Directors' Report to Shareholders| For the year ended December 31, 2004

The Board of Directors of Gazit-Globe Ltd.* (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended December 31, 2004:

1. A. General

The Company – directly and through subsidiaries (hereinafter – "the Group") – is engaged in the acquisition, development, and management of properties in the USA, Canada, and Israel, and also, through an associated company, in Finland. The Group focuses mainly on supermarket-anchored shopping centers. In addition, the Group is active in the senior living sector in the USA and Israel, and also continues to look for opportunities through the acquisition of properties and/or the acquisition of companies engaged in its business or in synergetic businesses, both in regions where it operates and also in other regions.

B. Growth Strategy in a Stable Business

The main characteristics of the Company's business policy are as follows:
- Investment in economically and politically stable counties.
- Investment in properties, primarily supermarket-anchored shopping centers, which are considered "recession-resistant" relative to most other asset classes.
- Operating in growing metropolitan areas, characterized by high barriers to entry for competition.
- Operating through local subsidiaries with experienced local personnel.
- Proactive management motivated by the desire to create value.
- Growth through the acquisition, development and redevelopment of commercial properties.
- Taking advantage of opportunities to merge and acquire mainly with companies operating in the Company's asset class and/or in synergetic businesses.

C. The Group's Properties

As of the date of the financial statements, the Group owns 306 properties with a Gross Leasable Area ("G.L.A.") of approximately 3.1 million square meters. These properties comprise 287 operational shopping centers, 10 shopping centers under development, 8 senior living facilities (which comprise approximately 1,300 residential units in Israel and the USA) and an office building in Tel-Aviv. In addition, the Group is a partner in a joint venture, which owns land for future development. These properties have a book value of NIS 15.6 billion and generate annual rental income of NIS 2 billion (gross annual rent calculated for the properties currently owned at the exchange rate on the date of the financial statements). In addition, as of the date of the financial statements, the Company is the largest shareholder (39%) of the Finnish public company, Citycon Oyj. (Hereinafter – "Citycon"), whose shares are listed on the Helsinki Stock Exchange (HEX: CTY1S).

In the USA, the Group operates mainly through Equity One Inc. ("EQY"), a public company listed on the NYSE (NYSE:EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and indirectly (including through FCR as described below), 40% of EQY. EQY is an owner, developer and operator of neighborhood shopping centers anchored by national and regional supermarket chains and other necessity-oriented retailers, such as drug stores or discount retail stores, located primarily in growing metropolitan areas in the southern United States (mainly in the states of Florida, Texas and Georgia) and in the Boston, Massachusetts metropolitan area. EQY owns 183 operating shopping centers, with a G.L.A. of 1.8 million square meters, 6 shopping centers under development, and a partnership, which owns land for future development.
In addition, the Group - through Royal Senior Care ("RSC"), in which it owns 50% interest - is active in the US senior living sector. RSC owns 5 senior living facilities encompassing approximately 500 residential units.

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* The Company's name was changed from Gazit Globe (1982) Ltd. in October 2004.

Operations in Canada are carried out through First Capital Realty Inc. ("FCR"), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the date of the financial statements, the Company holds 55% of FCR. First Capital Realty Inc. is an owner, developer and operator of neighborhood shopping centers anchored by national and regional supermarket chains and other necessity-oriented retailers, such as drug stores or discount retail stores, located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Colombia in Canada. FCR owns 108 properties in Canada (including 4 under development) with a GLA of approximately 1.2 million square meters. In addition FCR owns 12.7 million shares of EQY.

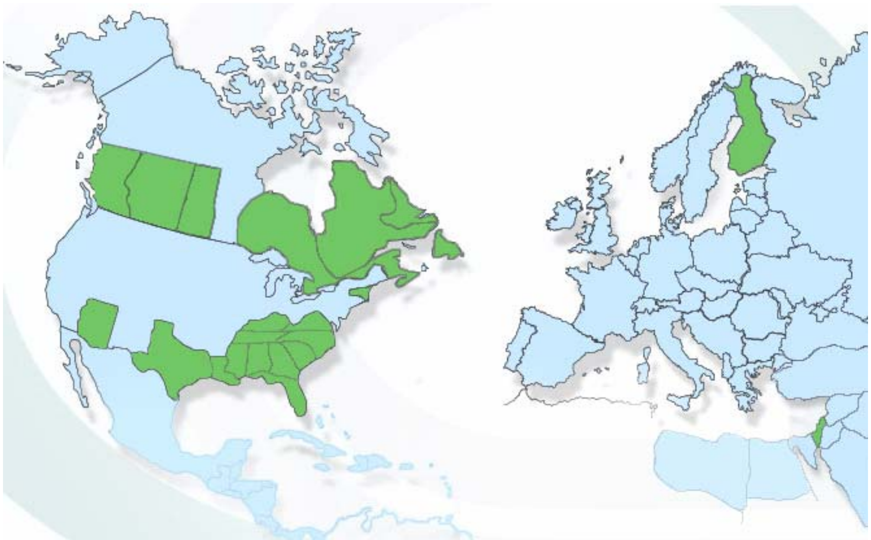
In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (hereinafter – "Mishkenot Clal"). Mishkenot Clal (1982) Ltd. – is one of Israel's leading senior housing companies, focused on the acquisition, development and management of senior living facilities throughout Israel for more than 20 years. Mishkenot, together with its partners, owns and operates 3 senior living facilities with 800 independent living units
In addition, the company owns an office building in Tel Aviv.

In Finland, the Company owns approximately 39% of Citycon's share capital. As of December 31, 2004, Citycon owns 16 shopping centers and 130 stores, which are let primarily to supermarkets and other retail chains. With a G.L.A. of approximately 500 thousand square meters.

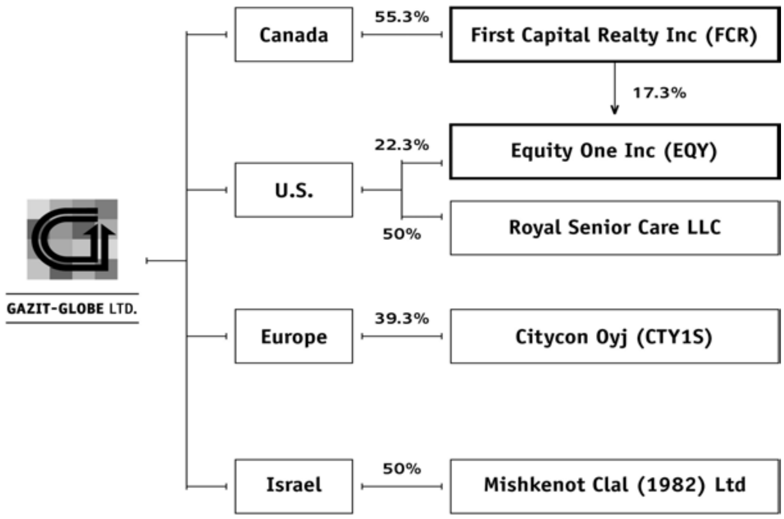
Supplementary data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets and liabilities, etc., can be found on the Company's Internet website – www.gazit-globe.com

and the Internet websites of the group's companies:
www.equityone.net
www.firstcapitalrealty.ca
www.citycon.fi
www.mishkenot-clal.co.il

The Regions (Marked) Where the Company Operates are Shown on the Following Map:



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



E. <u>The Company's Holdings</u>

The following table presents a summary of the Company's holdings as of December 31, 2004, as shown above:

Name of investee company	Type of security	Quantity (millions)	Holding percentage	Book value (NIS in millions)	Market value as of December 31, 2004 (NIS in millions)	Market value as of the date of the financial, statements (NIS in millions)
EQY[1]	Shares	16.4	22.3%	951	1,678	1,486
FCR	Shares	29.3	56.8%	1,386	1,979	2,088
FCR	Convertible debentures	125.3	47.9%	394	460	461
Citycon	Shares	44.1	39.3%	532	632	674
Investments in other companies (non-listed) and other assets[2]	-	-	-	176	[3]176	[3]176
Total				**3,439**	**4,925**	**4,885**

The Company's net liabilities [4] (including those of its wholly owned subsidiaries) amounted to NIS 2,137 million as of December 31, 2004.

As of December 31, 2004, the Company's issued share capital comprises 84.261 million shares (not including dormant shares held by the Company).

(1) Represents the Company's direct holding in EQY. (In adddition, FCR holds 12.7% in EQY).
(2) Mainly represents the Company's holdings in Mishenot Clal, Royal Senior Care and the office building in Tel-Aviv.
(3) Represents book value.
(4) Net of financial assets.

F. 2004 - Highlights

- **The Group's investments amounted to NIS 3.5 billion, compared to NIS 5.5 billion in 2003 (including the acquisition of the properties of IRT).**

- **Rental income amounted to NIS 1.9 billion, an increase of 33% compared to 2003. The increase was due to the acquisition of properties, the coming online of properties whose development had been completed, and higher occupancy rates and also higher average rentals per square meter for the Group's properties.**

- **Gross profit amounted to NIS 977 million (52.6% of revenues), compared to NIS 746 million (53.2% of revenues) for 2003, an increase of 31%.**

- **Cash inflows from operating activities amounted to NIS 562 million, compared to NIS 362 million for 2003, an increase of 55%.**

- **F.F.O. (see section 3) for the reporting year amounted to NIS 184 million, NIS 2.03 per share (NIS 2.22 per share after neutralizing the effect of convertible securities), compared to the (pro forma[(1)]) F.F.O. of NIS 126 million, NIS 1.55 per share, for 2003 (NIS 1.65 per share after neutralizing the effect of convertible securities).**

- **The total income of the Group (the income before deducting the minority interest) for the reporting year amounted to NIS 408 million, compared to the (pro forma[(1)]) total income of NIS 234 million for 2003 (the inflation-adjusted total income for 2003 amounted to NIS 346 million).**

- **Net income for the reporting year amounted to NIS 110 million, NIS 1.17 per share, compared to (pro forma[(1)]) net income of NIS 70 million, NIS 0.84 per share, for 2003 (the inflation-adjusted net income for 2003 amounted to NIS 136.6 million).**

- **The Company, EQY and FCR raised NIS 585 million in share capital from the public during the reporting year, compared to NIS 1,144 million during 2003. As a result of the fundraising activities of EQY and FCR, the Company recorded a net gain in the reporting year of NIS 30, compared to a net gain of NIS 37.5 million in 2003.**

- **The ratio of debt to assets value (extrapolated from the market value of the Group's shares) stood at 58% as of December 31, 2004, the same as the ratio as of December 31, 2003.**

(1) Assuming implementation of Israel Accounting Standards No. 12 and No. 13, as of January 1, 2003.

