6.k	-	4	4	-	5	5	-	19	19
Total current assets		393	10	403	1,949	486	2,435	816	182	998
NON-CURRENT ASSETS:										
Long-term investments	6.i	216	(188)	28	650	(624)	26	1,151	(1,127)	24
Long-term loans and receivables	6.a	89	(38)	51	117	(65)	52	152	(99)	53
Investments in available-for-sale financial assets	6.i	-	217	217	-	643	643	-	987	987
Derivative financial instruments	6.j	-	12	12	-	21	21	-	55	55
Investments in affiliates	6.e,g	534	2	536	722	1	723	1,429	(1,427)	2
Investment property	6.a	-	17,192	17,192	-	20,633	20,633	-	33,160	33,160
Investment property under development	6.a	-	318	318	-	794	794	-	1,567	1,567
Fixed assets, net	6.a	14,613	(14,225)	388	17,045	(16,808)	237	20,420	(20,138)	282
Goodwill	6.e	60	10	70	45	19	64	44	70	114
Other intangible assets, net	6.a,i	197	(197)	-	274	(274)	-	179	(179)	-
Deferred taxes	6.a,d,k	50	(35)	15	-	15	15	-	68	68
Total non-current assets		15,759	3,068	18,827	18,853	4,355	23,208	23,375	12,937	36,312
TOTAL ASSETS		16,152	3,078	19,230	20,802	4,841	25,643	24,191	13,119	37,310

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

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in millions								
CURRENT LIABILITIES:										
Credit from banks and others	6.i	755	(3)	752	1,291	(291)	1,000	967	450	1417
Trade payables		152	-	152	208	-	208	196	25	221
Other accounts payable	6.j,k	257	(12)	245	345	(16)	329	402	187	589
Dividend declared		-	-	-	23	-	23	29	-	29
Liabilities associated with rental properties held for sale	6.f	-	-	-	-	251	251	-	34	34
Current tax liabilities	6.k	-	11	11	-	9	9	-	43	43
Total current liabilities		1,164	(4)	1,160	1,867	(47)	1,820	1,594	739	2333

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

	Note	January 1, 2005			December 31, 2005			December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
					N I S in millions					
NON-CURRENT LIABILITIES:										
Liabilities to financial institutions and others	6.i	7,183	(40)	7,143	7,952	(9)	7,943	7,014	3,524	10,538
Convertible debentures redeemable into shares of subsidiary	6.c	479	3	482	352	(30)	322	468	303	771
Debentures	6.i	2,298	(9)	2,289	4,176	(29)	4,147	8,025	53	8,078
Linked stock options	6.b	-	13	13	-	15	15	-	1	1
Receipts from issuance of stock options in subsidiaries	6.b	-	-	-	1	(1)	-	6	(6)	-
Equity component of convertible debentures redeemable into shares of subsidiary	6.c	-	-	-	-	-	-	20	(20)	-
Deposits from lessees and tenants		267	-	267	65	-	65	67	-	67
Derivative financial instruments	6.j	-	-	-	-	23	23	-	72	72
Employee benefits liability		1	-	1	-	-	-	-	-	-
Deferred taxes	6.a,d	-	671	671	86	883	969	168	1,378	1,546
Minority interest	6.h	3,458	(3,458)	-	4,395	(4,395)	-	3,964	(3,964)	-
Total non-current liabilities		13,686	(2,820)	10,866	17,027	(3,543)	13,484	19,732	1,341	21,073
EQUITY:										
Issued capital		144	-	144	161	-	161	171	-	171
Share premium	6.b	923	(2)	921	1,410	31	1,441	2,071	53	2,124
Capital reserve for translation differences on foreign operations	5.b	125	(125)	-	257	(71)	186	83	(198)	(115)
Loans for purchase of shares		(10)	-	(10)	(11)	-	(11)	(10)	-	(10)
Treasury stock		(116)	-	(116)	(203)	-	(203)	(25)	-	(25)
Retained earnings		237	615	852	288	1,100	1,388	540	1,677	2,217
Other capital reserves	6.i,j	(1)	6	5	6	15	21	35	55	90
Total equity attributable to equity holders of the Company		1,302	494	1,796	1,908	1,075	2,983	2,865	1,587	4,452
Minority interest	6.h	-	5,408	5,408	-	7,356	7,356	-	9,452	9,452
Total equity		1,302	5,902	7,204	1,908	8,431	10,339	2,865	11,039	13,904
TOTAL LIABILITIES AND EQUITY		16,152	3,078	19,230	20,802	4,841	25,643	24,191	13,119	37,310

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

2. Reconciliations of income:

	Note	Year ended December 31, 2005			Year ended December 31, 2006		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS (*)	IFRS
		NIS in millions					
Property rental revenue	6.a	2,196	(19)	2,177	2,552	502	3,054
Property rental operating expenses	6.a	1,079	(354)	725	1,321	(287)	1,034
Gross profit		1,117	335	1,452	1,231	789	2,020
Increase in fair value of investment property	6.a	-	1,188	1,188	-	2,678	2,678
General and administrative expenses		189	2	191	283	56	339
Operating income		928	1,521	2,449	948	3,411	4,359
Financing expenses	6.b,j,k	(622)	(128)	(750)	(758)	(530)	(1,288)
Financing income	6.k	-	75	75	-	114	114
		306	1,468	1,774	190	2,995	3,185
Other income, net	6.a	122	(61)	61	514	(455)	59
Income before taxes on income		428	1,407	1,835	704	2,540	3,244
Taxes on income	6.a,d	75	170	245	84	466	550
Income after taxes on income		353	1,237	1,590	620	2,074	2,694
Equity in earnings of affiliates	6.g	130	1	131	271	(235)	36
Minority interest in earnings of subsidiaries	6.g,h	(296)	296	-	(529)	529	-
Income before cumulative effect as of the beginning of the year of change in accounting principles		187	1,534	1,721	362	2,368	2,730
Cumulative effect as of the beginning of the year of change in accounting principles	6.d	(57)	57	-	-	-	-
Net income		130	1,591	1,721	362	2,368	2,730
Attributable to:							
Equity holders of the Company				616			939
Minority interest				1,105			1,791
				1,721			2,730
Net earnings per share attributable to ordinary equity holders of the Company (in NIS):							
Basic net earnings		1.48	5.35	6.83	3.34	5.38	8.72
Diluted net earnings		1.40	5.24	6.64	3.17	5.24	8.41

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

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

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

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

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

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

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

4.1 Balance sheet items:

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

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

4.2 Statement of income items:

A.

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

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

B.

Item	Note	Israeli GAAP	Effect of consolidation of Citycon (*)	Other effects of transition to IFRS	IFRS
		For the three-month period ended September 30, 2007			
		NIS in millions			
Property rental revenue	6.a	727	218	(13)	932
Property rental operating expenses		235	62	-	297
Property rental depreciation		2	-	-	2
Gross profit		490	156	(13)	633
Increase in fair value of investment property		49	122	13	184
General and administrative expenses	5.d	88	22	3	113
Operating income		451	256	(3)	704
Financing expenses, net	6.j	(247)	(77)	(7)	(331)
Other expenses, net		(3)	-	-	(3)
Income before taxes on income		201	179	(10)	370
Taxes on income	6.i	59	43	-	102
Income after taxes on income		142	136	(10)	268
Equity in earnings of affiliates		53	(53)	-	-
Minority interest in earnings of subsidiaries	6.h	(94)	(83)	177	-
Net income		101	-	167	268
Attributable to:					
Equity holders of the Company		101			95
Minority interest		-			173

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

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

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

a. **Business combinations**

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

b. **Translation differences**

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

c. **Embedded financial instruments**

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

d. **Share-based payment**

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

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

a. **Investment property**

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

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

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

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

b. <u>Stock options</u>

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

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

c. **Convertible debentures redeemable into subsidiaries' shares**

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

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

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

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

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

e. **Goodwill**

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

f. Assets held for sale and discontinued operations

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

g. Consolidation of the financial statements

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

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

h. Minority interest

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

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

i. Financial instruments

Under Israeli GAAP, the Company presents its investment in marketable securities that fall within the definition of a "permanent investment" at cost, net of any impairment that is not of a temporary nature, while securities that are included as a "current investment" are presented at their fair value, with changes in the valuation being carried to income. On the other hand, under International Accounting Standard No. 39, the Company presents its investments in financial instruments available for sale at their fair value, with valuation differences being carried to capital reserve, except in the case of an impairment, which is charged to the statement of income. The increase in the item "securities available for sale", which is charged against capital reserve, amounted to NIS 13 million at transition date, and includes NIS 5 million in respect of an unrealized gain that has been charged against the balance of retained earnings. As of September 30, 2007, the capital reserve from revaluation is estimated to amount to NIS 20 million in debit, and the balance charged to the debit of retained earnings in respect of the unrealized gain amounts to NIS 1.3 million.

