

Alony-Hetz Properties and Investments Ltd.

Condensed Interim Consolidated Financial Statements
For the Period Ended March 31, 2007
(Unaudited)

Alony-Hetz Properties and Investments Ltd.

Table of Contents

	<u>Page</u>
Directors' Report	1-17
Auditors' Review Report	18
Condensed Interim Consolidated Financial Statements (Unaudited)	
Balance Sheet	19-20
Statements of Operations	21
Statements of Changes in Shareholders' Equity	22-24
Statements of Cash Flows	25-26
Notes to the Condensed Interim Consolidated Financial Statements	27-59

Report of the Board of Directors on the State of Affairs of the Corporation

For the Three-Month Period Ended March 31, 2007

The Board of Directors of Alony-Hetz Properties and Investments Ltd. is honored to present the financial statements of the Company and its subsidiaries ("the Group") for the three months ended March 31, 2007 ("the reported period").

The review presented below is limited in scope, and relates to events and changes that occurred in the state of the corporation's affairs in the reported period, having a material effect.

The Report of the Board of Directors for the reported period should be read in conjunction with the Report of the Board of Directors for the year 2006.

<p>The accompanying financial statements are stated in accordance with the International Standards (IFRS).</p>

Description of the Group and its Business Environment

The Group focuses mainly on long-term investments in revenue-producing real estate in Israel and in western countries. As of the signature date of this Report, the Company is engaged as follows:

Activities in Israel

A stake of 78.4% in Amot Investments Ltd. ("Amot").

Activities in Europe

In Switzerland –

A 14.8% stake in PSP Swiss Property AG, the largest public company in the revenue-producing rental real estate industry listed for trading in Switzerland. The Company is the largest shareholder in PSP.

In UK –

A 25.2% stake in a UK real estate opportunity fund ("the Fund") and a 12% stake in the Fund's managing partner.

Activities in North America

In Canada –

A. A 14.6% stake in First Capital Realty Inc. ("FCR"), a Canadian public company that owns revenue-producing rental real estate in Canada. Additionally, FCR owns 18.9% of the share capital of EQY.

B. Ownership of three buildings in Canada, which are rented for a 20-year period. See below regarding the sale of two of the buildings.

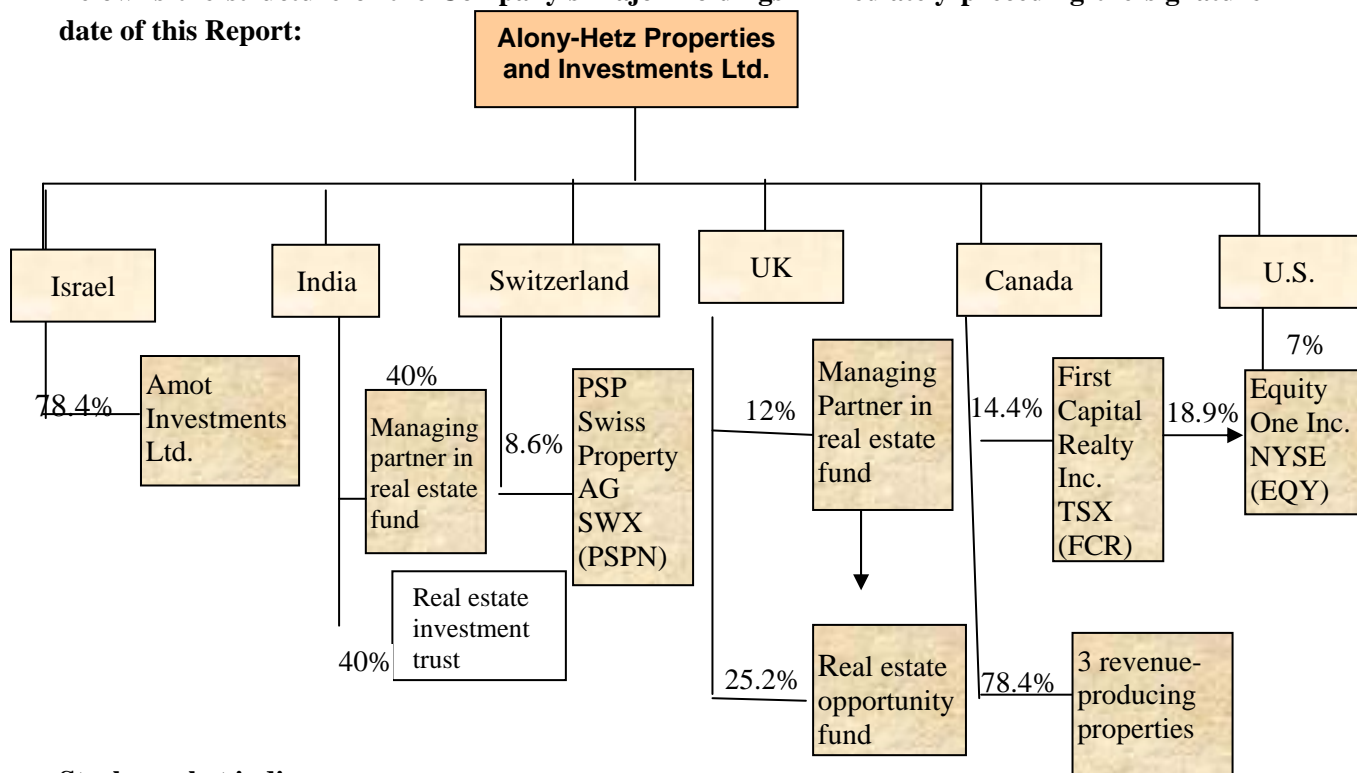
In the U.S.