G. Fourth Quarter 2004 - Highlights

- The Group's investments amounted to NIS 800 million, compared to NIS 700 million in the corresponding period last year.

- Rental income amounted to NIS 512 million, an increase of 26% compared to the corresponding period last year. The increase was due to the acquisition of properties, the coming online of properties whose development had been completed, and higher occupancy rates and also higher average rentals per square meter for the Group's properties.

- Gross profit amounted to NIS 263 million (51.4% of revenues), compared to NIS 215 million (53.2% of revenues) for the corresponding period last year, an increase of 22%.

- Cash inflows from operating activities amounted to NIS 180 million, compared to NIS 131 million for the corresponding period last year, an increase of 37%.

- F.F.O. (see section 3) amounted to NIS 66 million, NIS 0.67 per share (NIS 0.78 per share after neutralizing the effect of convertible securities), compared to the (pro forma[(1)]) F.F.O. of NIS 36 million, NIS 0.43 per share (NIS 0.46 per share after neutralizing the effect of convertible securities), for the corresponding period last year.

- Net income amounted to NIS 43.1 million, NIS 0.42 per share, compared to (pro forma[(1)]) net income of NIS 12.7 million, NIS 0.14 per share, for the corresponding last year (the inflation-adjusted net income for the corresponding period last year amounted to NIS 11.5 million).

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

As of January 1, 2004, the Company ceased to adjust its financial statements for changes in the purchasing power of currencies in those countries in which the Company operates. This is in accordance with Israel Accounting Standards No. 12 and No. 13 that have come into effect.

The principal effect of the change resulting from the aforementioned accounting standards is in the manner of presenting the financing expenses item, which - under the new reporting method - no longer includes the erosion of the Company's loans at the rate of the increase in the Consumer Price Index ("CPI").

As a result of this change, and despite the fact that there have been no alterations to the Company's actual interest payments, the financing expenses reported for the reporting year and the fourth quarter of the year are approximately NIS 220 million higher and NIS 28 million higher, respectively, than the financing expenses that would have been reported for the same year and for the same period had it not been for the change in accounting standards.

The change in reported financing expenses for the reporting year and the fourth quarter of the year, after netting off the effect of minority interests, resulted in a decline in the reported net income of NIS 96 million and NIS 14 million, respectively, compared to the net income that would have been reported under the reporting method, which was the generally accepted accounting practice in Israel until December 31, 2003.

The discontinuation of adjusting the financial statements for the effects of inflation has no effect on the Company's operations, revenues, gross profit, operating profit or cash flows.

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(1) Assuming implementation of Israel Accounting Standards No. 12 and No. 13, as of January 1, 2003.

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

General

During the reporting year, the Group's investments totaled NIS 3.5 billion - NIS 3 billion was invested in the acquisition of new properties and in the redevelopment, expansion and construction of various other properties. The effect of these investments on the operating results will be reflected in full in 2005. Additionally, NIS 0.5 billion was invested in acquiring the holding in Citycon.

A. Property Transactions

1. During the reporting year, EQY, FCR and RSC acquired 41 properties, with a total G.L.A. of approximately 350 thousand square meters, and 16 plots of land for future development. The total consideration for these acquisitions amounted to NIS 2.4 billion.

2. During the reporting year, EQY and FCR invested in excess of NIS 500 million in developing new properties and in the redevelopment of existing properties.

3. During the reporting year, EQY and FCR sold 15 properties (with a total G.L.A. of some 183 thousand square meters), two plots of land and also a partnership in a property. The total proceeds from these sales amounted to NIS 410 million. The net gain recognized by the Company from the sale of these properties amounted to NIS 19.7 million, compared to a net gain of NIS 4.2 million from the sale of properties last year.

4. As of December 31, 2004, the Group had properties being developed and being redeveloped, as well as land for future development, at a cost of NIS 448 million. These properties and land did not generate any rental income during the reporting year.

5. As of the end of 2004, EQY's average basic monthly rental income was US$ 9.1 per square meter. During the year, EQY renewed leases on 74 thousand square meters, while increasing the average monthly base rent on these leases by 4.5% to an average monthly rental of US$ 12.5 per square meter, as well as signing new leases on 153 thousand square meters at an average monthly base rent of US$ 9.5 per square meter. During the year, leases on 98 thousand square meters expired, on which the average monthly rent was US$ 9.6 per square meter. The net cash inflows from the same properties increased by 3.8%, compared to 2003.

   EQY's core properties had an average occupancy rate of 94.9% as of December 31, 2004 (December 31, 2003 – 91.6%).

6. As of the end of 2004, FCR's average monthly base rent income was C$ 11.8 per square meter. During the year, FCR renewed leases on 38 thousand square meters, while increasing the average monthly base rent on these leases by 2.4% to an average monthly rent rental of C$ 14.1 per square meter, as well as signing new leases on 75 thousand square meters at an average monthly base rent of C$ 14.4 per square meter. During the reporting year, leases on 25 thousand square meters expired, on which the average monthly rent rental was C$ 13.1 per square meter. The net cash inflows from the same properties increased by 1.3%, compared to 2003.

   FCR's properties had an average occupancy rate of 94.1% as of December 31, 2004 (December 31, 2003 – 93.1%).

B. **<u>As to the acquisition of Citycon and the issue of Citycon shares – see note 1B 4 to the financial statements</u>**

C. **<u>As to the exercise of option warrants into Company shares - see note 23 D and E to the financial statements</u>**

D. **<u>As to a public offering of shares, the exercise of options into shares, the acquisition of shares from the public and the conversion of convertible debentures into shares in subsidiaries - see note 1B 2G, IB 3B and 32C to the financial statements</u>**

E. **<u>As to debt raised by the Company and subsidiaries – see note 16C, F, G and I to the financial statements</u>**

F. **<u>As to the acquisition of Hatsrot Hadar Ltd. by Mishkenot Clal – see 1B 5 to the financial statements</u>**

G. **<u>Long-Term Investments</u>**

During the reporting year, EQY acquired 1.6 million marketable shares in the property company, Cedar Shopping Centers Inc. ("CDR"), through trades on the New York Stock Exchange, constituting 8.3% of CDR's issued capital. EQY also acquired 220 thousand preferred (Series A) shares in CDR, constituting 9.4% of its issued preferred (Series A) shares. Subsequent to balance sheet date, EQY acquired a further 0.3 million marketable shares in CDR, resulting an aggregate holding of 1.9 million shares, constituting 9.8% of CDR's issued shares.

CDR is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. It owns 31 neighborhood shopping centers with a G.L.A. of approximately 450 thousand square meters. These shopping centers are located in 5 states in the northeastern United States and are mainly supermarket-anchored.

As of December 31, 2004, CDR has a market value of US$ 276 million (NIS 1.2 billion).

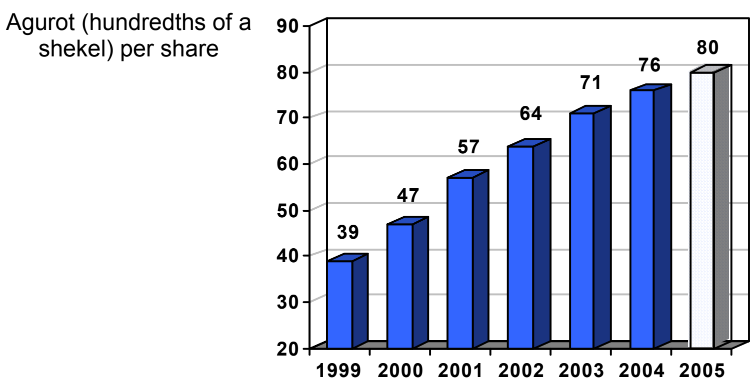
H. **<u>As to the acquisition of EQY Shares from Interested Parties of the Company – see note 32C 8 to the financial statements</u>**

I. **<u>Dividend Distribution Policy</u>**

Pursuant to the Company's dividend policy, the Company announces the anticipated dividend for the subsequent year at the end of each year. The Company has decided that the dividend to be announced in 2005 will be at least NIS 0.20 per share each quarter (NIS 0.80 per share on an annual basis).

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

<u>The Company's dividend growth in the years 1999-2005 is shown in the graph below:</u>



J. **As to the effect of a new accounting standard in the period prior to its implementation – see note 2V**

3. A. **Results of Operations**

	For the year ended December 31		
	2004	2003	2002
	NIS in thousands (other than earnings per share data)		
	Reported(1)	Adjusted(2)	
Rental income	1,858,235	1,401,186	885,431
Rental operating expenses	598,675	457,790	303,097
Depreciation of rental properties	282,176	197,489	113,866
Gross profit	**977,384**	**745,907**	**468,468**
General and administrative expenses	159,392	115,805	80,964
Income from ordinary operations	**817,992**	**630,102**	**387,504**
Financing expenses, net	519,676	300,163	147,203
	298,316	329,939	240,301
Other income, net	129,202	56,492	3,148
Income before taxes on income	427,518	386,431	243,449
Taxes on income	55,029	43,629	17,909
Income after taxes on income	**372,489**	**342,802**	**225,540**
Company's share in profits of associated companies	36,004	3,613	3,252
Minority interest in earnings of subsidiaries	(298,383)	(209,839)	(124,639)
Net income	**110,110**	**136,576**	**104,153**
Net earnings per share	**1.17**	**1.69**	**1.45**
Number of shares used in computing net earnings per share (thousands of shares)	**86,219**	**78,242**	**74,116**

(1) Adjusted to December 2003 shekels.