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

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

j. Derivative financial instruments

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

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

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

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

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

k. Financial statements presentation

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

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

Appendix B to the Directors' Report

Linkage Bases Balance Sheet
as of September 30, 2007

	Linked to the consumer price index	In US$ or linked thereto	In C$ or linked thereto	In un-linked NIS	In euros or linked thereto	Other curr-encies	Un-linked	Total
	NIS in thousands							
Monetary assets								
Cash and cash equivalents	-	189,032	80,149	555,330	39,973	41,859	-	906,343
Short-term investments	-	25,121	5,802	-	-	-	6,342	37,265
Tenants, accounts receivable and other debit balances	29,299	118,957	179,385	179,315	20,739	39,733	106,896	674,324
Investments in affiliates	-	-	-	-	214,621	-	-	214,621
Long-term investments	976	31,325	9,549	-	-	-	737,648	779,498
Long-term loans and debit balances	5,881	39,577	10,369	-	-	-	-	55,827
	36,156	404,012	285,254	734,645	275,333	81,592	850,886	2,667,878
Non-monetary assets [(1)]	-	13,434,453	15,871,160	1,853,968	2,768,821	275,056	138,849	34,342,307
	36,156	**13,838,465**	**16,156,414**	**2,588,613**	**3,044,154**	**356,648**	**989,735**	**37,010,185**
Liabilities								
Short-term credit from banks and others	-	-	-	65,998	-	72,873	-	138,871
Trade and other payables and other credit balances	45,713	272,821	360,459	297,432	20,354	17,547	20,728	1,035,054
Advances from project customers and apartment buyers	-	-	-	-	-	-	26,008	26,008
Debentures	1,811,257	4,331,765	3,933,216	198,408	1,056,196	-	-	11,330,842
Liabilities to financial institutions and others	213,987	3,183,803	5,095,529	-	723,077	6,919	-	9,223,315
Deposits from tenants	-	42,017	27,150	-	-	-	-	69,167
Liabilities for employee rights upon retirement	-	-	-	1,115	-	-	-	1,115
Deferred taxes	-	-	-	-	-	-	1,538,461	1,538,461
Convertible debentures redeemable for subsidiary's shares	37,213	-	480,228	-	-	-	-	517,441
	2,108,170	7,830,406	9,896,582	562,953	1,799,627	97,339	1,585,197	23,880,274
Receipts in respect of subsidiary's convertible options	-	-	27,475	122	-	-	-	27,597
Receipts from issue of subsidiaries' stock options	5,902	9,315	10,275	-	-	-	-	25,492
Minority interests	-	-	-	-	-	-	7,593,483	7,593,483
Shareholders' equity	-	-	-	-	-	-	5,483,339	5,483,339
	2,114,072	**7,839,721**	**9,934,332**	**563,075**	**1,799,627**	**97,339**	**14,662,019**	**37,010,185**

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

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 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 nine and three months ended September 30, 2007

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

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

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

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

Tel-Aviv, Israel
November 25, 2007

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

CONSOLIDATED BALANCE SHEETS

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

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

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

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

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Rental income	2,053,961	1,904,647	727,226	617,825	2,552,296
Rental property operating expenses	668,572	645,155	234,936	205,413	867,838
Rental property depreciation	6,986	340,203	2,227	113,996	453,259
Gross profit	1,378,403	919,289	490,063	298,416	1,231,199
Appreciation of investment property, net	551,834	-	49,525	-	-
General and administrative expenses	291,511	185,585	88,449	65,207	283,418
Operating income	1,638,726	733,704	451,139	233,209	947,781
Financial expenses, net	657,408	575,209	247,345	196,342	757,617
	981,318	158,495	203,794	36,867	190,164
Other income (expenses), net	(7,670)	338,606	(2,456)	13,629	514,101
Income before taxes on income	973,648	497,101	201,338	50,496	704,265
Taxes on income	191,444	58,368	59,638	9,775	84,211
Income after taxes on income	782,204	438,733	141,700	40,721	620,054
Equity in earnings of affiliates	420,776	209,739	53,551	56,940	270,566
Minority interest in earnings of subsidiaries	(498,772)	(431,637)	(94,203)	(47,578)	(529,242)
Net income	704,208	216,835	101,048	50,083	361,378
Net earnings per share (in reported NIS):					
Basic net earnings	5.95	2.06	0.84	0.45	3.34
Diluted net earnings	5.80	1.97	0.81	0.39	3.17

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

(1) See Note 4d.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2007	Nine months ended September 30, 2006	Three months ended September 30, 2007	Three months ended September 30, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	Unaudited	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	(64,884)	(24,638)	(39,020)	(15,680)	(44,890)
Appreciation of investment property, net	(551,834)	-	(49,525)	-	-
Minority interest in earnings of subsidiaries	498,772	431,637	94,203	47,578	529,242
Equity in earnings of affiliates, net of dividend received	(370,102)	(165,999)	(53,551)	(56,079)	(225,617)
Depreciation	13,310	309,864	5,130	103,789	462,661
Deferred taxes, net	160,945	33,621	56,577	13,847	42,821
Gain from early redemption of debentures and convertible debentures	-	-	-	-	(2,887)
Adjustment differences on monetary assets and long-term monetary liabilities, net	21,804	47,700	28,102	19,662	27,737
Write-down of long-term investments	10,056	98,840	-	-	16,923
Amortization of other assets and deferred charges	-	41,569	-	15,372	25,002
Capital gain from sale of fixed assets, investment property and investment property under development	(8,809)	(383,574)	(1,064)	(8,215)	(447,326)
Increase in accrued severance pay, net	48	73	85	73	95
Loss (gain) from issuance to third party, net	7,798	(31,004)	4,197	(1,813)	(33,535)
Cost of share-based payment	16,837	7,406	11,243	2,901	9,898
Bad debts	3,623	720	(644)	(92)	3,203
Changes in asset and liability items:					
Increase in trade receivables, accrued income and other accounts receivable	(136,678)	(164,363)	(47,189)	(105,789)	(208,485)
Increase in trade payables and other accounts payable	262,055	81,009	61,271	99,305	65,930
Increase (decrease) in tenants' security deposits, net	1,370	5,150	(6,754)	2,189	7,807
	(135,689)	288,011	63,061	117,048	228,579

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

NOTE 1:- GENERAL

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

1. Buildings for sale and advances from buyers:

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

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

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

2. Construction contracts in progress and customer advances:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Capitalization of borrowing costs:

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

4. The operating cycle period:

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

c. Initial adoption of new accounting standards:

1. Accounting Standard No. 16 - Investment Property:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

	Company interest	Minority interest	Total
	NIS in millions		
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

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

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

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

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

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 to, or received from, the controlling shareholder prior to January 1, 2007.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

4. Accounting Standard No. 30 - Intangible Assets:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

NOTE 3:- ADDITIONAL INFORMATION

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

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

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

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

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

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

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

e. In August 2007, the Company's wholly owned subsidiary entered into an investment agreement with Hiref International LLC, an Indian real estate investment fund registered in Mauritius ("the Fund"). The Fund was set up on the initiative and with the sponsorship of HDFC group which is one of the largest financial entities in India. According to the investment agreement, the subsidiary will be one of the four anchor investors in the Fund. According to the Fund's foundation documents and investment agreements, the Fund will invest, directly and indirectly, in real estate companies active in development and construction, as well as in synergetic fields. The Fund has received commitments in the scope of U.S.$ 750 million and the Company's has undertaken to invest in the Fund a total amount of approximately U.S.$ 110 million; of this, the Company had invested U.S.$ 10 million (approximately NIS 42 million) through September 30, 2007.

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

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

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

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

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

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

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

Method for allocating the acquisition cost:

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

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

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

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

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

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

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

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

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

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

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

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

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

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

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

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

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

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

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

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

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

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

NOTE 5:- GEOGRAPHIC SEGMENTS

	Nine months ended September 30, 2007 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	907,008	1,059,184	59,589	28,180	2,053,961
Segment results	609,555	1,174,041	130,191	16,450	1,930,237

	Nine months ended September 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	907,559	949,233	35,454	12,401	1,904,647
Segment results	468,013	430,500	15,303	5,473	919,289

	Three months ended September 30, 2007 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	312,318	385,732	19,520	9,656	727,226
Segment results	213,164	228,287	91,023	7,114	539,588

NOTE 5:- GEOGRAPHIC SEGMENTS (Cont.)

	Three months ended September 30, 2006 (unaudited)				
	U.S.	Canada	Israel	Europe	Total - consolidated
	Reported NIS in thousands				
Rental income	276,409	319,436	14,089	7,891	617,825
Segment results	142,019	147,421	5,553	3,423	298,416