A 6.9% stake in Equity One Inc. ("EQY"), a public American company that owns revenue-producing rental real estate in the U.S.

Activities in India

A 40% stake in a real estate investment fund in India.

Below is the structure of the Company's major holdings immediately preceding the signature date of this Report:



Stock market indices

The Company's shares are traded on the Tel Aviv Stock Exchange. The stock exchange indices in which the Company appears are: TA-100 Index, TA-75 Index, the Tel-Aviv Real Estate-15 Index and Tel-Div 20 Index.

Credit rating

The Company's debentures are rated by Ma'alot Israel Securities Rating Company Ltd. at (AA-). Midroog Ltd. has given the Company a credit rating of Aa3.

Adoption of International Financial Reporting Standards (IFRS)

Commencing the first quarter of 2007, the Company is adopting the International Financial Reporting Standards ("IFRS") for the first-time, in early application, in accordance with the provisions of Standard 29, which allows the transition to reporting in accordance with IFRS on a date earlier than January 1, 2008.

Presented below are the key effects of the international standards on the Group's financial statements:

- Long-term investments in marketable securities

Financial assets classified as available for sale are measured at their fair value, and the gain or loss deriving from the change in the fair value of these financial assets is charged directly to a capital reserve in shareholders' equity. The Group's investments in the shares of PSP, FCR and EQY were classified as financial assets that should be given the aforementioned accounting treatment.

- Investment real estate – rental properties, net

Investment real estate is stated according to the fair value model. The effect of the revaluation as of the date of the first-time adoption (January 1, 2005) was charged to retained

earnings in shareholders' equity, and the changes in fair value from such date henceforth are charged to the statement of operations. According to this model, depreciation and amortization of these rental properties is no longer recorded.

- Receipts on account of options and the capital elements of convertible debentures

Receipts on account of options issued by the Company having an exercise price linked to the CPI were classified as financial liabilities (instead of as a capital element). Additionally, the capital element of the CPI-linked convertible debentures, which until now had been presented in shareholders' equity, were also classified as a financial liability for IFRS reporting purposes. The liabilities are stated at their fair value on every balance sheet date, and the change in fair value is recorded to the statement of operations. The effect of the changes until the date of first-time application (January 1, 2005) was charged to retained earnings.

- Minority interest

According to international standards, minority interest is stated in the consolidated balance sheet as an element of shareholders' equity, at the amount of the minority interest in the identified assets and liabilities of the investee. The minority's interest in net income is stated in the statement of operations, where earnings are divided between the majority shareholders and the minority shareholders.

- Hedging transactions

If certain conditions are met, International Standard No. 39 allows the application of hedge accounting for the risk of changes in exchange rates. The Group charged the exchange rate differences on foreign currency loans against the exchange rate differences charged to a capital reserve for changes in the fair value of securities available for sale, that are stated in the currency of the loans.

Investment goals

Subsequent to the balance sheet date, the Company signed an agreement in principle with Medipower Overseas Ltd. ("MDL"), a company managed by Mr. Moshe Gavish and Mr. Avi Goldberg, which has aggregated several years of experience in the residential real estate industry in Sweden, regarding a joint investment, in equal stakes, in Medipower Sweden A.D. ("MDS")(a company incorporated in Sweden that is a subsidiary of MDL).

The holdings in MDS will be 48.75% to the Company, 48.75% to MDL and 2.5% to other existing shareholders.

The initial investment by the Company and MDL in MDS is \$15 million each (in share capital and/or shareholder loans), and is planned to be spread over a two-year period. According to the agreement in principle, each party will appoint half of the members of the MDS board of directors, with MDL given the right to appoint the president of MDS, whereas the Company was given the right to appoint the chairman of the board of directors.

The parties intend to carry out all of their residential real estate activities in Sweden exclusively through MDS. The parties intend to sign a detailed, binding agreement. The agreement in principle has no binding legal validity as long as the detailed agreement is not signed.

Shareholders' equity

The Company's shareholders' equity as of March 31, 2007 totaled NIS 2,469 million, compared with NIS 2,320 million at the end of 2006.

Group profitability

The majority shareholders' interest in the Group's net income in the first quarter of 2007 totaled **NIS 91 million**, compared with NIS 59 million in the same period last year and a total of NIS 358 million in the year 2006.

Income in the reported period includes a net capital gain of NIS 76 million from the sale of the Company's investment in Ogen Yielding Assets Ltd. The income in 2006 includes a gain from the decline in the shareholding percentage in investees of NIS 68 million, due mainly to the public offering of Amot's shares and a net capital gain of NIS 53 million from the sale of the Company's investment in Germany.

Cash flows from continuing operating activities

The cash flows provided to the Group by continuing operating activities totaled **NIS 20 million** in the reported period, compared with **NIS 34 million** in the same period last year and **NIS 180 million** in the year 2006.

Credit rating

The Company's debentures are rated by Ma'alot Israel Securities Rating Company Ltd. ("Ma'alot") at (AA-). Midroog Ltd. ("Midroog") has given the Company a credit rating of Aa3.

Both Ma'alot and Midroog have informed the Company that these ratings will remain in effect for offerings of up to NIS 600 million in debentures, pursuant to the shelf prospectus published by the Company in November 2006 and through the expansion of existing debenture series in circulation (out of this framework, NIS 500 million was issued in February 2007).