(2) In accordance with Israel Accounting Standards No. 12 and No. 13, see note 2 to the financial statements.

B. Analysis of Results of Operations for 2004

Rental income

The 33% increase compared to 2003 results from the acquisition of new properties, the coming online of properties whose development had been completed, the acquisition of properties, and higher occupancy rates and also higher average rentals per square meter for the Group's properties.

Rental operating expenses

The increase in rental operating expenses compared to 2003 stems from the increased number of properties, as referred to above. Rental operating expenses as a percentage of rental income fell from 32.7% for 2003 to 32.2%.

Depreciation

The increase in property depreciation expenses compared to 2003 stems from the increased number of properties, as referred to above, as well as from the allocation of certain expenses to properties, with a shorter lifespan, in accordance with the length of the tenants' lease. Depreciation expenses as a percentage of rental income rose from 14.1% for 2003 to 15.2%.

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 123.8 million, representing NIS 1.49 per share; this compares with NIS 97.1 million, representing NIS 1.27 per share, for 2003.

Gross profit

Gross profit amounted to NIS 977 million (52.6% of rental income); this compares to NIS 746 million (53.2% of rental income) for 2003 – an increase of 31%. The reduction in gross profit as a percentage of rental income is attributable to the increase in depreciation expenses as a percentage of rental income, as explained above.

General and administrative expenses

General and administrative expenses represent 8.6% of rental income, compared to 8.3% for 2003. The increase in the general and administrative expenses as a percentage of rental income is mainly attributable to non-recurring expenses of NIS 9 million for evaluating transactions that did not take place. If these expenses are neutralized, the general and administrative expenses represent 8.1% of rental income.

Financing expenses, net

The change in financing expenses stems from the following factors:

1. The financial statements are no longer adjusted for changes in purchasing power ("inflation") in countries in which the Group operates, in accordance with Israel Accounting Standards No. 12 and No. 13, while in 2003 the financial statements were adjusted for the effects of inflation (approximately 1.9% in the USA and approximately 2.0% in Canada). The adjustment for the effects of inflation in 2003 resulted in the financing expenses being NIS 112 million lower than they would have been, had no such adjustment been made.

2. An increase in the Group's loans from an average balance of NIS 6.6 billion in 2003 to an average balance of NIS 9.4 billion in 2004. Interest expenses for 2004 reflect an average nominal interest rate of approximately 5.9% on the Group's indebtedness.

3. The weakening of the U.S. dollar against the shekel by 1.6% generated NIS 3.2 million in financing income from the erosion of the security deposits of Mishkenot Clal's tenants; this compares to the weakening of the U.S. dollar against the shekel in 2003 by 5.7%, which resulted in financing income of NIS 6.7 million due to the erosion of tenants' securities deposits.

4. Financing expenses include the results from transactions in securities, which generated a gain of NIS 20.2 million, compared to a gain of NIS 14.1 million in 2003.

5. The following table presents the percentage changes in the CPI and exchange rates of the U.S. and Canadian dollar and the euro, versus the shekel:

	Consumer Price Index			Exchange Rates		
	Israel	**USA**	**Canada**	**U.S. dollar**	**Canadian dollar**	**Euro**
1-12/2004	1.2	3.3	2.1	(1.6)	5.0	6.2
1-12/2003	(1.9)	1.9	2.0	(7.6)	13.5	11.3
1-12/2002	6.5	2.4	3.9	7.3	8.1	27.2

Other income, net

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

The Group recorded a gain of NIS 32.6 million (the Company's share being NIS 30 million) as a result of the dilution of its holdings in consolidated subsidiaries, compared to a gain of NIS 44.6 million (the Company's share being NIS 37.5 million) in 2003.

In addition, the sale of properties by EQY and FCR produced a total gain for the Group of NIS 81.4 million (the Company's share being NIS 19.7 million), compared to a total gain from the sale of properties of NIS 11.1 million (the Company's share being NIS 4.5 million) in 2003.

The Company's Share in the Profits of Associated Companies

The increase in this item is attributable to the Company's share in the profits of Citycon in the amount of NIS 36 million.

C. **Analysis of Principal Operating Results for 2004, by Quarter:**

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Total 2004
	Reported[1] NIS in thousands (other than earnings per share data)				
Revenues -					
rental Rental income	420,420	456,930	469,081	511,804	1,858,235
Rental operating expenses	135,092	145,305	150,038	168,240	598,675
Depreciation of rental properties	61,986	67,807	72,125	80,258	282,176
Gross profit	**223,342**	**243,818**	**246,918**	**263,306**	**977,384**
General and administrative expenses	35,521	38,012	38,292	47,567	159,392
Income from ordinary operations	**187,821**	**205,806**	**208,626**	**215,739**	**817,992**
Financing expenses, net	121,535	132,718	136,551	128,872	519,676
	66,286	73,088	72,075	86,867	298,316
Other income, net	25,760	1,366	59,770	42,306	129,202
Income before taxes on income	**92,046**	**74,454**	**131,845**	**129,173**	**427,518**
Taxes on income	11,073	13,594	18,112	12,250	55,029
Income after taxes on income	**80,973**	**60,860**	**113,733**	**116,923**	**372,489**
Company's share in profits (losses) of associated companies	(4)	11,680	11,453	12,875	36,004
Minority interest in earnings of subsidiaries	(59,617)	(58,164)	(93,945)	(86,657)	(298,383)
Net income for the period	**21,352**	**14,376**	**31,241**	**43,141**	**110,110**
Net earning per share	**0.27**	**0.16**	**0.37**	**0.42**	**1.17**
Number of shares used in computing net earnings per share (thousands of shares)	**81,011**	**82,636**	**84,250**	**89,310**	**86,219**

(1) In accordance with Israel Accounting Standards No. 12 and No. 13, see note 2 to the financial statements.

D. Analysis of Results of Operations for the Fourth Quarter of 2004

Rental income

The 26% increase compared with the corresponding period last year resulted from the acquisition of new properties, the coming online of properties whose development had been completed, the acquisition of properties during 2003, and higher occupancy rates and also higher average rentals per square meter for the Group's properties. In addition, in the fourth quarter of 2004, the Group recorded revenues from the termination of leases with tenants of NIS 15.6 million, compared to NIS 2.8 million in the corresponding period last year.

Rental operating expenses

The increase in rental operating expenses, compared to the corresponding period last year, stems from the increased number of properties, as referred to above. Rental operating expenses as a percentage of rental income rose to 32.9% from 32.6% for the same period last year. This is due to the relatively greater role played by FCR and RSC in these items, in which the above percentage is greater than that of EQY.

Depreciation

The increase in property depreciation expenses compared to the corresponding period last year stems from the increased number of properties, as referred to above, as well as from the allocation of certain expenses to properties, with a shorter lifespan, in accordance with the length of the tenants' lease.

Depreciation expenses as a percentage of rental income rose from 14.2% for the corresponding period last year to 15.7%. The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 36.3 million, representing NIS 0.43 per share; this compares with NIS 28.1 million, representing NIS 0.36 per share, for the corresponding period last year.

Gross profit

Gross profit amounted to NIS 263 million (51.4% of rental income); this compares to NIS 216 million (53.2% of rental income) for the corresponding period last year – an increase of 22%. The reduction in gross profit as a percentage of rental income is attributable to the increase in depreciation expenses as a percentage of rental income, as explained above.

General and administrative expenses

General and administrative expenses rose for non-recurring reasons to 9.3% of rental income, compared to 7.4% for the corresponding period last year. The increase in the general and administrative expenses as a percentage of rental income for the quarter is attributable to the growth in payroll expenses, which relate to the Company's net income in the fourth quarter of 2004, compared to the corresponding period last year, and additionally to non-recurring expenses of NIS 5.5 million for evaluating transactions that did not take place. If this non-recurring expense is neutralized, the general and administrative expenses represent 8.2% of rental income.

Financing expenses, net

The change in financing expenses stems from the following factors:

1. An increase in the Group's loans from an average balance of NIS 7.5 billion in the fourth quarter of 2003 to an average balance of NIS 10.2 billion in the fourth quarter of 2004. Interest expenses for the quarter reflect an average nominal interest rate of approximately 6% per annum on the Group's indebtedness.

2. The weakening of the U.S. dollar against the shekel by 3.9% generated NIS 7 million in financing income from the erosion of the security deposits of Mishkenot Clal's tenants; this compares to the weakening of the U.S. dollar against the shekel in the corresponding period last year by 1%, which resulted in financing income of NIS 0.9 million due to the erosion of tenants' securities deposits.

3. Transactions in securities generated a gain of NIS 7.8 million, compared to a gain of NIS 6.6 million in the corresponding period last year.

4. The following table presents the percentage changes in the CPI and exchange rates of the U.S. and Canadian dollar and the euro, versus the shekel:

	Consumer Price Index			Exchange Rates		
	Israel	**USA**	**Canada**	**U.S. dollar**	**Canadian dollar**	**Euro**
10-12/2004	0.0%	0.2%	0.4%	(3.9)%	1.5%	6.4%
10-12/2003	(0.4)%	(0.5)%	0.1%	(1.4)%	3.4%	6.7%

Other income, net

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

The Group recorded a net gain of NIS 8 million (the Company's share being NIS 6.9 million) as a result of the dilution of its holdings in consolidated subsidiaries, compared to a gain of NIS 6.4 million (the Company's share being NIS 5 million) in the same period last year.

In addition, the sale of properties by EQY produced a net gain for the Group of NIS 29.5 million (the Company's share being NIS 7.1 million); no properties were sold in the corresponding period last year.

The Company's Share in the Profits of Associated Companies

The increase in the fourth quarter of 2004 is attributable to the Company's share in the profits of Citycon in the amount of NIS 12.9 million.

E. F.F.O.(*) and F.F.O. per share

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

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

In view of Israel Accounting Standards No. 12 and No. 13 that came into effect on January 1, 2004, the Company's financial statements are no longer adjusted for changes in purchasing power in Israel; the new treatment is the accepted practice in the U.S.A. and Canada. The Company is of the opinion that F.F.O. and F.F.O. per share are more accurate reflections 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 a previous period, and for comparing the Company's operating results to those of other property companies.