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

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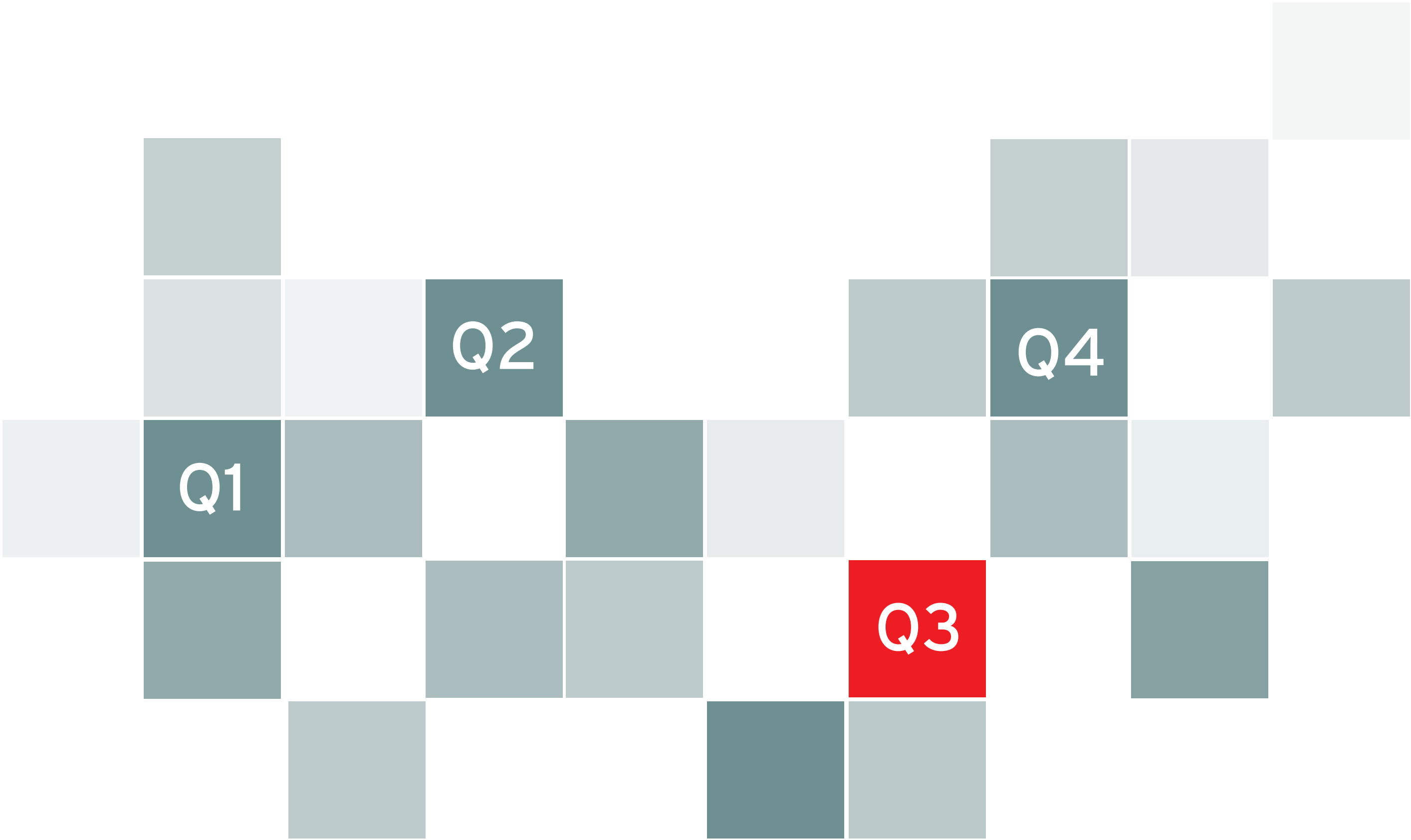

CITYCON

Citycon's Interim Report 1 January–30 September 2007

Summary of the Third Quarter Compared with the Second Quarter

- Net rental income increased in the third quarter to EUR 27.3 million (EUR 25.8 million in Q2)
- Citycon's earnings per share came to EUR 0.12 (EUR 0.70). Earnings per share exclusive of changes in fair value remained the same at EUR 0.04 (EUR 0.04).
- The fair value of the investment properties increased by EUR 21.1 million (EUR 160.1 million) to EUR 2,191.2 million (EUR 1,799.2 million), mainly due to improved net rental income and successful redevelopment projects.
- During the period, Citycon acquired Iso Omena shopping centre in Espoo. To finance the transaction, Citycon signed a bridge financing facility of EUR 300 million with a Nordic banking group and executed a rights issue for total proceeds of EUR 99 million between 19 September and 3 October. The proceeds of the rights issue were used to repay a part of the bridge financing facility.
- Financial expenses increased due to higher level of interest bearing debt and a negative non-cash valuation result for the quarter of EUR -1,4 million (0.1 million) relating to interest rate derivative contracts, which was due to reduction of long-term interest rates during the quarter. The year-to-date average interest rate rose only by 0.01 per cent during third quarter.
- The acquisition of shopping centre Magistral in Tallinn was completed on 16 July 2007.
- As of the beginning of July, Citycon belongs to large-cap companies on the OMX Nordic Exchange.

Key Figures

	Q3/2007	Q3/2006	Q2/2007	Q1-3/2007	Q1-3/2006	Change,% [1]	1-12/2006
Turnover, EUR million	38.0	31.3	35.9	108.1	86.4	25.2%	119.4
Net rental income, EUR million	27.3	21.6	25.8	76.3	60.6	25.9%	82.8
Operating profit, EUR million	44.3	45.4	181.6	276.2	154.0	79.4%	196.5
% of turnover	116.7%	144.8%	505.3%	255.5%	178.4%	–	164.6%
Profit before taxes, EUR million	31.0	36.1	171.6	243.5	131.9	84.7%	165.6
Profit attributable to parent company shareholders, EUR million	23.4	27.5	134.6	191.0	99.9	91.1%	124.9
Earnings per share (basic), EUR	0.12	0.17	0.70	1.01	0.64	59.0%	0.78
Earnings per share (diluted), EUR (EPRA EPS)	0.11	0.15	0.62	0.91	0.62	46.6%	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	0.12	0.15	-23.9%	0.20
Net cash from operating activities per share, EUR	0.03	0.04	0.06	0.14	0.14	1.9%	0.20
Fair market value of investment properties, EUR million			1,799.2	2,191.2	1,404.5	56.0%	1,447.9
Equity per share, EUR [2]				4.52	3.21	40.8%	3.38
Net asset value (EPRA NAV) per share, EUR [2,3]				4.94	3.42	44.3%	3.61
EPRA NNNAV [2]				4.40	3.15	39.8%	3.22
Equity ratio, %				41.2	36.2	–	39.1
Gearing, %				122.3	156.9	–	136.6
Net interest-bearing debt (fair value), EUR million				1,184.3	878.2	34.9%	811.2
Net rental yield, % [4]				6.1	7.5	–	7.1
Occupancy rate, %				96.3	96.7	–	97.1
Personnel (at the end of the period)				95	70	35.7%	73

1) Change % is calculated from exact figures and refers to the change between Q1-Q3/2006 and Q1-Q3/2007.

2) The funds received from the rights issue by 30 September 2007 (EUR 51.2 million) and the corresponding number of shares have not been taken into account in per share ratio calculations.

3) The calculation on NAV has been modified to comply with EPRA definitions (previously deferred tax was deducted).

4) Includes the lots for development projects.

Summary of the Reporting Period 1 January–30 September 2007

- Turnover increased by 25.2 per cent, to EUR 108.1 million (Q1-Q3/2006: EUR 86.4 million), due mainly to property acquisitions resulting in an increase in leasable premises.
- Profit before taxes amounted to EUR 243.5 million (EUR 131.9 million), including a EUR 212.7 million (EUR 97.0 million) increase in the fair value of investment properties.
- Citycon's net rental income increased by 25.9 per cent in the reporting period, to EUR 76.3 million (EUR 60.6 million). Net rental income for like-for-like properties rose by 9.1 per cent.
- Earnings per share were EUR 1.01 (EUR 0.64).
- Earnings per share (basic), excluding the effects of changes in fair value, gains on sale and other extraordinary items were EUR 0.12 (EUR 0.15) The reduction was mainly due to increase in net financial expenses, increased development activities and costs related to expanded business operations, divestment of non-core properties and higher number of shares.
- Net cash flow from operating activities per share amounted to EUR 0.14 (EUR 0.14).
- Net asset value per share (EPRA NAV) grew to EUR 4.94 (EUR 3.42).
- The equity ratio was 41.2 per cent (36.2 %).
- According to an external appraiser, the average net yield requirement for investment properties was 5.7 per cent at the end of the reporting period.
- In addition to Iso Omena and Magistral referred to above, acquisitions during the period included Tumba Centrum, Strömpilen and Länken in Sweden. More details on the acquisitions during the period are available in the table Property Acquisitions.
- In February, the company carried out a directed share issue worth EUR 133.8 million by issuing 25,000,000 new shares.
- During the period, the company decided to initiate development projects in Estonia and Sweden for an estimated total value of EUR 178 million. Lippulaiva shopping centre development project in Espoo will now be continued according to plan as the zoning appeal regarding the shopping centre's expansion was dismissed by the Supreme Administrative Court.

CEO Petri Olkinuora:

"Citycon continued to implement its growth strategy through continuous redevelopment of its properties and proactive management of its retail properties, reporting strong growth in like-for-like net rental income in the reporting period, and improved occupancy rate compared to the previous quarter. For its long-term success, the company perceives cash flow as a key measure.

During the reporting period, Citycon acquired shopping centre Iso Omena in Espoo. Iso Omena is a first-class centre with further opportunities for expansion and refurbishment. Iso Omena is located in the affluent western part of the Helsinki Metropolitan Area, where the company from previously holds several retail properties. The acquisition offers Citycon a unique opportunity to develop the area's shopping centres as a whole, and to increase the company's market share in the growing metropolitan retail trade.

In addition to these major acquisitions, the focus of Citycon's strategy is on the company's existing shopping centre portfolio and its continuous development and redevelopment. During the reporting period, development and redevelopment projects progressed according to plan in Estonia, Sweden and Finland. The company aims to make its shopping centres more attractive and pleasant to visit.

I would also like to take an opportunity and thank our shareholders for the support of the rights issue that was fully subscribed for."

Business Environment

The economic growth continued and the retail sector maintained its strong growth in all of Citycon's countries of operation. In the third quarter of 2007, demand for retail premises was good in Citycon's operating regions in Finland, Sweden and the Baltic countries, while occupancy rates remained high.

Demand for retail properties also remained strong. Since competition for offered investment properties is tough, yield requirements for properties have fallen and property prices have risen.

In the reporting period, uncertainty increased in the financial market, originally due to problems in mortgage -related financial markets in the US. Until now, however, this has not had a significant impact on availability of financing or the credit margins paid by the company.