Real estate investments in Israel

A. Amot Investments Ltd. ("Amot")

On the signature date of this Report, the Company holds 78.4% of Amot's capital. Amot is engaged, directly and indirectly through corporations it controls, in the rental, management and maintenance of revenue-producing properties in Israel and overseas, as well as in the initiation and development of real estate it owns, for its own use. Amot owns, directly and indirectly, revenue-producing real estate that includes offices, commercial centers, supermarkets, central bus stations, industrial parks and industrial buildings.

The Company announced that the Group's revenue-producing real estate activities in Israel will be carried out through Amot.

Amot's properties in Israel number 86, spanning 343 thousand square meters. The average occupancy rate is 94%. Some of the properties are wholly-owned by Amot, and some are owned jointly with other parties. These properties are spread throughout Israel. Most of Amot's properties are located in the largest cities and areas of high demand, and are rented to stable tenants in intermediate and long-term contracts.

Additionally, Amot has rights in three properties in Canada with area of 80 thousand square meters (refer to "Group's activities in Canada", Par. B. below).

Presented below is information on the NOI (net operating income) (income from the rental and operation of properties, after deducting depreciation and amortization) of Amot in Israel and overseas:

The Company's management believes that NOI is one of the important parameters in valuing revenue-producing real estate. The result of dividing this data by the discount rate prevailing in the geographic region in which the property is located ("cap rate") constitutes one of the indications for determining the value of the property (beyond other indications, such as: market value of similar properties in the same area, sales price per square meter of built area deriving from the latest transactions effected, etc.).

In addition, NOI is used to measure the free cash flow available to service the financial debt taken to finance the asset's purchase, when NOI has been reduced by investments in renovations and maintaining what exists (Capex). It is emphasized that NOI:

- A. Does not represent cash flows from operating activities according to GAAP.
- B. Does not reflect cash available to finance all of the Group's cash flows, including its ability to distribute monies.
- C. Should not be considered a substitute for net income for the purpose of assessing the Group's operating results.

NOI (in NIS thousands)						
	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Year
	2007	2006	2006	2006	2006	2006
Israel – existing properties as of 31/12/2005	45,202	44,334	43,174	42,458	40,910	170,876
Properties purchased in 2006	3,792	3,592	3,519	1,396	-	8,507
Properties purchased in 2007	<u>587</u>	-	-	-	-	-
NOI – Israel	49,578	47,926	46,693	43,854	40,910	179,383
NOI – Canada⁽¹⁾	<u>11,544</u>	<u>10,278</u>	<u>13,219</u>	<u>13,623</u>	<u>13,506</u>	<u>50,626</u>
NOI – total	<u>61,122</u>	<u>58,204</u>	<u>59,912</u>	<u>57,477</u>	<u>54,416</u>	<u>230,009</u>

(1) Includes an annual grant from the Montreal Municipality of CAD 1.3 million (NIS 4.8 million) which ends in February 2008.

At the end of March, Amot's acquisition of Beit Europa Israel (formerly Beit IBM) in Tel Aviv closed. The building contains 20 floors of offices encompassing 29 thousand square meters, of which 19 thousand sq.m. are used as offices, 1 thousand sq.m. are used for trade and 9 thousand sq.m. are used for storage and parking. The total acquisition cost was NIS 355 million. To the best of Amot's knowledge, the building's NOI for the year 2007 is expected to reach NIS 21 million.

Proximate to the report publication date, Amot published a shelf prospectus for the issuance of various securities. The issuance of securities pursuant to the shelf prospectus is contingent on factors including the condition of the capital market.

B. Ogen Yielding Assets Ltd. ("Ogen")

On March 15, 2007, the Company sold its holdings in Ogen (43.7%) for NIS 252 million. As a result of the sale, the Company recorded a capital gain (pre-tax) in the report period of NIS 109 million.

Group's Switzerland activities

The Company's board of directors approved a plan for the purchase of up to CHF 600 million of shares of PSP, whose shares are traded on the Zurich stock exchange. As of the report publication date, CHF 431 million of shares was invested.

The Group's total investments in the shares of PSP as of the balance sheet date totaled CHF 494 million (NIS 1.68 billion), and is stated at the price of these securities as quoted on the Swiss stock exchange as of the balance sheet date. The investment cost as of such date totaled CHF 431 million (NIS 1.47 billion).

PSP is the largest public revenue-producing real estate company in Switzerland, and is rated according to its size as the eighth largest in Europe according to the EPRA index, which rates the public revenue-producing real estate companies in Continental Europe. As of this report date, the market value of PSP is CHF 3.3 billion (NIS 11 billion). PSP's shareholders' equity, according to its December 31, 2006 financial statements, is CHF 2.5 billion (NIS 8.8 billion).

In the reported period, the Group invested CHF 114 million (NIS 391 million), so that proximate to the report publication date, the Group holds 14.8% of PSP's capital.

As of the report date, according to PSP's information as reported to the stock exchange in Switzerland, the Group is the largest shareholder and sole interested party in PSP. On April 4th, Mr. Natan Hetz (the Company's President) was appointed a director in PSP for a 3-year term. The PSP board of directors has eight members, of which the Company has one representative.

The Group signed an agreement with CitiGroup regarding receipt of a credit facility totaling CHF 350 million (NIS 1.2 billion). The credit will be secured by a lien on the shares of PSP to be owned by the Group (non-recourse). The credit facility is for a three-year period with the possibility of an extension for another two years with the consent of the parties. Until the balance sheet date, loans were provided on account of the facility of CHF 260 million.

A general meeting of PSP shareholders approved the distribution of a dividend for year 2006 of CHF 2.2 per share, payable at the end of June 2007. The Company's share in the dividend is CHF 14.7 million (NIS 50 million).