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

	1-12/2004	1-12/2003	1-12/2002
	NIS in thousands (other than F.F.O. per share data)		
Net income	**110,110**	**(*)70,311**	**(*)6,598**
Adjustments:			
Gains from dilution in holdings of consolidated subsidiaries	**(30,039)**	**(37,450)**	**(3,384)**
Gains from the sale of properties	**(19,710)**	**(4,205)**	**(13,088)**
Total adjustments	**(49,749)**	**(41,655)**	**(16,472)**
Company's share in depreciation and amortization	**123,812**	**97,095**	**69,126**
F.F.O.	**184,173**	**(*)125,751**	**(*)59,252**
F.F.O. per share	**2.03**	**(*)1.55**	**(*)0.85**
F.F.O. per share (without the effect of convertible securities, which are included in the basic EPS computation)	**2.22**	**(*)1.65**	**(*)0.91**

2. The table below presents the computation of the Company's F.F.O. and F.F.O. per share on a quarterly basis:

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Total 2004
	NIS in thousands (other than F.F.O. per share data)				
Net income	**21,352**	**14,376**	**31,241**	**43,141**	**110,110**
Adjustments:					
Gains from dilution in holdings of consolidated subsidiaries	**(14,822)**	**(201)**	**(8,160)**	**(6,856)**	**(30,039)**
Losses (gains) from the sale of properties	**(2,715)**	**703**	**(10,629)**	**(7,069)**	**(19,710)**
Total adjustments	**(17,537)**	**502**	**(18,789)**	**(13,925)**	**(49,749)**
Company's share in depreciation and amortization	**27,201**	**28,072**	**32,209**	**36,330**	**123,812**
F.F.O.	**31,016**	**42,950**	**44,661**	**65,546**	**184,173**
F.F.O. per share	**0.39**	**0.50**	**0.53**	**0.67**	**2.03**
F.F.O. per share (without the effect of convertible securities, which are included in the basic EPS computation)	**0.39**	**0.53**	**0.53**	**0.78**	**2.22**

(*) Pro forma (assuming implementation of Israel Accounting Standards No. 12 and No. 13, as of January 1 of each year)

4. Financial Status

Liquidity

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

As of December 31, 2004, the liquid assets available to the Group, including short-term investments, totaled NIS 109 million, compared to NIS 121 million as of December 31, 2003. In addition, as of December 31, 2004, the Group had unutilized credit facilities available for immediate drawdown of NIS 1,218 million, compared to NIS 1,196 million as of December 31, 2003.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 1.3 billion.

Investments in Associated Companies

Investments in associated companies, as of December 31, 2004, totaled NIS 534 million, compared to NIS 16 million as of December 31, 2003. The increase in this item derives primarily from the acquisition of 44.1 million shares in Citycon, at a net cost of NIS 467 million, to which is added the Company's share in Citycon's profits for the nine months ended December 31, 2004, in a total amount of NIS 38 million.

Long-Term Investments

Long-term investments, as of December 31, 2004, totaled NIS 216 million, compared to NIS 40 million as of December 31, 2003.

The increase in this item derives primarily from the acquisition of shares and preferred shares in CDR by EQY and the acquisition of other marketable shares in the U.S.A. and Canada.

Fixed Assets, Net

Net fixed assets as of December 31, 2004, totaled NIS 14.6 billion, compared to NIS 12.1 billion at the end of 2003.

In the reporting year, the Group acquired properties, developed new properties, redeveloped existing properties, and for the first time consolidated (by the proportionate consolidation method) the properties of Hatsrot Hadar Ltd., at a total cost of NIS 3 billion. Depreciation expenses for the reporting year amounted to NIS 285 million.

Long-Term Liabilities

Long-term liabilities as of December 31, 2004 totaled NIS 9.7 billion, compared to NIS 7.4 billion at the end of 2003.

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

In addition, the long-term loans referred to above are presented net of current maturities in the amount of NIS 687 million, compared to NIS 363 million at the end of 2003.

The current maturities include the final settlement of loans (mortgages on properties) in the amount of NIS 468 million, which are secured by a charge on the properties. Based on past experience, the Company usually renews most of these loans by taking new, long-term secured and unsecured loans (in 2003, the final settlement of loans included in current maturities (mortgages on properties) amounted to NIS 211 million).

Shareholders' Equity

The increase in shareholders' equity from NIS 1,141 million as of December 31, 2003 to NIS 1,302 million as of December 31, 2004 stems mainly from the net income for the reporting year (NIS 110 million), from the exercise of option warrants into shares (NIS 78 million) and from the increase due to "translation adjustments deriving from translation of the financial statements of FCR, EQY and Citycon" and other capital surpluses (NIS 36 million). These were partly offset by the dividend of NIS 63 million paid by the Company.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 62% as of December 31, 2004, compared to 58% as of December 31, 2003.

The ratio of the Group's interest-bearing debt to its asset value (extrapolated from the market value of the Group's shares) stood at 58% as of December 31, 2004, the same as the ratio as of December 31, 2003.

The Company believes that the fair value of its assets exceed its carrying value in the Company's books, and accordingly, the above ratios more fairly reflect the Group's leverage ratios.

Cash Flows

Cash inflows from operating activities for the reporting year totaled NIS 562 million, compared to NIS 362 million for 2003. The growth in cash inflows from operating activities for the reporting year was due to the continuing improvement in operating profit, which was partly offset by interest expenses on the Group's loans.

In addition, in order to fund the Group's activities, the Company and its consolidated subsidiaries raised capital totaling NIS 585 million and took long-term loans and issued debentures in a net amount of NIS 2,369 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which totaled NIS 2,937 million in 2004 and to finance long-term investments and the investments in associated companies, which totaled NIS 646 million.

5. Donations

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

The Company donates to the charity "Larger than Life" – a voluntary, humanitarian organization that assists children and youngsters afflicted with cancer.

Chaim Katzman, the Chairman of the Company's Board of Directors, serves as the Honorary President of "Larger than Life". The Company acts as the official sponsor of this organization.

The Company also makes donations to Tel-Aviv University, where an institute recently commenced focusing on the research and studies of all manners of real estate related topics (The Chaim Katzman – Gazit Globe Real Estate Institute).

During the reporting year, the Company's donations amounted to NIS 2.7 million.

Of the above sum, the Company donated NIS 355,000 to the 'Larger than Life" charity, NIS 673,000 to the Tel-Aviv University, NIS 274,000 to 29 different bodies engaged in charitable, welfare and educational work with the community in Israel, and also NIS 1,432,000 to various bodies in the United States and Canada (through the Company's subsidiaries, such sums being designated for the regions in which they operate).

6. Additional Information and Subsequent Events

A. Through a private offering in January 2005, FCR issued 2.7 million FCR shares at a price of C$ 19.25 per share and received a total of C$ 52 million in consideration. The Company acquired 707 thousand shares in this offering at a total investment of C$ 14 million.

As a result of this offering, the Company's holding in FCR was diluted from 56.8% to 55.2%, and the Company will record a capital gain of NIS 12.7 million in the first quarter of 2005.

B. Through a private placement during February 2005, the Company issued debentures with a nominal value of NIS 227 million to institutional investors and received NIS 221 million in consideration. The issue was made by enlarging a debenture series (Series A), which was first issued to the public in May 2002.

The terms of the debentures are identical to the terms of the series as described in note 16C to the financial statements.

C. In February 2005, a wholly owned U.S. subsidiary of the Company issued a non-marketable debenture with a nominal value of NIS 100 million to Clal Insurance Enterprises Holdings Ltd. (hereinafter: "Clal Insurance"). The debenture is repayable in February between the years 2010-2012, bears annual CPI-linked interest at the rate of 5.1%, which will be paid once a year, and is fully secured by the Company's guarantee.

Additionally, the Company granted Clal Insurance 3.2 million non-marketable option warrants that are exercisable into Company shares.

The option warrants are exercisable into Company shares on a 1:1 basis through January 31, 2007. If the options warrants are exercised by January 31, 2006, the exercise price will be NIS 31 per share, linked to the CPI. If the option warrants are exercised after this date, the exercise price will be NIS 33 per share, linked to the consumer price index.

Assuming that the option warrants will be exercised in full and that there will be no change in Clal Insurance's holding in the Company's shares, Clal will become an interested party in the Company and will hold 7.9% of its share capital (ignoring the effect of dormant shares and further share issues that the Company might make from time to time).

D. From the end of the reporting year through to the date of the financial statements, EQY, FCR and RSC acquired 5 properties, having a total G.L.A. of 28 thousand square meters, for an aggregate investment of NIS 175 million.

E. In February 2005, FCR gave notice that on March 31, 2005 it would redeem its convertible debentures (Series D) in the amount of C$ 161.7 million and the accrued interest thereon, by converting them into 8.6 million FCR shares, this being in accordance with its right to compel the holders to convert their convertible debentures. The Company, as the holder (through companies that it wholly owns) of convertible debentures (Series D) with a nominal value of C$ 87.9 million (54%) will receive 4.6 million FCR shares.

7. Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments regarding transactions or matters, whose final affect on the financial statements cannot be accurately determined at the time of their preparation. The determination of the quantitative value of such estimates is based primarily on the assumptions that the Company's management decides to adopt, taking into account the circumstances giving rise to the estimate and also to the best information available at the time of its preparation. Due to their nature, being that these estimates and assessments result from applying judgments in an environment of uncertainty, which is sometimes particularly significant, changes in the basic assumptions, due to changes that are not necessarily dependent on the Company's management, and similarly the future appearance of additional information that had not been available to the Company at the time of preparing the estimate, could result in changes to the quantitative value of the estimate, and could thus also affect the financial position of the Company and its operating results. Accordingly, though estimates or assessments are made according to management's best judgment, the final quantitative effect of transactions or matters requiring to be estimated can only be clarified when these transactions or matters are concluded. In certain instances, the final result of the subject of the estimate could differ particularly significantly from the quantitative amount determined for it at the time of making the estimate.