Business and Property Portfolio Summary

Citycon is a real estate company specialised in shopping centres and other large retail units, and operating in Finland, Sweden and the Baltic countries. In Finland, Citycon is the market leader in shopping centre business, while in Sweden it is one of the fastest-growing operators. The company has established a firm foothold in the Baltic countries.

Citycon aims to continue its responsible growth strategy by expanding its retail property portfolio in selected markets and by developing and redeveloping its properties into entities that serve the needs of retail even better. The company's preferred acquisitions are shopping centres that offer redevelopment and/or refurbishment opportunities, whose net rental income can be increased with active retail property management. Thanks to its careful market research and good local knowledge, Citycon has been able to acquire some of the most interesting shopping centres in the major growth centres of its countries of operation. Citycon's new investments are focused on areas where the population and its purchasing power can be expected to grow.

At the end of the reporting period, Citycon owned 32 (26) shopping centres and 53 (52) other retail units. Of the shopping centres, 21 (19) were located in Finland, eight (5) in Sweden and three (2) in the Baltic countries.

The market value of the company's overall property portfolio totalled EUR 2,191.2 million, of which Finnish properties accounted for 71.0 per cent (70.3%), Swedish properties for 24.0 per cent (23.9%) and Baltic ones for 5.0 per cent (5.8%). The gross leasable area at the end of the period was 906,410 square metres.

Changes in Fair Value of Investment Properties

Citycon measures its investment property at fair value, under the IAS 40 standard, according to which changes in investment properties' fair value are recognised through profit or loss. The valuation of investment properties is assessed in accordance with International Valuation Standards (IVS) at least once a year by on external valuation professional. In 2007, the valuations by external appraisers are conducted quarterly, due to active market conditions.

For this interim report, Citycon's property portfolio was valued for the second time by Realia Management Oy, a part of the Realia Group. Realia Management Oy works in association with the world's leading provider of real estate services, the international company CB Richard Ellis. A summary of Property Valuation Statement on the September-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 212.7 million as a result of development and redevelopment projects, and changes in general market conditions and the leasing business. The period saw a total value increase of EUR 222.3 million and a total value decrease of EUR 9.6 million.

The average net yield requirement defined by Realia Management Oy for Citycon's property portfolio decreased to 5.7 per cent. The change in yield requirement was due mainly to the very active property market.

Lease Portfolio and Occupancy Rate

At the end of the period, Citycon had a total of 3,730 (3,060) leases. The average length of the lease agreements was 2.8 (2.8) years. The period-end occupancy rate for Citycon's property portfolio was 96.3 per cent (96.7%), and net rental yield was 6.1 per cent (7.5%) The occupancy rate reduced slightly compared to December 2006, due to an increase in the number of premises temporarily vacated due to redevelopment projects.

The company's net rental income grew by 25.9 per cent to EUR 76.3 million. The leasable area rose by 23.5 per cent to 906,410 square metres. Net rental income for like-for-like properties grew by 9.1 per cent. Like-for-like properties are properties held by Citycon throughout the 24-month reference period, excluding properties under development and expansion as well as lots. In the reporting period, all of Citycon's like-for-like properties were located in Finland.

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

Lease Portfolio Summary

	Q3/2007	Q3/2006	Q2/2007	Q1-3/2007	Q1-3/2006	Change, %	1-12/2006
Number of leases started during the period	112	66	122	348	267	30.3	369
Total area of leases started, sq.m.	28,884	9,492	28,745	75,589	58,478	29.3	73,300
Occupancy rate at end of the period ,%			95.8	96.3	96.7	-0.4	97.1
Average length of lease portfolio at the end of the period, year			2.9	2.8	2.8	0.0	2.9

Property Acquisition Summary

The focus of Citycon's business is on the continuous development of its existing shopping centres and other retail properties. However, the company is always actively seeking new acquisition opportunities in Finland, Sweden and the Baltic region.

The total value of acquisitions made in the reporting period was EUR 373.2 million in Finland (EUR 127.2 million), EUR 129.0 million in Sweden (EUR 220.8 million) and EUR 16.3 million in the Baltic countries (EUR 16.2 million).

The following property acquisitions were completed during the period:

Iso Omena Shopping Centre

Citycon acquired shopping centre Iso Omena on 14 September 2007. Built in 2001, Iso Omena is Finland's fifth-largest modern shopping centre (by area). Its leasable floor area totals 61,300 square metres, of which retail premises account for approx. 49,000 square metres. The shopping centre can be expanded further by some 7,000 square metres. Iso Omena offers a wide range of services, with approximately 120 shops, cafés and restaurants, and the hypermarkets Citymarket and Prisma as anchor tenants. Grocery sales account for more than 60 per cent of the shopping centre's sales including the hypermarket sales.

Iso Omena in Summary

Leasable area, m^2	61,300
Retail area, m^2	49,000
Unused building right, m^2 (approx.)	7,000
No. of shops, cafés and restaurants	more than 120
Visitors in 2006, millions	8.4
Sales in 2006, EUR million	195
No. of parking spaces (86% indoors)	2,200
Occupancy rate, %	98.5

Iso Omena is located in the high purchasing power area of southern Espoo, some 13 km from the centre of Helsinki, at the junction of the Länsiväylä and Ring II motorways. The excellent transport connections of the area will improve further with the extension of the underground network to Espoo, with Matinkylä Metro station planned for construction right next to the shopping centre. There are nearly 150,000 people in the shopping centre's catchment area.

Iso Omena's acquisition cost was EUR 329 million, which corresponds to an initial net yield of 4.5 per cent at the time of purchase.

MREC Espoon Asemakuja 2

In late August, Citycon acquired all the shares in mutual real estate company Kiinteistö Oy Espoon Asemakuja 2 for approximately EUR 11 million of which Citycon has paid EUR 9 million. The company owns the office property adjacent to shopping centre Espoontori. The acquisition paves the way for expansion and development of the shopping centre, assuming that the proposed change in city plan is approved. It was agreed that the purchase price would be lowered by a maximum of EUR 2 million if the proposed change in city plan was rejected.

Myllypuro Retail Centre

Citycon Oyj acquired a majority holding in the Myllypuro retail centre in eastern Helsinki through share transactions concluded during the reporting period. The transactions were associated with a more extensive refurbishment and development project in and around the Myllypuro retail centre in cooperation with the City of Helsinki.

Magistral Shopping Centre

Citycon acquired shopping centre Magistral on 16 July 2007 for EUR 16.5 million, which corresponds to initial net yield of 6.5 per cent. Magistral is in Tallinn, in the district of Mustamäe. With its 64,000 inhabitants, this is Tallinn's second-largest district, located approximately five kilometres from the centre. The shopping centre was built in 2000 and has a leasable floor area of 9,450 square metres with an occupancy rate of 100%. The centre has significant redevelopment and expansion potential. The deal also included the purchase of approximately 8,400 square metres of building right for EUR 2 million, on the condition that the pending change in city plan is approved. This is Citycon's second shopping centre in Estonia and its third in the Baltic region overall.

Shopping Centre Strömpilen and Retail Centre Länken

Citycon acquired 75% of shopping centre Strömpilen and retail centre Länken in Umeå for EUR 52.5 million in May. The investment's initial net yield on the purchase price stood at 5.5 per cent.

Property Acquisitions in the Reporting Period [1)]

Property	Location	Acquisition cost (EUR million) [2)]	Leasable floor area (m2)	Date
Tumba Centrum	Botkyrka, Sweden	59.4	31,000	31 Jan. 2007
Lahden Hansa	Lahti, Finland	17.3	11,000	28 Feb. 2007
Strömpilen & Länken [3)]	Umeå, Sweden	52.5	25,000 & 7,200	25 May 2007
Myllypuro Retail Centre	Helsinki, Finland	2.7	4,000	Summer 2007 [4)]
Magistral	Tallinn, Estonia	16.5 [5)]	9,500	16 Jul. 2007
Espoon Asemakuja	Espoo, Finland	11 [5)]	6,300	31 Aug. 2007
Iso Omena	Espoo, Finland	329 [5)]	61,300	14 Sep. 2007

1) Includes investments exceeding EUR 1 million in value.

2) Acquisition prices quoted as debt-free prices including transaction costs, according to the exchange rate of the acquisition date.

3) Citycon acquired 75% of the properties.

4) Includes several deals.

5) Debt-free acquisition price before adjustment.

Development and Redevelopment Projects

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

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

The capital expenditure during the period relating to all development projects amounted to EUR 23.3 million in Finland, EUR 7.8 million in Sweden and EUR 9.7 million in the Baltic Countries.

Development Projects in Progress

Property	Location	Estimated total cost (EUR million)	Actual gross expenditure up to 30 Sep 2007 (EUR million)	Estimated year of completion
Lippulaiva	Espoo, Finland	60-70 [1)]	8.7	2008
Trio	Lahti, Finland	50.5	10.4	2009
Lentola	Kangasala, Finland	16.6	0.0	2007
Torikeskus	Seinäjoki, Finland	4.0	2.1	2008
Åkersberga	Österåker, Sweden	27 [2)]	4.5	2009
Liljeholmen	Stockholm, Sweden	110	9.7	2009
Rocca al Mare	Tallinn, Estonia	68 [3)]	9.5	2010

1) Both planned development stages are included in the figure.

2) Citycon owns 75 per cent of Åkersberga Shopping Centre. The estimated total value of the redevelopment project is EUR 40 million.

3) All three planned stages are included in the figure.