PSP has 200 employees, specializes in revenue-producing real estate in the Swiss market, and based on its financial statements as of December 31, 2006, owns 204 revenue-producing properties valued at CHF 4.5 billion (NIS 16 billion), spanning total area for rental of 1.1 million square meters, of which 65% is used for offices, 19% for commercial use, and the balance for other uses. Additionally, PSP manages properties for third parties (mainly institutions) totaling CHF 8 billion (NIS 29 billion). PSP's debentures have been given the international rating of A- by the Fitch rating agency (the same credit rating as the State of Israel).

Group's activities in Canada

A. As of the balance sheet date, the Group holds 11 million shares of FCR, which, as of such date, represented 14.6% of the share capital of FCR and 18.6 million par value of (convertible) debentures of FCR.

In the report period, the Group purchased 0.1 million shares and 0.1 million par value of debentures at a total cost of CAD 3.5 million (NIS 13 million).

FCR is a Canadian public company, whose shares are listed for trading on the Toronto stock exchange. As of the balance sheet date, FCR is 53.7%-held by the Gazit-Globe Group. FCR is engaged in the acquisition, development and management of neighborhood and community shopping centers, mainly supermarket-anchored, in Canada. Immediately before the signing of this Report, FCR owned 151 commercial centers and 13.9 million shares of EQY, representing 18.9% of the share capital of EQY.

The Group's investment in the shares and debentures of FCR as of the balance sheet date totaled CAD 322 million (NIS 1.2 million), and is stated according to the prices of these securities, as quoted on the Toronto Stock Exchange as of the balance sheet date. The investment cost at such date totaled CAD 191 million (NIS 688 million).

During the reported period, the Group received dividend income from FCR of CAD 3.4 million (NIS 12.3 million). Additionally, the Group recorded interest income on debentures of CAD 0.3 million (NIS 1 million). Based on the Group's holdings in the securities of FCR proximate to the signing date of this Report, and relying on FCR's announcement on the annual dividend it intends to distribute in 2007, the Company expects its dividend and interest income from FCR to total CAD 14.9 million (NIS 53 million) in 2006.

- B.** The Group, through Amot, owns 50% of an office building in Montreal, Canada, with total area of 49 thousand square meters, which is rented to a single tenant (95% of the space) for a 20-year period. Additionally, the Group, through Amot, owns 2 logistics centers spanning 55 thousand square meters, which are rented to a single tenant. The balance of the properties in the Group's books of account totals CAD 148 million (NIS 532 million). The business strategy of Amot is based on expanding its operations in the revenue-producing real estate segment in Israel. Unless decided otherwise, Amot will refrain from making additional investments overseas. At the same time, Amot is evaluating the possibility of selling the properties it owns in Canada. On May 18th, subsequent to the balance sheet date, Amot signed an agreement to sell the 2 logistics centers for CAD 52 million. The agreement is contingent on the completion of due diligence testing to the satisfaction of the buyer, which will last for 30 days (in this period, the buyer is permitted to withdraw from the undertaking. If and when the transaction closes, the Group is expected to record a post-tax capital gain of NIS 4 million.

Group activities in the U.S.

As of the balance sheet date, the Group holds 5.1 million shares of EQY, representing 6.9% of the capital of EQY.

The Group's total investment in EQY as of the balance sheet date reached \$136 million (NIS 561 million), and is stated according to the price of EQY's share as quoted on the New York Stock Exchange as of the balance sheet date. The investment cost as of such date totaled \$62 million (NIS 259 million).

EQY is a real estate investment trust (REIT) listed for trading on the New York Stock Exchange. As of the balance sheet date, EQY was 42%-held, directly and indirectly, by the Gazit-Globe (1982) Ltd. ("Gazit-Globe"). EQY is managed independently and operates in urban areas in the Southeast U.S., mainly in Florida, Georgia and Massachusetts. EQY acquires, develops and manages supermarket-anchored neighborhood and community commercial centers.

Presently, EQY owns 166 commercial centers with GLA of 1.7 million square meters.

During the reported period, the Group received dividend income from EQY of \$1.5 million (NIS 6.1 million). Relying on the announcement by EQY regarding the quarterly dividend it intends to distribute in 2007, and based on the number of shares currently held by the Group, the Company expects the dividend income from EQY to total \$6.1 million in 2007.

Group's activities in the UK

The Group entered into an agreement in early March 2006, together with other parties, to establish a real estate opportunity fund in the UK, named Brockton Capital ("the Fund"). The Fund is engaged in investments in revenue-producing real estate and real estate for development, initiation and improvement in the UK.

Based on the commitment letters received from the investors, the amount of capital raised by the Fund will reach £135 million. The Group's total investment commitment in the Fund is £34 million. The investments in the Fund will be made "on demand", as is the accepted practice, and will be spread over several years. Additionally, the Group holds 12% of the rights in the management company that is the Fund's general manager, including representation in its board of directors and investment committee.

In 2006 and until the balance sheet date, the Group invested £10 million in the Fund.

Group's activities in India

The Group holds 40% of the Enabler Property Group ("Enabler"), a company registered in Mauritius. Enabler will be engaged in identifying commercial and residential real estate investments in India. Among the types of projects planned for investment are: establishment of residential neighborhoods, construction of industrial parks, commercial centers and logistics centers. The shareholders' equity of Enabler is intended to reach \$100 million, of which the Group's commitment to invest in equity is \$40 million. These investments are to be made jointly with Indian entrepreneurs with proven experience in these types of investments in India.