Of the accounting estimates that the Company is required to make when preparing its consolidated financial statements, the principal estimates that could potentially have a particularly significant effect are as follows:

A. The useful life of the properties.

B. The fair value of the properties.

8. Directors Possessing Accounting and Financial Expertise

A. In accordance with the Section 36A of the Securities Law, 1968, the Company is obliged to determine the minimum required number of directors possessing accounting and financial expertise. Accordingly, the Company's Board of Directors has decided that the minimum required number of directors possessing accounting and financial expertise is three.

B. The directors that have declared that they possess accounting and financial expertise are:
1. Ms. Tida Shamir
2. Mr. Chaim Ben-Dor
3. Mr. Eliahu Shahar

C. Regarding the education and business experience of the above directors, see Article 26 of the Periodic Report for 2004.

9. Compensation of Senior Employees

A. In 2004, the Company's Board of Directors did not set any policy regarding the compensation of senior employees.

B. Regarding the compensation of the Company's senior employees by consolidated subsidiaries, see note 32C to the accompanying financial statements.

10. Disclosure Concerning the Company's Internal Auditor

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

Is the internal auditor an employee of the Company or a person who provides internal audit services on behalf of an outside party:
The internal auditor provides internal audit services as an outsourcer on behalf of Shemi Haguel & Co., CPAs

Extent of the internal auditors engagement:
The extent varies in accordance with the multi-year audit program; in 2004, no current audit work was performed.

Considerations in determining the current and multi-year audit program:
The multi-year audit program reflects the Company's operations in Israel, and the order of priorities of subjects is set according to the subjects' importance. The audit program is drawn up together with the Company's management and the members of its Audit Committee.

The Company is an investment company most of whose operations are conducted outside Israel, being performed by foreign public companies in their countries of domicile. In 2004, operations in Israel (which, as stated are secondary to the Company's operations outside Israel) were not examined, as these operations had been examined frequently in previous years.

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

Reference to companies constituting a material holding of the Company:
The audit program for 2004 did not include the investee companies, which are foreign companies.

At the end of 2004, an internal auditor was appointed for EQY (U.S.A.) and his activities will be brought to the attention of the Board of Directors by the internal auditor in Israel. Within the framework of the audit program for 2005, the internal auditor will examine the activities of the Company's wholly owned foreign companies in the U.S.A.

Identity of the person to whom the internal auditor is reports to within the organization:
The internal auditor reports to the Chairman of the Board of Directors.

The dates when reports of the internal auditor's findings were submitted to the Chairman of the Board of Directors, the President and the Chairman of the Audit Committee:
During 2004, no such reports were submitted.

Freedom of access for the internal auditor:
The internal auditor is given free access to the Company's IT systems, including financial data.

Other:
The extent, nature, continuity of activity and the audit program of the internal auditor are reasonable in light of prevailing circumstances, and are sufficient to attain the internal audit objectives of the Company.

11. Reporting of Exposures to Market Risks and their Management

A. 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.

B. Principal Market Risks to which the Company is Exposed:

1. Real estate investments held through EQY, FCR and Citycon are the most significant assets of the Company. Consequently, the relevant risk factors for the Company are the key risk factors to which the operations of EQY, FCR and Citycon are exposed. These are as follows:

   1.1 The financial stability of the tenants.
   1.2 Changes in consumption habits.
   1.3 Changes in the rental policies of retail chains and major tenants.
   1.4 The business cycle of the businesses in the regions in which the Company's properties are located (economic situation).
   1.5 Terror attacks and natural disasters.
   1.6 The status of EQY as an REIT.

2. Changes in the exchange rate of the U.S. dollar, the Canadian dollar and the euro relative to the shekel mainly affect the Company's shareholders' equity. An increase in the exchange rate of the U.S. dollar, the Canadian dollar and the euro will increase the Company's shareholders' equity, while a decrease in the exchange rate of the U.S. dollar, the Canadian dollar and the euro will reduce the Company's shareholders' equity.

3. Changes in interest rates in the U.S.A., Canada, Finland and Israel have an effect on the Company's results, to the extent that a rise in interest rates will increase the investee companies' and the Company's financing expenses, while a decline in interest rates will reduce the investee companies' and the Company's financing expenses.

4. The Company has an occasional currency exposure on its shareholders' equity to the U.S. dollar, the Canadian dollar, the euro and the shekel in respect of the Company's activities in the USA, Canada, Europe and Israel.

5. The Company has an exposure with regard to its investments in traded securities, whose value is affected by fluctuations in their market price.

C. <u>The Company's Policies for Risk Management are as Follows:</u>

1. FCR, EQY and Citycon monitor, on a regular basis, developments in the markets in which they operate. The companies have hired local experts in the field of property management, development and acquisition in the U.S.A., Canada and Finland. In addition, the companies have insurance on most of their properties against terror attacks and natural disasters.

2. It is the Company's policy to maintain as close a correlation as possible between the currency in which properties are acquired and the currency in which the liabilities to finance the acquisition of those properties are taken out. Management regularly evaluates the linkage basis balance sheet, and takes appropriate action in accordance with developments. As a general rule, the Company tries to hold its shareholders' equity in the currencies of the various markets in which it operates and in the same proportions as the assets in each such currency bear to the total assets, as detailed in section D1 below.

3. The Company and the investee companies finance most of their activities with long-term loans (mortgages on the properties) in U.S. dollars, Canadian dollars and euros, at fixed interest rates. The Company finances most of its investment in shekel assets with shekel credit, at fixed interest rates, and regularly monitors developments and changes in the interest policy of the Bank of Israel. In order to reduce the impact of interest rate fluctuations on their loans, from time to time and depending on market conditions, the Company and the investee companies enter into interest rate swaps, whereby they exchange variable interest for fixed interest, and vice versa, as detailed in section D2 below.

4. During 2004, no changes occurred in the Company's market risks management policy.

D. Primary Linkage Report and Derivatives:

1. Primary linkage report

	Linked to the consumer price index	In US$ or linked thereto	In C$ or linked thereto	In unlinked NIS	In euros	Unlinked	Total
	As of December 31, 2004						
	Reported[1] NIS in thousands						
Monetary assets							
Cash and cash equivalents	3,421	31,685	17,273	366	62	-	52,807
Short-term investments	1,457	39,685	2,319	-	-	12,560	56,021
Tenants, accounts receivable and other debit balances	1,317	88,253	58,036	1,148		24,370	173,124
Loans to partners in properties under development	-	-	55,810	-	-	-	55,810
Long-term investments	12,425	220	15,345	-	-	188,115	216,105
Long-term loans and debit balances	373	68,596	19,718	-	-	-	88,687
	18,993	228,439	168,501	1,514	62	225,045	642,554
Non-monetary assets[2]	-	8,432,350	5,921,165	316,332	532,643	307,451	15,509,941
	18,993	**8,660,789**	**6,089,666**	**317,846**	**532,705**	**532,496**	**16,152,495**
Liabilities							
Short-term credit from banks and other credit granting institutions	-	46,500	-	11	-	-	46,511
Trade and other payables and other credit balances	178	156,173	186,027	19,884	-	27,008	389,270
Debentures	221,494	2,026,564	-	-	71,570	-	2,319,628
Liabilities to financial institutions and others	6,540	3,555,051	3,990,385	136,365	181,376	-	7,869,717
Deposits from tenants	6,677	224,416	13,041	137	-	42565	286,836
Liabilities for employee rights upon retirement	-	-	-	1,042	-	-	1,042
Convertible debentures redeemable for subsidiary's shares	-	-	479,220	-	-	-	479,220
	234,889	6,008,704	4,668,673	157,439	252,946	69,573	11,392,224
Minority interests	-	-	-	-	-	3,458,056	3,458,056
Shareholders' equity	-	-	-	-	-	1,302,215	1,302,215
	234,889	**6,008,704**	**4,668,673**	**157,439**	**252,946**	**4,829,844**	**16,152,495**

(1) In accordance with Israel Accounting Standards No. 12 and No. 13, see note 2 to the financial statements.

(2) Mainly fixed assets, net

	December 31, 2003					
	Linked to the consumer price index	In US$ or linked thereto	In C$ or linked thereto	In unlinked NIS	Unlinked	Total
	Adjusted[1] NIS in thousands					
Monetary assets						
Cash and cash equivalents	1,594	43,796	7,768	493	-	53,651
Short-term investments	-	32,650	1,567	-	33,492	67,709
Tenants, accounts receivable and other debit balances	1,612	86,967	42,162	-	20,364	151,105
Loans to partners in properties under development	-	-	57,522	-	-	57,522
Long-term investments	13,263	-	5,694	-	21,396	40,353
Long-term loans and debit balances	17,855	33,889	6,773	-	-	58,517
	34,324	197,302	121,486	493	75,252	428,857
Non-monetary assets[2]	-	7,447,338	4,511,326	199,103	229,624	12,387,391
	34,324	**7,644,640**	**4,632,812**	**199,596**	**304,876**	**12,816,248**
Liabilities						
Short-term credit from banks and other credit granting institutions	-	4	-	3,095	-	3,099
Trade and other payables and other credit balances	3,212	122,871	146,495	9,767	23,882	306,227
Debentures	104,521	992,255	-	-	-	1,096,776
Liabilities to financial institutions and others	7,561	3,399,982	3,018,684	80,157	-	6,506,384
Deposits from tenants	4,106	126,052	8,226	56	18,608	157,048
Liabilities for employee rights upon retirement	-	-	-	846	-	846
Deferred taxes	-	-	-	-	801	801
Convertible debentures redeemable for subsidiary's shares	-	-	649,463	-	-	649,463
	119,400	4,641,164	3,822,868	93,921	43,291	8,720,644
Minority interests	-	-	-	-	2,954,392	2,954,392
Shareholders' equity	-	-	-	-	1,141,212	1,141,212
	119,400	**4,641,164**	**3,822,868**	**93,921**	**4,138,895**	**12,816,248**

(1) Adjusted to December 2003 shekels.