Completed and Partially Completed Development Projects

Property	Location	Estimated total cost (EUR million)	Actual gross expenditure up to 30 Sept. 2007 (EUR million)	Estimated year of completion
Duo	Tampere, Finland	27.3	24.3	2007
Lillinkulma	Kaarina, Finland	8.2	10.9 [1)]	Completed

1) Includes stages 1 and 2. Stage 2 was completed earlier than anticipated.

An appeal regarding the Lippulaiva development project in Espoo was dismissed in the Supreme Administrative Court on 11 September 2007, and the shopping centre's expansion continues according to plan. Completion of the first development stage of shopping centre Trio in Lahti is scheduled for November 2007, and the project is progressing as planned. The new retail centre in Lentola, Kangasala is to be completed and transferred to Citycon's ownership by year-end.

An extension to shopping centre Duo in Hervanta, Tampere was completed in April. The number of customers in the first week after opening exceeded expectations at 80,000 visitors, and has remained high since then. The project was completed on schedule, and the refurbishment of the old part of the shopping centre will be complete by Christmas 2007.

A food court will open at Myyrmanni in Vantaa in 2007, doubling the number of the shopping centre's cafés and restaurants. The project is worth approximately EUR 2 million. Citycon is redeveloping a property it owns in the centre of the town of Salo into a shopping centre. The investment amounts to approximately EUR 1.8 million and the centre will be open by Christmas 2007.

Completion of the Åkersberga shopping centre development and redevelopment project has been delayed due to changes to the plans arising from a dispute with one of the centre's tenants. The new development and expansion plan will be completed in the autumn of 2007.

The company's most significant development project is the construction of a new shopping centre in Liljeholmen, Stockholm. The project has progressed according to plan. Currently the constructor is quarrying underground premises and renovating the existing building. The new shopping centre is expected to open in October/November 2009.

Expansion work began at shopping centre Rocca al Mare in Tallinn in summer 2007. The first stage of the redevelopment project is scheduled for completion next summer, and the next stage is currently being planned.

Business Units

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

Finland

Citycon leads the Finnish market in the shopping centre business. The company's net rental income grew by 5.6 per cent to EUR 54.7 million. Net rental income for like-for-like properties rose by 9.1 per cent. The business unit accounted for 71.7 per cent of the company's total net rental income.

Rolling twelve-month occupancy cost ratio for like-for-like properties was 8.5 per cent (8.3%). The occupancy cost ratio is calculated as the share of net rent and potential service charges paid by a tenant to Citycon out of the tenant's sales excluding VAT. The VAT percentage is an estimate.

Lease Portfolio Summary, Finland

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Number of leases started during the period	84	57	101	291	246	18.3	321
Total area of leases started, sq.m.	14,510	8,945	24,350	55,760	54,830	1.7	66,500
Occupancy rate at end of the period ,%			95.9	95.9	96.6	-0.7	97.2
Average length of lease portfolio at the end of the period, year			3.4	3.1	3.1	0.0	3.1

Financial Performance, Finland

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Gross rental income, EUR million	24.6	24.1	23.7	71.6	69.8	2.7	93.1
Turnover, EUR million	25.5	24.7	24.7	74.1	71.8	3.2	95.8
Net rental income, EUR million	18.9	17.7	18.2	54.7	51.8	5.6	68.8
Operating profit, EUR million	33.9	42.6	137.1	201.2	145.8	38.0	176.1
Net fair value gains on investment property, EUR million	16.2	20.7	120.3	150.5	91.8	63.9	104.8
Capital expenditure, EUR million	353.2	87.2	20.5	396.5	147.1	169.6	152.8
Fair market value of investment properties, EUR million			1,046.6	1,555.5	988.0	57.4	1,009.7
Net rental yield, % [1]			7.0	6.6	7.9	–	7.6
Net rental yield, like-for-like properties, %			7.7	7.5	8.1	–	7.9

1) Includes the lots for development projects

Acquisitions made during the reporting period in Finland are listed above under Property Acquisitions. Finnish development projects are listed above under Development Projects.

Sweden

Citycon has achieved a substantial position in the Swedish shopping centre market and has 8 (5) shopping centres and 7 (6) other retail properties in Sweden, located in Greater Stockholm, Greater Gothenburg and Umeå. The company's net rental income from Swedish operations improved by 207.5 per cent to EUR 17.0 million in the reporting period, and the business unit's net rental income accounted for 22.2 per cent of Citycon's total net rental income.

Lease Portfolio Summary, Sweden

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Number of leases started during the period	18	2	15	36	5	-	32
Total area of leases started, sq.m.	12,213	149	4,138	16,621	748	-	3,900
Occupancy rate at end of the period ,%			95.0	96.9	96.4	0.5	96.3
Average length of lease portfolio at the end of the period, year			1.8	2.0	2.0	0.0	2.2

Financial Performance, Sweden

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Gross rental income, EUR million	9.7	4.5	8.4	26.0	9.3	178.5	15.9
Turnover, EUR million	10.1	4.8	9.3	28.0	10.2	175.5	17.3
Net rental income, EUR million	6.5	2.7	6.0	17.0	5.5	207.5	9.3
Operating profit, EUR million	7.6	1.5	40.6	67.0	4.9	-	16.8
Net fair value gains on investment property, EUR million	2.3	-0.7	35.5	52.9	0.4	-	8.7
Capital expenditure, EUR million	3.0	187.8	72.2	136.9	226.0	-39.4	267.2
Fair market value of investment properties, EUR million			414.8	526.4	335.5	56.9	354.8
Net rental yield, % [1]			4.6	4.8	5.0	–	5.1

1) Includes the lots for development projects

Acquisitions made during the reporting period in Sweden are listed above under Property Acquisitions. Swedish development projects are listed above under Development Projects.

Baltic Countries

At the end of the reporting period, Citycon owned three shopping centres in the Baltic countries: Rocca al Mare and Magistral in Tallinn, Estonia and Mandarinas in Vilnius, Lithuania. Due to the limited size of the Baltic market and the limited availability of suitable properties, Citycon has been cautious with investments in the area. However, the company is continuously looking for potential investment opportunities in the region. Net rental income increased by 34.1 per cent to EUR 4.6 million in the Baltic region. The business unit accounted for 6.0 per cent of the company's total net rental income.

Lease Portfolio Summary, Baltic Countries

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Number of leases started during the period	10	7	6	21	16	31.3	16
Total area of leases started, sq.m.	2,161	398	257	3,208	2,900	10.6	2,900
Occupancy rate at end of the period ,%			99.9	100.0	100.0	0.0	100.0
Average length of lease portfolio at the end of the period, year			3.0	3.2	3.4	-5.9	3.3

Financial Performance, Baltic Countries

	Q3 2007	Q3 2006	Q2 2007	Q1-3 2007	Q1-3 2006	Change -%	2006
Gross rental income, EUR million	2.1	2.1	1.9	5.6	4.3	28.0	6.1
Turnover, EUR million	2.3	1.7	1.9	6.0	4.4	37.0	6.2
Net rental income, EUR million	1.8	1.3	1.4	4.6	3.4	34.1	4.8
Operating profit, EUR million	4.2	3.7	5.6	13.3	8.6	53.9	10.9
Net fair value gains on investment property, EUR million	2.5	2.4	4.3	9.3	5.5	68.0	6.6
Capital expenditure, EUR million	22.2	0.1	3.6	26.1	16.2	60.6	16.2
Fair market value of investment properties, EUR million			85.6	109.3	81.0	35.0	83.3
Net rental yield, % (1			6.6	6.4	6.7	–	6.7

1) Includes the lots for development projects

The acquisition of shopping centre Magistral and the development of shopping centre Rocca al Mare in the region are discussed above in further detail.

Turnover and Profit

Turnover for the period came to EUR 108.1 million (EUR 86.4 million), mainly coming from the rental income generated by Citycon's retail premises. Gross rental income accounted for 95.4 per cent (96.6%) of turnover.

Operating profit rose to EUR 276.2 million (EUR 154.0 million). Profit before taxes came to EUR 243.5 million (EUR 131.9 million) and profit after taxes was EUR 194.0 million (EUR 100.0 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 changes in fair value of the property portfolio, of gains on sales and of other one-off items on the profit attributable to the parent company's shareholders was EUR 169.3 million (EUR 76.2 million). Taking this effect into account, the profit after tax attributable to the parent company's shareholders was EUR 2.1 million below that of the same period last year. The decline was mainly due to higher interest expenses, a one-time exchange rate gain in the comparison period, the divestment of non-core properties, added development activities, and costs related to expanded business operations.

Earnings per share came to EUR 1.01 (EUR 0.64). Earnings per share excluding changes in fair value, gains on sales, other one-off items and their tax impacts were EUR 0.12 (EUR 0.15).

Net cash flow from the operating activities per share amounted to EUR 0.14 (EUR 0.14).

Human Resources and Administrative Expenses

At the end of the period, the Citycon Group had a total of 95 (70) employees, of whom 68 were employed in Finland, 21 in Sweden and six in the Baltic countries. Administrative expenses rose to EUR 12.6 million (EUR 9.7 million), including EUR 0.7 million (EUR 0.6 million) in deferred expenses related to employee stock options and the share-based incentive scheme announced in April. The higher expenses were partly due to the expansion of the company's operations and to the cost of creating the new regional organisation.

Capital Expenditure

Citycon's reported gross capital expenditure in the period totalled EUR 559.8 million (EUR 387.5 million). Of this, EUR 518.6 million (EUR 364.1 million) accounted for property acquisitions, EUR 40.9 million (EUR 23.2 million) for property development and EUR 0.3 million (EUR 0.2 million) for other investments.