Shareholders' equity and capital market mobilizations

Presented below is the capital raised by the Company during the reported period to its shareholders' equity:

1. Exercise of options for shares totaling NIS 112 million.
2. Increase in the Company's shareholders' equity of NIS 33 million resulting from the conversion of debentures to shares.

Operating results

Presented below is a table summarizing business results (in NIS thousands):

	<u>Quarter 1</u>	<u>Quarter 1</u>	<u>Annual</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
<u>Revenues and income</u>			
Rental and management fees from investment real estate	65,088	61,306	253,750
Fair value adjustment of investment real estate	47,884	56,554	232,162
Gains on realization and adjustment to fair value of long-term securities	(532)	46,007	71,140
Dividend income from investments in securities available for sale	18,738	19,794	125,035
Gain from decrease in shareholding percentage and sale of investees and other companies	109,111	-	127,126
Group's equity in earnings of affiliates and others, net	<u>7,376</u>	<u>934</u>	<u>41,202</u>
	<u>247,665</u>	<u>184,595</u>	<u>850,415</u>
<u>Expenses</u>			
Operation of buildings	5,443	4,762	25,588
General and administrative	8,950	6,901	31,030
Charitable contributions	680	885	4,661
Fair value adjustment of CPI-linked options and conversion options of debentures	36,139	34,689	106,684
Financing income	(10,119)	(6,740)	(12,252)
Financing expenses	<u>54,831</u>	<u>47,913</u>	<u>183,429</u>
	<u>95,924</u>	<u>88,410</u>	<u>338,840</u>
Income before taxes on income	<u>151,741</u>	<u>96,185</u>	<u>511,575</u>
Taxes on income	<u>48,663</u>	<u>36,776</u>	<u>111,171</u>
Income from continuing operations after taxes on income	<u>103,078</u>	<u>59,409</u>	<u>400,404</u>
Income from discontinued operations, net (Britain segment)*	<u>-</u>	<u>-</u>	<u>10,700</u>
<u>Net income for the period</u>	<u>103,078</u>	<u>59,409</u>	<u>411,104</u>
Distribution of income for the period:			
Interest of majority shareholders in net income for the period	90,874	58,854	358,263
Interest of minority shareholders in net income for the period	<u>12,204</u>	<u>555</u>	<u>52,841</u>
	<u>103,078</u>	<u>59,409</u>	<u>411,104</u>

Fair value adjustment of revenue-producing real estate – In the current period, totaled NIS 48 million, compared with NIS 57 million in the same quarter last year and a total of NIS 232 million in the whole year 2006. The adjustment in the current period is due to the decrease in the cap rate for several properties and to the increase in NOI in some of the properties.

Dividend income from the investment in securities available for sale – The decrease in the current period compared with the same period last year is due to the decrease in the exchange rates of the U.S. dollar and the Canadian dollar. The income for 2006 includes a special dividend paid by EQY of NIS 23 million and a dividend of NIS 20 million received from PSP in mid-2006.

Gains from decline in shareholding percentage and sale of investees and other companies – In the reported period, is due to the sale of the Company's holdings in Ogen Yielding Assets Ltd. In 2006, includes a NIS 68 million gain from the decrease in the shareholding percentage in Amot, due to the issuance of its shares to the public and a gain of NIS 70 million from the sale of the investment in Germany.

Charitable contributions expenses – In 1999, the Company's board of directors adopted a resolution to regularly provide every year up to 1.4% of the Group's income for the purpose of contributing to the community, which are intended mainly for activities of support, education and assistance to youth in crisis.

Fair value adjustments of CPI-linked options and conversion options of debentures – As a result of the transition to International Financial Reporting Standards (IFRS), the Group presents its complex financial instruments at their fair value. Accordingly, the CPI-linked financial instruments (options and the capital element of convertible debentures) are stated as a liability. The revaluation of this liability in the reporting period to fair value is charged to this item in the statement of operations. This expense has no effect on the Group's cash flows.

Financing expenses – The increase in financing expenses in the reported period compared with the same period last year is due mainly to the credit taken by the Group during 2006 and in the reported period, including the issuance of debentures by Amot, receipt of credit from Citibank to finance the investment in PSP, financing received to enlarge investments in FCR and refinancing of the investment in EQY.

Financial position

Liquidity

As of the balance sheet date, the Group has balances of cash, deposits and marketable securities totaling NIS 766 million. The Group also holds a marketable securities portfolio invested for the long-term of NIS 72 million. Most of the marketable securities are invested in non-share investments and are deposited in accounts managed by several portfolio managers.

Cash flows

Cash flows provided by operating activities totaled NIS 39 million in the reported period.

Cash flows used in continuing investing activities

Totaled NIS 450 million in the current period. The sum includes:

	<u>NIS in millions</u>
Investment in rental buildings	381
Investment in PSP Group	392
Investment in long-term securities (Brockton Capital Fund and FCR)	15
Less -	
Proceeds from sale of investment in Ogen	(252)
Proceeds from sale of investment in company (Germany)	(78)
Proceeds from sale of long-term securities and decrease in deposits and marketable securities, net	<u>(8)</u>
	<u>450</u>

Cash flows provided by continuing financing activities

Totaled NIS 715 million in the current period. The sum includes:

	<u>NIS in millions</u>
Issuance of debentures	505
Receipt of long-term loans to finance investments in PSP and FCR	401
Capital raised in the Group	64
Less -	(125)
Dividend payment to Company's shareholders	<u>(130)</u>
Repayment of bank credit, net	<u>715</u>

In the reported period, the balance of cash and cash equivalents increased by NIS 285 million.