(2) Mainly fixed assets, net

2. **Derivatives**

a) In January 2001, the Company entered into a 5-year transaction with the Bank of Israel in the amount of US$ 20 million relating to the linkage basis on a portion of its linked debentures, which were issued in the same month, and which are to be swapped from being linked to the consumer price index to being linked to the US dollar. Included in the Company's books as of December 31, 2004 is an asset in the amount of NIS 0.7 million in respect of this transaction. The fair value of the transaction as of December 31, 2004 is an asset of NIS 0.5 million.

b) In order to reduce the impact of interest rate fluctuations on their loans, the Company and its consolidated subsidiaries have entered into interest rate swaps (IRS) with banks, whereby they exchange variable interest for fixed interest, and vice versa, as follows:

1) The Company and its wholly owned subsidiaries have entered into IRS transactions in a total amount of US$ 27 million, with an average term of one year, whereby they pay fixed interest at an average rate of 5.6% and receive interest at the 3-month LIBOR rate (2.6%). The fair value of these IRS transactions as of December 31, 2004 is a liability of NIS 3.7 million.

2) One of the Company's wholly owned subsidiaries has entered into IRS transactions in a total amount of C$ 35 million, which terminate in March 2006, whereby it pays fixed interest at an average rate of 4.9% and receives interest at the 3-month LIBOR rate (2.7%). The fair value of these IRS transactions as of December 31, 2004 is a liability of NIS 3.2 million.

3) One of the Company's consolidated subsidiaries has entered into IRS transactions in a total amount of US$ 35 million, which terminate during 2014, whereby it pays fixed interest at an average rate of 4.3% and receives interest at the 3-month LIBOR rate (2.6%). The fair value of these IRS transactions as of December 31, 2004 is an asset of NIS 0.4 million.

4) One of the Company's consolidated subsidiaries has entered into an IRS transaction in the total amount of US$ 100 million, which terminates in April 2009, whereby it pays interest at the 6-month LIBOR rate plus a margin and receives fixed interest, resulting in an effective interest differential of 0.4375% per annum. The fair value of this IRS transaction as of December 31, 2004 is an asset of NIS 11.6 million.

c) One of the Company's consolidated subsidiaries has entered into forward contracts with a bank to exchange US$ 6 million for Canadian dollars during 2005 at an average rate of C$ 1.29 per U.S. dollar. The fair value of these contracts as of December 31, 2004 is an asset of NIS 1.8 million.

E. Means of Implementing and Monitoring Policies:

1. The Company's Board of Directors oversees the Company's management, which regularly monitors the management of the risks and the ways to minimize the Company's exposure to these risks.

2. The Chairman of the Board of Directors, Mr. Chaim Katzman, who is also the Chairman of the Board of Directors of EQY and FCR, and the Company's President, Mr. Dori Segal, who is also the President of FCR, as well as other members of the Company's management, resides permanently in the countries in which the Company's subsidiaries operate.

12. Meetings of the Board of Directors

In 2004, 17 meetings of the Board of Directors were held.

Chaim Katzman	**Dori Segal**
Chairman of the Board of Directors	President and Director

GAZIT-GLOBE LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004

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AUDITORS' REPORT

To the shareholders of

GAZIT-GLOBE LTD.

We have audited the accompanying balance sheets of Gazit-Globe Ltd. ("the Company") as of December 31, 2004 and 2003 and the consolidated balance sheets as of such dates and the related statements of income, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 97.2% and 97.9% of total consolidated assets as of December 31, 2004 and 2003, respectively, and whose revenues constitute approximately 97.7%, 98.6% and 98% of total consolidated rental income for the years ended December 31, 2004, 2003 and 2002, respectively. Also, we did not audit the financial statements of a certain affiliate, the investment in which, at equity, amounted to NIS 532,377 thousand as of December 31, 2004 and the Company's equity in its earnings amounted to NIS 38,033 thousand for the year ended December 31, 2004. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2004 and 2003, and the results of operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2004, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As described in Note 2, the financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel
March 28, 2005

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

CONSOLIDATED BALANCE SHEETS

		December 31,	
		2004	2003
		NIS in thousands	
	Note	Reported (1)	Adjusted (2)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	52,807	53,651
Short-term investments	4	56,021	67,709
Tenants	5	103,123	84,911
Accounts receivable	6	70,001	66,194
Loans to partners in property under development	7	55,810	57,522
Rental property held for sale	11	54,888	63,649
		392,650	393,636
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	8g	533,867	15,706
Long-term investments	9	216,105	40,353
Long-term loans and receivables	10	88,687	58,517
		838,659	114,576
FIXED ASSETS:	11		
Cost		15,391,857	12,608,688
Less - accumulated depreciation		778,122	530,276
		14,613,735	12,078,412
OTHER ASSETS AND DEFERRED CHARGES, NET	12	307,451	229,624
		16,152,495	12,816,248

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2004	December 31, 2003
		NIS in thousands	
		Reported (1)	Adjusted (2)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	755,391	378,944
Trade payables	14	152,474	129,921
Other accounts payable	15	256,216	187,094
		1,164,081	695,959
LONG-TERM LIABILITIES:			
Debentures	16	2,298,157	1,084,222
Liabilities to financial institutions and others	17	7,182,308	6,143,093
Tenants' security deposits	18	267,416	146,260
Accrued severance pay, net	19	1,042	846
Deferred taxes	20	-	801
		9,748,923	7,375,222
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	21	479,220	649,463
MINORITY INTEREST		3,458,056	2,954,392
CONTINGENT LIABILITIES AND COMMITMENTS	22		
SHAREHOLDERS' EQUITY	23	1,302,215	1,141,212
		16,152,495	12,816,248

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

March 28, 2005			
Date of approval of the financial statements	Chaim Katzmann Chairman of the Board	Dori Segal President and Director	Gil Kotler Chief Financial Officer

BALANCE SHEETS - THE COMPANY

		December 31,	
		2004	2003
		NIS in thousands	
	Note	Reported (1)	Adjusted (2)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	5,394	18,032
Short-term investments	4	4,483	252
Accounts receivable	6	3,984	4,646
		13,861	22,930
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	2,810,417	1,741,143
Long-term investments	9	33,402	17,468
Long-term loans	10	-	353
		2,843,819	1,758,964
FIXED ASSETS:	11		
Cost		3,699	2,851
Less - accumulated depreciation		1,389	877
		2,310	1,974
OTHER ASSETS AND DEFERRED CHARGES, NET	12	10,275	6,144
		2,870,265	1,790,012

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

BALANCE SHEETS - THE COMPANY

		December 31,	
		2004	2003
		NIS in thousands	
	Note	Reported (1)	Adjusted (2)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	33,288	29,591
Trade payables	14	250	1,065
Other accounts payable	15	26,632	12,136
		60,170	42,792
LONG-TERM LIABILITIES:			
Debentures	16	1,065,938	375,297
Liabilities to financial institutions and others	17	440,128	230,668
Accrued severance pay, net	19	-	43
Deferred taxes	20	1,814	-
		1,507,880	606,008
CONTINGENT LIABILITIES AND COMMITMENTS	22		
SHAREHOLDERS' EQUITY	23	1,302,215	1,141,212
		2,870,265	1,790,012

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

March 28, 2005			
Date of approval of the financial statements	Chaim Katzmann Chairman of the Board	Dori Segal President and Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	2004 Reported (1)	2003 Adjusted (2)	2002 Adjusted (2)
		Year ended December 31, NIS in thousands (except per share amounts)		
Rental income	26	1,858,235	1,401,186	885,431
Rental property operating expenses	27	598,675	457,790	303,097
Rental property depreciation		282,176	197,489	113,866
Gross profit		977,384	745,907	468,468
General and administrative expenses	28	159,392	115,805	80,964
Operating income		817,992	630,102	387,504
Financial expenses, net	29	519,676	300,163	147,203
		298,316	329,939	240,301
Other income, net	30	129,202	56,492	3,148
Income before taxes on income		427,518	386,431	243,449
Taxes on income	20k	55,029	43,629	17,909
Income after taxes on income		372,489	342,802	225,540
Equity in earnings of affiliates	8g	36,004	3,613	3,252
Minority interest in earnings of subsidiaries		(298,383)	(209,839)	(124,639)
Net income		110,110	136,576	104,153
Net earning per NIS 1 par value of Ordinary shares (in NIS)	31	1.17	1.69	1.45

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

STATEMENTS OF INCOME - THE COMPANY

	Note	2004 Reported (1)	2003 Adjusted (2)	2002 Adjusted (2)
		Year ended December 31, NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		140,659	144,012	127,106
Other income, net	30	5,531	6,163	426
		146,190	150,175	127,532
Costs and expenses:				
General and administrative	28	11,864	8,134	7,783
Financial, net	29	20,044	1,684	11,714
		31,908	9,818	19,497
Income before taxes on income		114,282	140,357	108,035
Taxes on income	20j	4,172	3,781	3,882
Net income		110,110	136,576	104,153
Net earning per NIS 1 par value of Ordinary shares (in NIS)	31	1.17	1.69	1.45

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares *)	Total
	Adjusted NIS in thousands (2)								
Balance at January 1, 2002	111,675	497,023	1,702	56,023	32,263	-	(3,707)	-	694,979
Issuance of share capital, net	6,198	80,299	-	-	-	-	-	(8,144)	78,353
Exercise of stock options into shares	9,338	132,590	-	-	-	-	(105,898)	-	36,030
Sale of shares by the Company	-	294	-	-	-	-	3,061	(2,032)	1,323
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	5,934	-	-	-	-	5,934
Net income	-	-	-	-	104,153	-	-	-	104,153
Dividend paid	-	-	-	-	(31,060)	-	-	-	(31,060)
Dividend declared	-	-	-	-	(11,374)	11,374	-	-	-
Balance as of December 31, 2002	127,211	710,206	1,702	61,957	93,982	11,374	(106,544)	(10,176)	889,712
Issuance of share capital, net	3,987	59,758	-	-	-	-	-	-	63,745
Exercise of stock options into shares	6,718	71,683	-	-	-	-	-	-	78,401
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	738	738
Repurchase of shares	-	-	-	-	-	-	(60)	60	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	24,218	-	-	-	-	24,218
Net income	-	-	-	-	136,576	-	-	-	136,576
Dividend paid	-	-	-	-	(40,804)	(11,374)	-	-	(52,178)
Dividend declared	-	-	-	-	(14,583)	14,583	-	-	-
Balance as of December 31, 2003	137,916	841,647	1,702	86,175	175,171	14,583	(106,604)	(9,378)	1,141,212
	Reported NIS in thousands (1)								
Balance at January 1, 2004	137,916	841,647	1,702	86,175	175,171	14,583	(106,604)	(9,378)	1,141,212
Exercise of stock options into shares	6,098	81,253	-	-	-	-	(9,400)	(56)	77,895
Revaluation of loans for purchase of shares	-	-	-	-	(16)	-	-	16	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	38,799	-	-	-	-	38,799
Revaluation of derivatives in affiliate to market value (3)	-	-	(2,726)	-	-	-	-	-	(2,726)
Net income	-	-	-	-	110,110	-	-	-	110,110
Dividend paid	-	-	-	-	(48,492)	(14,583)	-	-	(63,075)
Dividend declared (4)	-	-	-	-	(17,200)	17,200	-	-	-
Balance as of December 31, 2004	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215

*) As for loans to related party in the Company for purchase of shares, see Note 32.