The investments were mainly financed with the directed share issue worth approximately EUR 133.8 million and a bridge funding deal for EUR 300 million made with a Nordic banking group. In September the company initiated a rights issue that generated EUR 99 million in new equity.

Balance Sheet and Financial Position

The period-end balance sheet total stood at EUR 2,318.5 million (EUR 1,513.9 million). Liabilities totalled EUR 1,364.5 million (EUR 966.5 million), with short-term liabilities accounting for EUR 449.3 million (EUR 141.9 million). The Group's financial position remained healthy during the period.

Year-on-year interest-bearing debt increased by EUR 362.2 million to EUR 1,246.1 million (EUR 883.9 million). The fair value of Group's interest-bearing debt stood at EUR 1,263.7 million (EUR 903.0 million). The debt includes bridge financing of EUR 300 million from a Nordic banking group for the acquisition of shopping centre Iso Omena.

The Group's cash and cash equivalents totalled EUR 79.4 million (EUR 24.9 million). The fair value of Group interest-bearing net debt stood at EUR 1,184.3 million (EUR 878.2 million). Cash and cash equivalents on 30 September 2007 included EUR 51.2 million from the subscriptions in the rights issue that was under way.

The bridge funding agreement consists of two tranches: a EUR 100 million tranche of six months, with an extension option for a further 90 days, and a EUR 200 million facility of up to twelve months Margins for the facility are 0.25 – 0.30% p.a. over Euribor. The six months' tranche was prepaid on 15 October 2007 from proceeds of the rights issue.

In August the company exercised its right to extend the maturity of EUR 165 million revolving credit facility related to the EUR 600 million syndicated loan raised in 2006. The credit facility's maturity was extended by one year from August 2010 to August 2011.

The year-to-date average interest rate was 4.61 per cent (4.31%) during the reporting period. The increase of the average interest rate was moderate in comparison to the rapid increase in short-term interest rates in the company's operating areas. The average loan maturity, weighted according to principals of the loans, decreased to 3.6 years (4.6 years), while the average time to fixing decreased to 3.0 years (3.4 years). The reduction of average loan maturity and average time to fixing is mainly attributable to short term EUR 300 million bridge financing facility. The interest rate, interest rate swaps included, averaged 4.75 per cent at the end of September.

The Group's equity ratio stood at 41.2 per cent (36.2 per cent). Period-end gearing stood at 122.3 per cent (156.9%). The decreased gearing and the improved equity ratio during the reporting period were due to the directed share issue and the good profit performance.

Out of Citycon's period-end interest-bearing debt, 82.9 per cent (79.8%) were floating-rate loans, of which 59.0 per cent (63.4%) had been converted into fixed-rate ones by means of interest rate swaps. Fixed-rate debt accounted for 66.0 per cent (70.8%) of the Group's period-end interest-bearing debt, the interest-rate swaps included. The decrease in hedging was due to the bridge loan of EUR 300 million to finance the Iso Omena acquisition, which had a lower hedging ratio compared with the rest of the loan portfolio.

Citycon applies hedge accounting, whereby changes in fair market value of interest-rate swaps subject to hedge accounting are recognised under equity. The period-end nominal amount of interest-rate swaps totalled EUR 668.4 million (EUR 457.3 million), with hedge accounting applied to interest rate swaps whose nominal amount totalled EUR 591.2 million (EUR 457.3 million). The nominal amount of the Group's all derivative contracts totalled EUR 745.3 million (EUR 457.3 million), and their fair market value was EUR 6.2 million (EUR -7.3 million).

Net financial expenses increased by EUR 10.6 million to EUR 32.7 million (EUR 22.2 million). This increase came mainly from higher interest expenses due to the higher level of interest-bearing debt, additional expenses resulting from an option on convertible bonds and from non-cash mark-to-market loss from derivatives recognized in the income statement. The net financial expenses in the income statement include EUR 1.3 million (EUR 0.3 million) in non-cash expenses related to the option component on convertible bonds.

Rights Issue

On 10 September 2007, the Board of Directors decided on a share issue based on shareholders' pre-emptive subscription rights, worth approximately EUR 99 million, pursuant to an authorisation granted by the AGM on 13 March 2007. The share issue was completed successfully. A total of 27,594,782 new shares were offered for subscription at a price of EUR 3.60 per share. The subscription period began on 19 September and ended on 3 October 2007. By 30 September, Citycon had received EUR 51.2 million as rights issue proceeds and this amount is recognized in the balance sheet under Share issue account. Each shareholder had the right to subscribe for one new share per seven shares held. All offered shares were subscribed for in the share offering. A total of 27,235,387 shares were subscribed for in the primary subscription representing 98.7 per cent of the shares offered. The

secondary subscription was over-subscribed. The offered shares represented around 14.3 per cent of the total shares and voting rights in the company prior to the offering, and around 12.5 per cent following the offering. The new shares entitle their holders to a dividend for the financial year 2007.

The funds received from the share issue will be used to repay a part of the short-term credit line raised to fund the acquisition of the shopping centre Iso Omena in September. Citycon intends to fund its growth strategy by flexibly utilising equity-linked financing and debt financing in order to ensure an optimal funding structure, taking into account the progress of planned investments. Investments may also be funded through the divestment of non-core properties.

The details of the rights issue are presented in the stock exchange releases issued by Citycon in September and October 2007, and available on the company's website at www.citycon.fi.

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. In January-September, the company's share capital has increased by EUR 33.9 million and the number of shares by 26.0 million as a result of a directed share issue and exercise of stock option rights. The table below shows the changes in share capital and number of shares in more detail. At the end of September, the company's registered share capital totalled EUR 259.6 million, and the number of shares came to 193.2 million. The company has a single series of shares, with each share confering entitlement to one vote at general meetings of shareholders. The shares have no nominal value.

Changes in Share Capital and Shares, 1 January–30 September 2007

Date 2007	Reason	Change, EUR	Change, no. of shares	Share capital, EUR	No. 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
24 July	Increase (stock options)	-	307,524	-	192,810,271
11 Sept.	Increase (stock options)	-	353,201	-	193,163,472
30 Sept.				259,570,510.20	193,163,472

Because the company's shares no longer have a nominal value, and as the terms of the stock options were changed by the decision of the AGM so that the subscription price of shares subscribed by exercising stock option rights is 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.

Between January and September, the number of Citycon shares traded on the OMX Nordic Exchange Helsinki totalled 114.8 million (40.2 million), at a total value of EUR 580.3 million (EUR 149.8 million). The highest quotation was EUR 6.09 (EUR 4.23) and the lowest EUR 4.11 (EUR 3.02). The reported volume-weighted average price was EUR 5.03 (EUR 3.73) and the share closed at EUR 4.47 (EUR 4.15). The company's market capitalisation on 30 September totalled EUR 863.4 million (EUR 690.9 million).

Directed Share Issue

Citycon strengthened its balance sheet by conducting a directed share issue in February. The issue was based on authorisation given by an extraordinary general meeting on 26 January 2007. The share issue was directed at Finnish and international institutional investors, excluding the pre-emptive subscription rights of shareholders, and completed through an accelerated bidding process between 12 and 13 February 2007. The share issue resulted in 25 million new shares being subscribed for at a per-share subscription price of EUR 5.35. The new shares entitle their holders to a dividend for the 2007 financial year.

The details of the directed share issue are presented in the stock exchange releases issued by Citycon in February, and available on the company's website at www.citycon.fi.

Board Authorisations

The AGM held on 13 March 2007 authorised the Board of Directors to decide on issuing new shares and disposing of treasury shares through paid or free share issues. New shares can be issued and treasury shares can be transferred to shareholders in proportion to their existing shareholding or through a directed share issue waiving the pre-emptive subscription rights of share-holders, if a weighty financial reason exists for doing so. The Board can also decide on a free share issue to the company itself. In addition, the Board was authorised to grant special rights referred to in Section 1 of Chapter 10 of the Finnish Companies Act, entitling their holders to receive, against payment, new shares in the company or treasury shares. 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.

The Board exercised this authorisation on 10 September 2007, when it decided on a share issue based on shareholders' pre-emptive subscription rights. A maximum of 27,594,782 shares were offered for subscription by shareholders. As a result of this, the number of shares that can be issued of disposed of on the basis of the authorisations described above now totals 72,405,218 shares.

The other decisions of the AGM are presented in the stock exchange release issued by the company on 13 March 2007 and available on the company's website at www.citycon.fi.

Reported Changes in Share Ownership

Fidelity International Limited notified the company in February that the holdings of its direct and indirect subsidiaries in Citycon Oyj had fallen below the ten per cent threshold. According to the notification, Fidelity International Limited and its direct and indirect subsidiaries held 17,297,574 Citycon shares on 14 February 2007, equivalent to nine per cent of the company's share capital and voting rights at the time.

ING Clarion Real Estate Securities, L.P. notified the company in August that its holding in Citycon Oyj's voting rights and share capital had risen above the threshold of five per cent. According to the notification, ING Clarion Real Estate Securities, L.P. held 9,726,700 shares on 24 August 2007, equivalent to 5.04 per cent of the company's share capital and voting rights at the time.

Stock Options

Stock Options 1999

An extraordinary general meeting of Citycon held on 4 November 1999 authorised the issue of a maximum of 5,500,000 stock options. Of these, 5,327,000 options were granted to the personnel. The rest of the options were granted to Citycon's fully owned subsidiary Veniamo-Invest Oy, which has no right to subscribe for its parent company's shares. The share subscription period for the 1999 A/B/C options expired at the end of September. By the end of the subscription period, a total of 5,631,912 Citycon shares had been subscribed by exercising the 1999 stock options, including 825,982 shares subscribed at a EUR 1.35 per-share subscription price between January and September 2007. The 71,370 shares subscribed in September 2007 are expected to be registered in the Trade Register on 24 October 2007. Shares subscribed in 2007 entitle their holders to a dividend for the financial year 2007.