Credit facilities

The Group has approved credit facilities from banks in Israel totaling NIS 1.3 billion (of which NIS 400 million is long-term), of which proximate to the report publication date NIS 321 million is planned to be drawn down.

Additionally, the Group has a credit line from CitiGroup for the purchase of PSP shares totaling CHF 350 million, of which proximate to the report publication date, CHF 260 million was planned to be drawn down.

Shareholders' equity

	<u>As of March 31</u>		<u>As of</u>
	<u>2007</u>	<u>2006</u>	<u>December 31</u>
		<u>NIS millions</u>	<u>2006</u>
Shareholders' equity	2,469	1,366	2,320
(Deduct) add minority interest	<u>(278)</u>	<u>137</u>	<u>(278)</u>
Shareholders' equity allocated to majority shareholders	<u>2,190</u>	<u>1,503</u>	<u>2,042</u>
NAV – Net asset value after deferred taxes per share (shareholders' equity allocated to majority shareholders per share) (in NIS)	<u>19.9</u>	<u>16.9</u>	<u>19.8</u>

The major factors causing the increase in shareholders' equity are:

1. Income for the reported period of **NIS 91 million**.
2. Exercise of options for shares of **NIS 112 million**.
3. Increase in capital reserve for financial assets available for sale of **NIS 40 million**.
4. Increase in shareholders' equity of Company of **NIS 33 million** resulting from the conversion of debentures to shares.
5. Reduction in capital due to the dividend paid in the amount of **NIS 125 million**.

Dividend

In accordance with the Company's declared dividend policy, as determined in the past by the Company's Board of Directors, the Board of Directors announced at the beginning of this year that the Company intends to distribute a minimum annual dividend in 2007 of NIS 0.56 per share, to be paid in four quarterly payments. The Board of Directors will be permitted at any time, taking business considerations into account, and in accordance with all laws, to change the amounts to be distributed as a dividend.

In accordance with the aforesaid, the Company paid a dividend in April, for the first quarter of 2007, totaling NIS 15 million, and declared a dividend of NIS 0.14 per share (NIS 15 million) for the second quarter, to be paid shortly.

Critical accounting estimates

The preparation of the financial statements requires the Company's management to use estimates or assessments regarding transactions or matters, of which the final effect on the financial statements cannot be precisely determined when they are prepared. The main basis for determining the quantitative value of such estimates is assumptions that the Company's management decides to adopt, considering the circumstances involved in the estimate, as well as the best possible information it has when prepared. By their very nature, since these estimates and assessments are the result of using one's judgment in an environment of uncertainty, there are occasionally very significant changes in the basic assumptions resulting from changes that are not necessarily dependent on the Company's management, such as additional future information that the Company did not have when it made the estimate, could lead to changes in the quantitative value of an estimate, and therefore, also affect the financial position and operating results of the Company. Therefore, even though estimates or assessments are made using the best of management's judgment, the final quantitative effect of transactions or matters requiring estimates may only become clear when these transactions or matters are concluded. In certain cases, the final outcome involved in the estimate could be significantly different from the quantitative amount that was determined when the estimate was made.

Described below are accounting estimates having potential for especially significant influence, which the Company is required to make when preparing its consolidated financial statements:

Fair value changes of revenue-producing real estate – The Group determines the fair value of revenue-producing real estate in accordance with the provisions of International Standard No. 40. In determining the fair value, the Company's management relied on the valuations of two independent appraisers. Taken into account when determining fair value were factors including the discount rate used to discount future cash flows, the length of the rental period, financial strength of tenants, amount of vacant space in the property, the length of the rental contracts and the time period required to rent the buildings after they are vacated, the period and volume of vacancy of the properties, the adjustment of rental fees in properties that are over-rented or under-rented, implications of investments that will be required to develop and/or maintain what exists, and the deduction of uncovered operating costs in the event that properties are managed by management companies at a deficit.

Changes in the assumptions used by these independent experts, combined with changes in the assessments of the Company's management, based on the experience it has gained, could lead to changes in the amount of the provision estimated in the past, and thereby influence the financial position and operating results of the Company.

Information on exposure to and management of market risks

1. The official responsible for management of risks in the Company: The Company's President. For information about him, refer to the Reporting pursuant to Regulation 26 in the Periodic Report for the year 2006.

2. Market risks to which the corporation is exposed

A. Amot, which is engaged in the revenue-producing real estate market in Israel, is exposed to risks including: a decline in demand for rental space, falling rental prices, an increase in the cost of raising capital and the financial strength of major tenants.

B. Some of the Group's continuing operations are carried out through holdings in the shares of companies that own revenue-producing real estate in Switzerland, Canada and the U.S. Consequently, changes in interest rates, exchange rates and demand for real estate in these countries could have a material effect on the Group's business results. Moreover, volatility in the stock markets in which the shares of those companies are traded could impact the ability to realize them and affect their value in the future, if and when the Group will want to sell these investments. As of the publication date of the financial statements, the Group has significant surplus value between the prices of the securities on the relevant stock exchanges and the investment cost in the Group's balance sheet in two investments (in the U.S. and in Canada).

C. The Group is dependent on all that relates to activity in the capital market in which the Group raises capital and debt. This activity is subject to volatility due to the effect of economic factors in Israel and overseas, over which the Group has no influence. This volatility impacts the prices of securities traded on the stock exchange as well as the volume of the public's trading in the capital market. Hence, this volatility will also affect the Group and the possibilities that will be available to raise additional financing, and indirectly, to acquire additional properties.