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 1b(4).

(4) See Note 33e.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	NIS in thousands		
	Reported (1)	Adjusted (2)	
Cash flows from operating activities:			
Net income	110,110	136,576	104,153
Adjustments to reconcile net income to net cash provided by operating activities (a)	451,850	225,208	118,425
Net cash provided by operating activities	561,960	361,784	222,578
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	(8,861)	(827,451)	-
Investment in subsidiary and in jointly controlled entity	(29,220)	(57,988)	(12,761)
Investments in fixed assets	(2,937,886)	(2,310,376)	(954,834)
Repayment (grant) of loans to partners in property under development, net	4,928	(3,744)	16,816
Proceeds from sale of fixed assets	410,105	145,523	141,831
Long-term loans granted	(53,529)	(214)	(9,874)
Repayment of long-term loans granted	27,097	17,452	4,863
Short-term investments, net	37,313	108,964	27,223
Purchase of marketable securities and long-term investments	(238,791)	(76,269)	(193,975)
Investment in affiliate	(467,143)	-	-
Proceeds from realization of long-term investments	60,406	74,938	229,525
Net cash used in investing activities	(3,195,581)	(2,929,165)	(751,186)

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	NIS in thousands		
	Reported (1)	Adjusted (2)	
Cash flows from financing activities:			
Repayment of loans for the purchase of Company and subsidiary's shares	15,681	16,058	-
Issuance of share capital, net	-	63,745	78,353
Exercise of stock options into shares	77,895	78,401	36,030
Sale of shares by the Company and subsidiary	-	-	1,323
Issuance of shares to minorities in subsidiaries, net	506,976	1,002,175	279,058
Deferred charges in respect of raising loans and debentures	(28,102)	(19,672)	(26,166)
Dividend paid	(63,075)	(52,178)	(50,330)
Dividend paid to minorities in subsidiary	(291,193)	(211,918)	(83,070)
Receipt of long-term loans	1,545,586	1,695,401	983,308
Repayment of long-term loans	(379,451)	(788,186)	(504,138)
Withdrawal (repayment) of long-term credit lines from banks, net	54,509	550,498	(8,003)
Redemption and early redemption of debentures and convertible debentures	(170,618)	(123,379)	(145,551)
Sale of Company's debentures by subsidiaries	107,937	117,632	549
Short-term bank credit, net	42,320	313	(134,991)
Issuance of debentures and convertible debentures	1,211,311	-	154,135
Increase in tenants' security deposits, net	9,358	1,111	1,862
Net cash provided by financing activities	2,639,134	2,330,001	582,369
Effect of exchange rate differences from cash balances of foreign autonomous entities	(6,357)	7,335	6,438
Increase (decrease) in cash and cash equivalents	(844)	(230,045)	60,199
Cash and cash equivalents at the beginning of the year	53,651	283,696	223,497
Cash and cash equivalents at the end of the year	52,807	53,651	283,696

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	**2003**	**2002**
	NIS in thousands		
	Reported (1)	**Adjusted (2)**	
(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	(11,015)	(11,334)	(14,994)
Minority interest in earnings of subsidiaries	298,383	209,839	124,639
Equity in earnings of affiliates, net of dividend received	(36,004)	(1,232)	84
Depreciation	284,824	199,406	114,221
Deferred taxes, net	28,295	17,081	(5,289)
Gain (loss) from early redemption of debentures and convertible debentures	15	288	(8,202)
Adjustment differences on monetary assets and long-term monetary liabilities, net	14,209	(159,356)	(148,537)
Write-down of long-term investments	-	250	34,315
Amortization of other assets and deferred charges	22,775	23,848	14,539
Gain from sale of real estate	(81,396)	(11,070)	(27,923)
Increase in accrued severance pay, net	25	6	51
Gain from issuance of shares to minorities in investees	(32,583)	(44,627)	(1,100)
Changes in asset and liability items:			
Increase in accounts receivable	(107,719)	(35,225)	(10,841)
Increase in trade payables and other accounts payable	57,322	29,259	45,307
Increase in tenants' security deposits, net	14,719	8,075	2,155
	451,850	225,208	118,425

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	**2003**	**2002**
	NIS in thousands		
	Reported (1)	**Adjusted (2)**	
(b) Investment in newly consolidated subsidiaries (Note 1b2 and 1b5):			
Subsidiaries' assets and liabilities at date of purchase:			
Working capital (excluding cash and cash equivalents):			
Current assets	(1,381)	(52,815)	-
Current liabilities	5,932	58,979	-
	4,551	6,164	-
Fixed assets, long-term investments and loans (mainly real estate)	(123,804)	(3,221,407)	-
Other assets	(3,653)	(90,323)	-
Long-term liabilities	115,512	1,402,741	-
Minority interest	(1,467)	53,394	-
	(13,412)	(1,855,595)	-
Increase in minority interest due to consideration paid in subsidiary's shares	-	1,021,980	-
	(8,861)	(827,451)	-
(c) Significant non-cash operations:			
Conversion of convertible debentures into subsidiary's shares	69,687	127,934	-
Issuance of shares in subsidiary to minorities and related party against long-term loans	-	-	7,193
Purchase of fixed assets against liabilities	-	11,788	4,911
Purchase of fixed assets in consideration for subsidiary's shares	13,000	8,432	2,406
Conversion of debentures into convertible debentures	-	593	25,519
Sale of real estate against receivables	-	-	18,127
Sale of treasury shares to employees against long-term loans	-	-	2,032

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.
The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS - THE COMPANY

	Year ended December 31,		
	2004	2003	2002
	NIS in thousands		
	Reported (1)	Adjusted (2)	
Cash flows from operating activities:			
Net income	110,110	136,576	104,153
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(124,193)	(115,222)	(109,154)
Net cash provided by (used in) operating activities	(14,083)	21,354	(5,001)
Cash flows from investing activities:			
Investment in subsidiaries and jointly controlled entity	(660,126)	(2,892)	(65,941)
Loans granted to subsidiaries, net	(195,691)	(271,812)	(132,382)
Investments in fixed assets	(848)	(885)	(530)
Short-term investments, net	2,808	11,726	15,324
Purchase of marketable securities and long-term investments	(21,842)	(3,332)	(43,435)
Proceeds from sale of long-term marketable securities	-	8,868	27,291
Repayment (grant) of long-term loans	353	(215)	12
Proceeds from sale of fixed assets	-	474	-
Net cash used in investing activities	(875,346)	(258,068)	(199,661)
Cash flows from financing activities:			
Issuance of share capital, net	-	63,745	78,353
Exercise of stock options into Company's shares	77,895	78,401	36,030
Sale of shares by the Company and subsidiary, net	-	-	1,323
Deferred charges in respect of raising loans and debentures	(5,207)	(487)	(3,391)
Dividend paid	(63,075)	(52,178)	(50,330)
Receipt of long-term loans	195,659	172,468	65,226
Withdrawal (repayment) of long-term credit lines from banks, net	120,542	(23,151)	12,882
Repayment of long-term loans	(136,063)	(51,652)	(72,031)
Short-term bank credit, net	(80)	69	(3,083)
Repayment of loans granted to purchase Company's shares	-	738	-
Issuance of debentures	701,392	-	261,500
Early redemption of debentures	(1,456)	(9,805)	(40,320)
Redemption of debentures	(12,816)	(14,916)	(18,739)
Net cash provided by financing activities	876,791	163,232	267,420
Increase (decrease) in cash and cash equivalents	(12,638)	(73,482)	62,758
Cash and cash equivalents at the beginning of the year	18,032	91,514	28,756
Cash and cash equivalents at the end of the year	5,394	18,032	91,514

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

STATEMENTS OF CASH FLOWS - THE COMPANY

		Year ended December 31,		
		2004	2003	2002
		NIS in thousands		
		Reported (1)	Adjusted (2)	
(a)	Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
	Income and expenses not involving cash flows:			
	Write-down of long-term investments	-	-	3,943
	Loss (gain) from marketable securities, net	(1,481)	(6,175)	1,234
	Equity in earnings of subsidiaries, net of dividend received			
	Depreciation	(136,420)	(138,382)	(121,342)
	Adjustment differences on monetary assets and long-term monetary liabilities, net	512	369	321
	Amortization of other assets and deferred charges	361	32,972	(1,796)
	Loss from early redemption of debentures	1,076	288	812
	Increase (decrease) in accrued severance pay, net	15	288	784
	Gain from issuance to third party	(43)	(44)	9
	Loss from sale of fixed assets	(2,556)	(3,721)	(1,798)
		-	72	-
	Changes in asset and liability items:			
	Decrease in accounts receivable	662	196	1,966
	Increase (decrease) in trade payables and other accounts payable	13,681	(1,085)	6,713
		(124,193)	(115,222)	(109,154)
(b)	Significant non-cash operations:			
	Sale of treasury shares to employees against long-term loans	-	-	2,032

(1) See Note 2.
(2) Adjusted to the NIS of December 2003.