Of the 1999 option rights, only the 172,500 options held by Veniamo-Invest Oy remained unexercised. These options have expired worthless.

Stock Options 2004

The annual general meeting held on 15 March 2004 authorised the issue of a maximum of 3,900,000 stock options. Of these, 3,290,000 A/B/C options were held by Group employees at the end of the reporting period. The stock options 2004A and 2004B are listed on the OMX Nordic Exchange Helsinki. Trading in 2004B options began on 3 September 2007.

The basic data of the 2004 stock option scheme as of 30 September 2007 is shown in the table below. Amendments made to the terms and conditions of the 2004 option scheme as a result of the rights issue came into effect on 10 October 2007. The amendments to the terms are described in Events after the Period, below.

Stock options, 30 September 2007	2004 A	2004 B	2004 C
No. of options granted	1,040,000	1,090,000	1,160,000
No. held by Veniamo-Invest Oy [1]	260,000	210,000	140,000
No. of options exercised	211,220	-	-
No. of shares subscribed with options	224,123	-	-
Subscription ratio, option/shares	1:1.0611	1:1.0611	1:1.0611
Subscription price per share, EUR [2]	2.1636	2.6066	4.55
Subscription period begins	1 Sep 2006	1 Sep 2007	1 Sep 2008
Subscription period ends	31 Mar 2009	31 Mar 2010	31 Mar 2011

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

2) Following dividend distribution for 2006. The share subscription prices are reduced by half of the per-share dividends paid. However, the share subscription price is always at least EUR 1.35.

From January to September, 126,670 new shares were subscribed at a per-share subscription price of EUR 2.1636 by exercising the A options attached to Citycon's 2004 stock option scheme. No 2004 B options have been exercised. Shares subscribed in 2007 entitle their holders to a dividend for the financial year 2007.

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.

The turbulence in the financial market that began in the late summer has resulted in a clear increase in short-term interest rates and difficulties in banks' own funding activities, which may significantly affect the availability of funding for Citycon and increase future credit margins and financing costs if the uncertainty continues for a prolonged period. This could have a negative effect on the implementation of Citycon's strategy and on the company's business and profits. The company aims to hedge the risk of changes in the financial market by applying a conservative funding policy, which has thus far kept the company's financial expenses from rising significantly and the availability of financing from decreasing.

Events after the Reporting Period

Share Issue and the Related Amendments to the Terms of Convertible Bonds and Stock Options

All offered 27,594,782 shares were subscribed for in the share issue carried out in September and October based on shareholders' pre-emptive subscription rights. The new shares were recorded on 10 October and have been traded on the OMX Nordic Exchange Helsinki since 11 October 2007. Following the share issue, the company has a total of 220,758,254 shares and a share capital of EUR 259,570,510.20. The share capital did not change because the share subscription price was recorded in the invested unrestricted equity fund.

In order to ensure equal treatment of the company's stock option and convertible capital bond holders as well as the shareholders, the Board of Directors of Citycon decided on 10 September 2007 upon amendments to the terms and conditions of the stock options and the convertible capital bonds as a result of the rights issue.

The Board decided to adjust the conversion price of the convertible capital bonds listed on 22 August 2006, in accordance with Section 6(b)(iv) of the terms and conditions of the convertible bonds, from EUR 4.3432 to EUR 4.20. The amendment of the conversion price came into effect on 4 October 2007. In accordance with the terms of the 2004 stock option scheme, the

subscription prices and number of shares subscribed with the options were amended so that each 2004 option entitles its holder to subscribe for 1.2127 shares and that the per-share subscription price for 2004 A options is EUR 2.3432, for 2004 B options EUR 2.7308 and for 2004 C options EUR 4.4313. The subscription prices will be reduced by half of the per-share dividends payable, if any. The amendments to the terms and conditions of the stock options came into effect on 10 October 2007.

In accordance with the amended terms and conditions, the maximum number of new shares that can still be subscribed by exercising the stock options attached to the 2004 option scheme amounts to 4,473,383, including stock options held by Veniamo-Invest Oy.

Market Court's Decision on Citycon's Appeal regarding Ratina Tender Procedure

The Finnish Market Court issued on 12 October 2007 a decision to disallow the petition filed by Citycon Oyj and Skanska Talonrakennus Oy on 27 April 2006 in the tender procedure regarding the construction of a shopping centre and related areas in Ratina region in the City of Tampere, Finland. The company has reported on the subject matter in stock exchange releases issued on 27 April 2006 and 15 October 2007 available on the company's website www.citycon.fi.

Outlook

Citycon expects the development and redevelopment projects to play a central role in its business. The company will remain active in seeking acquisition and development opportunities while implementing its expansion strategy. 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 the company's focus on the growth in leasable area and therefore in rental income.

Helsinki, 18 October 2007

Citycon Oyj

Board of Directors

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS 30 September 2007

Condensed Consolidated Income Statement, IFRS

EUR million	Note	Q3 2007	Q3 2006	Change	Q1-3 2007	Q1-3 2006	Change	2006
Gross rental income		36.3	30.6	18.6%	103.2	83.4	23.6%	115.1
Service charge income		1.6	0.7	137.4%	5.0	2.9	70.1%	4.2
Turnover	3	**38.0**	**31.3**	**21.2%**	**108.1**	**86.4**	**25.2%**	**119.4**
Property operating expenses		10.7	9.5	12.3%	31.8	25.4	25.2%	36.0
Other expenses from leasing operations		0.0	0.2	-94.3%	0.1	0.4	-72.4%	0.6
Net rental income		**27.3**	**21.6**	**26.3%**	**76.3**	**60.6**	**25.9%**	**82.8**
Administrative expenses		4.0	3.7	8.3%	12.6	9.7	30.8%	12.9
Other operating income and expenses		0.0	0.0	145.8%	0.0	0.3	-113.4%	0.6
Net fair value gains on investment property		21.1	21.6	-2.5%	212.7	97.0	119.4%	120.1
Net gains on sale of investment property		-0.1	5.8	-100.9%	-0.1	5.8	-100.9%	5.9
Operating profit		**44.3**	**45.4**	**-2.3%**	**276.2**	**154.0**	**79.4%**	**196.5**
Net financial income and expenses		13.3	9.3	43.7%	32.7	22.2	47.7%	30.9
Profit before taxes		**31.0**	**36.1**	**-14.1%**	**243.5**	**131.9**	**84.7%**	**165.6**
Current taxes		-2.4	-3.4	-28.7%	-6.6	-6.4	3.9%	-7.4
Change in deferred taxes		-5.0	-5.4	-7.8%	-42.9	-25.5	68.0%	-31.8
Profit for the period		**23.6**	**27.3**	**-13.5%**	**194.0**	**100.0**	**94.1%**	**126.4**
Attributable to								
Parent company shareholders		23.4	27.5	-14.8%	191.0	99.9	91.1%	124.9
Minority interest		0.2	-0.2	-197.7%	3.0	0.0	–	1.5
Earnings per share (basic), EUR		0.12	0.17	-28.5%	1.01	0.64	59.0%	0.78
Earnings per share (diluted), EUR		0.11	0.15	-27.9%	0.91	0.62	46.6%	0.74

Condensed Consolidated Balance Sheet, IFRS

EUR million	Note	30 Sep. 2007	30 Sep. 2006	31 Dec. 2006
Non-current assets				
Investment property	4	2,191.2	1,404.5	1,447.9
Development property	5	21.1	0.0	–
Other property, plant and equipment		0.7	0.8	0.6
Derivative financial instruments and other non-current assets	7	10.9	1.7	4.8
Total non-current assets		2,224.0	1,407.0	1,453.3
Current assets				
Derivative financial instruments	7	0.1	–	0.4
Trade and other receivables		15.0	82.0	11.3
Cash and cash equivalents	6	79.4	24.9	21.3
Total current assets		94.5	106.9	33.1
Total assets		**2,318.5**	**1,513.9**	**1,486.4**
Liabilities and Shareholders' Equity				
Equity attributable to parent company shareholders				
Share capital		259.6	224.8	225.7
Share issue		51.2	–	0.1
Share premium fund and other restricted reserves		131.1	131.1	131.1
Fair value reserve	7	4.9	-5.4	-1.3
Invested unrestricted equity fund		100.2	–	–
Retained earnings		377.7	184.4	209.7
Total equity attributable to parent company shareholders		924.9	534.9	565.3
Minority interest		29.0	12.4	15.0
Total shareholders' equity		953.9	547.4	580.3
Liabilities				
Interest-bearing debt		827.5	784.6	726.3
Derivative financial instruments and other non-interest bearing liabilities	7	2.7	7.3	4.9
Deferred tax liabilities		85.1	32.7	40.4
Total long-term liabilities		915.2	824.6	771.7
Interest-bearing debt		418.6	99.4	87.6
Trade and other payables		30.7	42.5	46.8
Short-term liabilities		449.3	141.9	134.4
Total liabilities		1,364.5	966.5	906.1
Total liabilities and shareholders' equity		**2,318.5**	**1,513.9**	**1,486.4**