D. The Group has CPI-linked shekel sources (mainly debentures). Consequently, the Group is exposed to changes in the rate of increase in the CPI.

E. The Group is exposed to changes in short-term and long-term interest rates in the international markets in which the Group operates. Below are the balances of long-term loans taken at **variable interest**:

	<u>Dollar</u>	<u>Canadian dollar</u>	<u>Swiss francs</u>
		<u>NIS thousands</u>	
Balance as of balance sheet date	<u>225,723</u>	<u>423,879</u>	<u>885,846</u>

F. Below are data on the surplus of foreign-currency denominated assets over liabilities in the consolidated balance sheet as of March 31, 2007:

<u>Balance sheet balances in foreign currency</u>	<u>Dollar</u>	<u>Canadian dollar</u>	<u>Swiss franc</u>	<u>European currencies</u> ⁽¹⁾
		<u>In NIS thousands</u>		
Non-monetary assets, net	25,483	531,568	-	-
Surplus monetary assets, net, as provided in Appendix A, Par. 1	383,652	516,607	791,481	96,308
Net liabilities allocated to discontinued operations	-	-	-	(6,271)
Surplus foreign-currency assets over liabilities in	<u>409,135</u>	<u>1,048,175</u>	<u>791,481</u>	<u>90,037</u>

(1) Pound sterling and euro.

The Group's surplus assets over liabilities in foreign currency, as aforesaid, reaches NIS 2,339 million, representing 95% of the Group's equity. The effect of changes in exchange rates from the balance sheet date to the report publication date would lead to a reduction in capital (in capital reserves) of NIS 30 million.

G. The Group has marketable securities, the value of which is affected by fluctuations in security prices.

H. Fair value of financial instruments

The Group's financial instruments include mainly cash and cash equivalents, deposits, marketable securities, trade receivables, other receivables, long-term investments in marketable securities, short-term bank credit, payables and credit balances and long-term financial liabilities.

The table below provides sensitivity tests of the value of loans bearing fixed interest, according to the changes in fixed interest (in NIS thousands):

<u>Sensitive instruments</u>	<u>Gain (loss) from changes</u>		Fair value as of 31.3.07 (*)	<u>Gain (loss) from changes</u>	
	<u>Increase in fixed interest rate</u>			<u>Decrease in fixed interest rate</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
Loans in CAD	1,773	891	123,256	(900)	(1,808)
Debentures in CAD	2,535	1,276	136,258	(1,292)	(2,601)
CPI-linked loans	4,430	2,234	228,015	(2,271)	(4,582)
CPI-linked debentures	4,769	2,413	142,519	(2,469)	(4,997)

(*) Fair value amount does not represent the balance in the financial statements.

The table below provides sensitivity of the value of assets and liabilities denominated in foreign currency, to changes in exchange rates (in NIS thousands):

<u>Sensitive instruments</u>	<u>Gain (loss) from changes</u>		Fair value as of 31.3.07 (*)	<u>Gain (loss) from changes</u>	
	<u>Increase in exchange rates</u>			<u>Decrease in exchange rates</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
<u>Assets -</u>					
Long-term marketable securities in Swiss franc	168,260	84,130	1,682,601	(84,130)	(168,260)
Long-term marketable securities in Canadian dollar	115,843	57,921	1,158,429	(57,921)	(115,843)
Long-term marketable securities in US dollar	60,183	30,092	601,832	(30,092)	(60,183)
Income receivable in CAD	846	423	8,457	(423)	(846)
<u>Liabilities -</u>					
Loans in dollar	22,572	11,286	225,724	(11,286)	(22,572)
Loans in Canadian dollar	53,713	26,857	537,135	(26,857)	(53,713)
Debenture in CAD	13,626	6,813	136,258	(6,813)	(13,626)
Loans in Swiss franc	88,585	44,292	885,846	(44,292)	(88,585)

(*) Fair value amount does not represent the balance in the financial statements.

The table below provides sensitivity testing of the value of marketable debentures and options issued by the Group (in NIS thousands):

<u>Sensitive instruments</u>	<u>Gain (loss) from changes</u>		Fair value as of	<u>Gain (loss) from changes</u>	
	<u>Increase in exchange rates</u>			<u>Decrease in exchange rates</u>	
	<u>+10%</u>	<u>+5%</u>		<u>-5%</u>	<u>-10%</u>
Marketable debentures and options issued by the Group	<u>227,491</u>	<u>113,746</u>	<u>31.3.07 (*)</u> <u>2,274,912</u>	<u>(113,746)</u>	<u>(227,491)</u>

(*) Fair value amount does not represent the balance in the financial statements.

3. Corporation's market risks management policy

- A. It is the Group's practice to finance its overseas investments in each country in the investment currency, except for the equity that was and is invested in overseas investments and financed by CPI-linked sources.
- B. It is the Company's practice to occasionally execute forward, swap and swaption transactions, mainly for hedging the interest rates and exchange rates of the currencies relevant for the Company's activities, according to developments in international markets and management decisions. Most of the trading is to prevent economic exposure.
- C. The Company's policy with respect to derivative transactions is to only trade opposite banks, which are required to meet minimum capital requirements and maintain a level of collateral.
- D. During the reported period, there were no changes in the market risks management policy of the Group. Regarding hedging transactions to reduce exposure to increases in the CPI in Israel, see Par. 2 in Appendix A below.