Condensed Consolidated Statement of Changes in Shareholders' Equity, IFRS

EUR million	Equity attributable to parent company shareholders						Equity attributable to parent company shareholders	Minority interest	Share-holders' equity total
	Share capital	Share issue	Share premium fund and other reserves	Fair value reserve	Invested unrestricted equity funds	Retained earnings			
Balance at 1 Jan. 2006	**184.1**	**1.1**	**85.4**	**-10.5**	**-**	**96.5**	**356.6**	**3.6**	**360.2**
Cash flow hedges				5.1			5.1		5.1
Profit for the period						99.9	99.9	0.0	100.0
Total recognized income and expense for the period				**5.1**		**99.9**	**105.1**	**0.0**	**105.1**
Share issue	38.7	-1.1	37.2				74.8		74.8
Share subscriptions based on stock options	2.0						2.0		2.0
Dividends (Note 8)			-6.6			-12.6	-19.2		-19.2
Share-based payment						0.6	0.6		0.6
Equity instrument of convertible capital loan			15.1				15.1		15.1
Other changes							0.0	8.8	8.8
Balance at 30 Sep. 2006	**224.8**	**-**	**131.1**	**-5.4**	**0.0**	**184.4**	**534.9**	**12.4**	**547.4**
Balance at 1 Jan. 2007	**225.7**	**0.1**	**131.1**	**-1.3**	**-**	**209.7**	**565.3**	**15.0**	**580.3**
Cash flow hedges				6.3			6.3		6.3
Profit for the period						191.0	191.0	3.0	194.0
Total recognized income and expense for the period				**6.3**		**191.0**	**197.3**	**3.0**	**200.3**
Share issue	33.8	51.2			98.8		183.8		183.8
Share subscriptions based on stock options	0.1	-0.1	0.0		1.4		1.4		1.4
Dividends (Note 8)						-23.4	-23.4		-23.4
Translation differences						-0.3	-0.3	-0.1	-0.5
Share-based payment						0.7	0.7		0.7
Other changes			0.0				0.0	11.2	11.2
Balance at 30 Sep. 2007	**259.6**	**51.2**	**131.1**	**4.9**	**100.2**	**377.7**	**924.9**	**29.0**	**953.9**

Condensed Consolidated Cash Flow Statement, IFRS

EUR million	Note	Q1-3 2007	Q1-3 2006	2006
Cash flow from operating activities				
Profit before taxes		243.5	131.9	165.6
Adjustments		-178.9	-79.8	-94.0
Cash flow before change in working capital		64.6	52.1	71.6
Change in working capital		-4.2	-1.1	-0.5
Cash generated from operations		60.4	50.9	71.1
Paid interest and other financial charges		-28.8	-26.6	-34.1
Received interest and other financial income		2.0	0.7	0.9
Taxes paid		-7.4	-3.6	-5.9
Net cash from operating activities		**26.2**	**21.4**	**32.0**
Cash flow from investing activities				
Acquisition of subsidiaries, less cash acquired		-509.2	-327.9	-331.8
Acquisition of investment property	4	-15.9	-32.3	-33.6
Capital expenditure on investment properties	4	-26.1	-23.5	-35.6
Capital expenditure on development properties, other PP&E and intangible assets	5	-14.8	–	–
Sale of investment property		0.3	0.6	73.9
Net cash used in investing activities		**-565.7**	**-383.1**	**-327.1**
Cash flow from financing activities				
Proceeds from share issue		133.6	73.6	77.4
Proceeds from pending share issue		51.2	–	–
Proceeds from short-term loans		481.6	344.0	421.2
Repayments of short-term loans		-120.5	-241.0	-392.2
Proceeds from long-term loans		266.9	675.3	675.3
Repayments of long-term loans		-191.5	-461.8	-461.8
Dividends paid	8	-23.4	-19.2	-19.2
Net cash from/used in financing activities		**597.8**	**370.9**	**300.8**
Net change in cash and cash equivalents		**58.3**	**9.3**	**5.7**
Cash and cash equivalents at period-start	6	21.3	15.6	15.6
Effects of exchange rate changes		-0.2	–	–
Cash and cash equivalents at period-end	**6**	**79.4**	**24.9**	**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 18 October 2007.

2. Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 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

Magistral and Iso Omena shopping centres were acquired in July and September 2007, respectively. The identifiable assets and liabilities of the acquisitions, 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 39 per cent of the shares in the company, has announced that it applies 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	Q3 2007	Q3 2006	Change	Q1-3 2007	Q1-3 2006	Change	2006
Turnover							
Finland	25.5	24.7	3.1%	74.1	71.8	3.2%	95.8
Sweden	10.1	4.8	109.8%	28.0	10.2	175.5%	17.3
Baltic Countries	2.3	1.7	33.7%	6.0	4.4	37.0%	6.2
Total	38.0	31.3	21.2%	108.1	86.4	25.2%	119.4
Operating profit							
Finland	33.9	42.6	-20.4%	201.2	145.8	38.0%	176.1
Sweden	7.6	1.5	416.7%	67.0	4.9	-	16.8
Baltic Countries	4.2	3.7	15.9%	13.3	8.6	53.9%	10.9
Other	-1.4	-2.4	-39.2%	-5.3	-5.3	-1.5%	-7.2
Total	**44.3**	**45.4**	**-2.3%**	**276.2**	**154.0**	**79.4%**	**196.5**

EUR million	30 Sep. 2007	31 Dec. 2006	Change
Assets			
Finland	1,562.3	1,016.6	53.7%
Sweden	543.9	358.0	51.9%
Baltic Countries	119.0	83.6	42.3%
Other	93.2	28.2	231.2%
Total	**2,318.5**	**1,486.4**	**56.0%**

The significant increase in segment assets is due to the acquisitions of the shopping centres and the increase in fair value of investment properties.

4. Investment property

EUR million	30 Sep. 2007	30 Sep. 2006	31 Dec. 2006
At period-start	**1,447.9**	**956.6**	**956.6**
Additions	543.7	417.1	436.2
Disposals	-0.3	-67.9	-67.9
Transfer into the development properties	-6.4	–	–
Net fair value gains	213.0	97.0	120.1
Exchange differences	-6.7	1.8	2.9
At period-end	**2,191.2**	**1,404.5**	**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 September 2007 and 31 December 2006:

Yield requirement (%)

	30 Sep. 2007	31 Dec. 2006
Finland	5.8	6.6
Sweden	5.4	6.4
Baltic Countries	6.3	7.1
Average	**5.7**	**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 September 2007, the development properties consisted of the capital expenditure relating to extension projects in Rocca al Mare, Åkersberga and Liljeholmen shopping centres. Investments in development properties during the nine months ended 30 September 2007 amounted to EUR 14.8 (EUR 0.0 million) and the development property in the balance sheet totalled EUR 21.1 million at 30 September 2007. Interest expenses amounting EUR 0.4 million (EUR 0.0 million) have been capitalized as part of the cost of development properties.

6. Cash and cash equivalents

EUR million	30 Sep. 2007	30 Sep. 2006	31 Dec. 2006
Cash in hand and at bank	27.7	21.4	19.4
Restricted cash in hand and at bank	-	1.0	-
Short-term deposits	51.7	2.5	1.9
Total	**79.4**	**24.9**	**21.3**

7. Derivative Financial Instruments

EUR million	30 Sep. 2007		30 Sep. 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	0.1	50.0	0.4	50.0	0.4
1-2 years	87.1	-0.8	40.0	-0.3	40.0	0.0
2-3 years	149.0	-1.6	86.0	-3.0	86.0	-2.6
3-4 years	70.0	0.7	83.0	-3.7	83.0	-2.6
4-5 years	0.0	0.0	40.0	-0.2	40.0	-0.8
over 5 years	312.2	8.7	158.3	-0.4	242.7	3.8
Total	**668.4**	**7.1**	**457.3**	**-7.3**	**541.7**	**-1.8**
Foreign exchange derivatives						
Forward agreements						
Maturity:						
less than 1 year	76.9	-0.9	0.0	0.0	14.8	0.0
Total	**76.9**	**-0.9**	**0.0**	**0.0**	**14.8**	**0.0**

The fair value of derivative financial instruments represent 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 1.8 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 591.2 million (EUR 457.3 million). The fair value gain recognized in the fair value reserve under shareholders' equity taking account the tax effect totals EUR 4.9 million (EUR -5.4 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 EUR 23.4 million (EUR 19.2 million) during the period.

9. Contingent Liabilities

EUR million	30 Sep. 2007	30 Sep. 2006	31 Dec. 2006
Mortgages on land and buildings	47.7	7.8	21.1
Bank guarantees	19.9	16.4	37.1
Capital commitments	58.1	–	40.7

At 30 September 2007, Citycon had capital commitments of EUR 58.1 million relating mainly to development projects.

10. Key Figures

	Q3 2007	Q3 2006	Change	Q1-3 2007	Q1-3 2006	Change	2006
Earnings per share (basic), EUR	0.12	0.17	-28.5%	1.01	0.64	59.0%	0.78
Earnings per share (diluted), EUR (EPRA EPS)	0.11	0.15	-27.9%	0.91	0.62	46.6%	0.74
Equity per share, EUR				4.52	3.21	40.8%	3.38
Net asset value (EPRA NAV) per share, EUR				4.94	3.42	44.3%	3.61
Equity ratio, %				41.2	36.2	–	39.1

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

The figures are unaudited.

Full-year results 2007

Citycon will publish its full-year financial results for the financial year 2007 on Thursday, 14 February 2008, at around noon. For further information for investors, please visit 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 January–30 September 2007

We have generally reviewed the interim report of Citycon Oyj for the period 1 January-30 September 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, October 18, 2007

Ernst & Young Oy
Tuija Korpelainen, Authorized Public Accountant