4. Means of monitoring and realizing policies

The Company's President regularly monitors developments in the relevant markets. The Company's Board of Directors prescribed that the Company's President will report regularly to the Chairman of the Board regarding the degree of existing exposure. In the event of exceptional developments in the currency and interest markets, they evaluate the data, and occasionally make decisions to trade in the derivatives market, in order to hedge the interest and exchange rate differential risks.

The Company's Board of Directors did not prescribe quantitative limits, and it receives reports once a quarter on developments in this area, if any.

5. Linkage basis statement

Linkage basis balance sheet – see Appendix A to the Report of the Board of Directors, Par. 1.

6. Positions in derivatives

See Appendix A to the Report of the Board of Directors, Par. 2.

The Company's Board of Directors thanks the holders of the Company's securities for the confidence they have expressed in the Company.

Aviram Wertheim
Chairman of the Board of Directors

Natan Hetz
Director and President

Appendix A – Report of the Board of Directors on the Corporation's State of Affairs of the Corporation

1. Linkage basis balance sheet for monetary balances as of 31.3.2007 (in NIS thousands)

	<u>Dollar</u>	<u>Canadian dollar</u>	<u>Swiss franc</u>	<u>Pound sterling and euro ⁽¹⁾</u>	<u>CPI-linked</u>	<u>Unlinked</u>	<u>Adjustments</u>	<u>Total</u>
<u>Current assets</u>								
Cash and cash equivalents	6,447	19,079	3,335	15,903	-	697,721	-	742,485
Deposits and marketable securities	2,344	5,702	-	-	-	15,305	-	23,352
Accounts receivable and debit balances	-	<u>18,176</u>	-	<u>4,747</u>	<u>241</u>	<u>22,015</u>	<u>4,520</u>	<u>49,699</u>
	8,791	42,957	3,335	20,650	241	735,042	4,520	815,536
<u>Marketable securities available for sale or intended for fair value</u>								
	601,832	1,158,429	1,682,601	85,928		20,135		3,548,925
<u>Other investments</u>								
	-	<u>16,966</u>	-	<u>1,454</u>	<u>520</u>	<u>253</u>	-	<u>19,193</u>
Total monetary assets	<u>610,623</u>	<u>1,218,352</u>	<u>1,685,936</u>	<u>108,032</u>	<u>761</u>	<u>755,430</u>	<u>4,520</u>	<u>4,383,654</u>
<u>Current liabilities</u>								
Short-term credit	1,353	27,947	-	-	138,986	102,292	-	270,578
Accounts payable and credit balances	<u>851</u>	<u>27,007</u>	<u>8,609</u>	<u>11,724</u>	<u>128,506</u>	<u>27,658</u>	<u>13,291</u>	<u>217,646</u>
	<u>2,204</u>	<u>54,954</u>	<u>8,609</u>	<u>11,724</u>	<u>267,492</u>	<u>129,950</u>	<u>13,291</u>	<u>488,224</u>
<u>Long-term liabilities</u>								
Convertible debentures	-	-	-	-	18,437	-	-	18,437
Debentures	-	121,095	-	-	2,218,433	-	-	2,339,527
Bank loans	224,767	525,696	885,846	-	187,659	-	-	1,823,968
Receipts on account of options	-	-	-	-	156,624	-	-	156,624
Deferred taxes and other	-	-	-	-	<u>22,903</u>	<u>676</u>	<u>471,917</u>	<u>495,496</u>
	<u>224,767</u>	<u>646,791</u>	<u>885,846</u>	<u>-</u>	<u>2,604,055</u>	<u>676</u>	<u>471,917</u>	<u>4,834,052</u>
Total monetary liabilities	<u>226,971</u>	<u>701,745</u>	<u>894,455</u>	<u>11,724</u>	<u>2,871,547</u>	<u>130,626</u>	<u>485,208</u>	<u>5,322,276</u>
Surplus monetary liabilities over monetary assets	<u>(383,652)</u>	<u>(516,607)</u>	<u>(791,481)</u>	<u>(96,308)</u>	<u>2,870,786</u>	<u>(624,804)</u>	<u>480,688</u>	<u>938,622</u>

(1) Balance of NIS 70 thousand in cash and cash equivalents, a total of NIS 4,747 thousand in receivables and debit balances and NIS 8,907 thousand and a balance of NIS 8,907 thousand are in euro.

2. Positions in derivatives

Below is a description of the positions in derivatives as of the balance sheet date:

- A. For hedging purposes and to reduce the Group's exposure to future changes in the rate of increase of the CPI in Israel, the Company executed two transactions in September, for a period of approximately two years each. The total of the transactions amounts to NIS 150 million. The transactions essentially fix the rate of increase in the CPI for liabilities in the above amount to a weighted rate of 3.43% for the entire period. In the reported period, the Company recorded a loss of NIS 301 thousand on these transactions.

- B. For hedging purposes and to reduce the Group's exposure to future changes in the rate of increase of the CPI in Israel, the Company executed three transactions in October, for a period of approximately two years each. The total of the transactions amounts to NIS 250 million. The transactions essentially fix the rate of increase in the CPI for liabilities in the above amount to a weighted rate of 3.31% for the entire period. In the reported period, the Company recorded a loss of NIS 539 thousand on these transactions.
- C. For hedging purposes and to reduce the Group's exposure to future changes in the rate of increase of the CPI in Israel, the subsidiary executed two transactions, for a period of approximately two years each. The total of the transactions amounts to NIS 150 million. The transactions essentially fix the rate of increase in the CPI for liabilities in the above amount, to a weighted rate of 3.19% for the entire period. In the reported period, the Group recorded a loss of NIS 1,055 thousand on these transactions.