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

NOTE 1:- GENERAL

a. Definitions:

The Company	-	Gazit-Globe Ltd. (formerly: Gazit-Globe (1982) Ltd.).
The parent company	-	Gazit Inc. ("Gazit") through its subsidiaries.
Subsidiaries	-	companies over which the Company exercises control (as defined in Statement 57 of the Institute of Certified Public Accountants in Israel) and whose accounts are consolidated with those of the Company.
Jointly controlled entity	-	a company owned by various entities that have a contractual consent for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Affiliates	-	companies that are not subsidiaries and over which the Company has significant influence. The Company's investment therein is included using the equity method of accounting.
Investees	-	subsidiaries, jointly controlled entity and affiliates.
The Group	-	the Company and its investees, as detailed in the accompanying Appendix.
Related parties	-	as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel and in the Securities Regulations (Preparation of Annual Financial Statements), 1993.

b. The Company and its activity:

1. The Company is engaged, directly and through its subsidiaries, in acquiring, developing and managing income producing properties in the U.S., Canada and Israel. The Company is also engaged, through an affiliate, in acquiring, developing and managing income producing properties in Finland. The Company focuses mainly on the supermarket-anchored shopping center sector. Additionally, the Company operates in the field of protected tenancy in the U.S. and Israel.

   In the U.S., the Company operates mainly through Equity One Inc. ("EQY"), a public company traded on the NYSE. EQY is a REIT for tax purposes (see Note 20c). As of the date of the financial statements, the Company holds directly and through First Capital Realty Inc. ("FCR") 40% of the share capital of EQY. Additionally, the Group operates in the U.S. through Royal Senior Care ("RSC") (50%) which is engaged in the field of protected tenancy in the U.S.

NOTE 1:- GENERAL (Cont.)

In Canada the Group operates through FCR, a public company traded on the Toronto Stock Exchange ("TSX"). As of the date of the financial statements, the Company holds 57% of the share capital of FCR.

In Finland, the Company operates through Citycon Oyj ("Citycon"), a public company traded on the Helsinki Stock Exchange ("HEX"). As of the date of the financial statements, the Company holds 39% of the share capital of Citycon and it is its principal shareholder.

In Israel, the Company holds half of the share capital of Mishkenot Clal (1982) Ltd. ("Mishkenot Clal") which is engaged in the establishment, operation, management and marketing of senior citizen residence centers in Israel. Similarly, the Company owns an office building in Tel Aviv.

2. Investment in EQY:

a) Since the end of 1994, the Company has invested, directly and indirectly, in EQY, an American company specializing in the acquisition and management of income producing properties in the U.S., whose shares have been listed on the New York Stock Exchange ("NYSE") since 1998.

b) In October 2002, EQY signed an agreement for the acquisition of IRT Property Company ("IRT"), a public company, designated as a REIT for tax purposes and whose shares were listed on the New York Stock Exchange for approximately U.S.$ 421 million in a share and cash transaction. On February 12, 2003, the purchase transaction was closed. EQY paid using its shares and cash (approximately U.S.$ 189 million) in consideration of an approximately 57% stake in IRT.

Simultaneously with the purchase agreement and as a means of financing the transaction, EQY signed an agreement whereby on the date of the transaction's closing, EQY issued to its principal shareholders 6.9 million shares, of which the Company acquired 4.3 million shares and FCR acquired one million shares at the price of U.S.$ 13.5 per share.

According to generally accepted accounting principles for asset-exchange transactions, the Company did not record an accounting gain as a result of the decrease in its holdings in EQY.

NOTE 1:- GENERAL (Cont.)

c) During the reported year, in the context of its dividend reinvestment plan ("DRIP") and exercise of stock options into EQY shares by employees and others, EQY issued to the public 4.2 million shares for the total consideration of approximately U.S.$ 76 million (in 2003 - approximately U.S.$ 159 million including public issuance) of which about 0.6 million shares were issued to the Company and its subsidiaries in consideration of approximately U.S.$ 11 million. As a result of the issuance of these shares, the Company's holding in EQY decreased from 40.5% to 39.6% and a gain amounting to approximately NIS 20 million was recorded (the Company's share is approximately NIS 17.5 million). According to the position taken by the Israeli Securities Authority, and as accepted by the Company, the Company will continue to consolidate the accounts of EQY, as at present, since the test of effective control still exists.

3. Investment in FCR:

a) In August 2000, the Company completed a tender offer in which it acquired, through wholly owned Canadian subsidiaries ("Gazit Canada") FCR shares, a Canadian income producing real estate company listed for trade on the Toronto Stock Exchange ("TSX"). Subsequent to the sale of 16% of FCR's shares to a third party in October 2000, the Company's stake in FCR reached 68%.

The aggregate acquisition cost (without the portion sold to the third party) amounted to approximately NIS 406 million.

b) On October 30, 2003 and December 31, 2003, FCR made an early redemption of all of the principal of convertible debentures (series A) in the amount of C$ 57.4 million in return for the issuance of 3.9 million of FCR's shares. The Company, which before the redemption held approximately C$ 18.3 of the convertible debentures (series A), received 1.3 million of FCR's shares.

c) In March 2004, FCR issued to institutional investors and others about 3.4 million shares for the total consideration of approximately C$ 54 million, including 0.8 million shares which were acquired by Gazit Canada with an investment of C$ 13 million.

d) In August 2004, FCR completed an early redemption of the remainder of the series of convertible debentures (7.875%) (series B) for the total consideration of approximately C$ 35 million, in cash. Prior to the early redemption, convertible debentures of C$ 42 million and of C$ 20 million, which were held by Gazit Canada and by others, respectively, were converted into 3.8 million of FCR shares.

In the context of FCR preparation to finance the redemption of the convertible debentures (series B), FCR issued through a private placement 2 million shares to Gazit Canada and to another related party in FCR (including 1.56 million shares to Gazit Canada) at the price of C$ 16 per share, for the total consideration of approximately C$ 32 million.

NOTE 1:- GENERAL (Cont.)

e) During 2004, FCR exercised 6.2 million marketable options and others into 6.2 million of FCR shares for the total consideration of approximately C$ 76 million, including 3.9 million options which were exercised by Gazit Canada with an investment of C$ 45.9 million (in 2003, Gazit Canada exercised 3.5 million options into shares of FCR with an investment of C$ 41 million).

f) During 2004, FCR issued 1.2 million shares in return for four payments of interest on convertible debentures (series C and series D) in the amount of approximately C$ 18.7 million. During 2003, FCR issued 1.4 million shares in return for four payments of interest, as above, in the amount of approximately C$ 18.7 million, and this in accordance with the right conferred to FCR under the terms of the debentures.

Gazit Canada, which holds convertible debentures of FCR, received in 2004 about 558 thousand shares in return for receipt of interest in the amount of approximately C$ 8.9 million and in 2003 about 628 thousand shares in return for receipt of interest in the amount of approximately C$ 8.6 million.

g) As of December 31, 2004, the Company holds 57% of the share capital of FCR. As a result of the change in its holding rate in FCR, the Company recorded in the reported year a gain amounting to approximately NIS 11.6 million.

4. Investment in Citycon:

a) During the reported year, the Company acquired approximately 44.1 million shares of Citycon in consideration of approximately NIS 467.1 million. The cost of the reported investment is net of the Company's share in the dividend which Citycon distributed during March 2004 in the amount of approximately NIS 22 million.

Citycon Board is comprised of eight members among which three members were based on the Company's recommendation, including the Company's President.

Effective the second quarter of the year, the Company presents its investment in Citycon by the equity method of accounting based on the financial statements of Citycon, which are prepared in accordance with international accounting standards. See also Note 8d.

b) Citycon is a Finnish public company which focuses on commercial income producing properties in Finland. Its properties portfolio as of December 31, 2004 consisted of about 146 properties, some of which are supermarket-anchored shopping centers and some are commercial buildings with a total area of approximately 500 thousand sq.m. which are principally leased to supermarket and retail chains.

NOTE 1:- GENERAL (Cont.)

c) In September 2004, Citycon issued 10 million shares to institutional investors in and out of Finland in consideration of approximately € 20.3 million. As a result of this issuance, the Company recorded a gain amounting to approximately NIS 1 million from decrease in its holding in Citycon. As of December 31, 2004, the Company holds 38% of the issued share capital of Citycon (about 39.3% of the share capital net of shares held by Citycon).

5. Investment in Mishkenot Clal (1982) Ltd. ("Mishkenot Clal"):

In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the acquisition of shares and a private placement, 49% of the share capital of Mishkenot Clal, in return for the net consideration of approximately NIS 70 million. During May 2001, the Company acquired an additional 1% of the shares of Mishkenot Clal in consideration of approximately NIS 2 million, thereby increasing its stake in Mishkenot Clal to 50%.

Mishkenot Clal is engaged in the construction and management of senior citizen residence centers in Israel.

Mishkenot Clal's financial statements are consolidated by the proportionate consolidation method.

On January 31, 2004, Mishkenot Clal signed an agreement with Polar Investments Ltd. and Niduran Ltd. for the acquisition of 91.2% of Hazerot Hadar Ltd., Mishkenot Clal's partner in the holding of Mediterranean Towers Kfar Saba (50%) and Mediterranean Towers Nordia (33%) which are managed by Mishkenot Clal.

On March 1, 2004, after receiving the approval of the Anti Trust Commissioner, the transaction was closed. Subsequent to the closing, Mishkenot Clal holds, through its subsidiaries, full ownership of Mediterranean Towers Kfar Saba and 66.67% of Mediterranean Towers Nordia.

6. Investment in RSC:

In January 2002, in the context of the Company's penetration into investments in acquiring, developing and managing of protected senior citizen residence centers in the U.S., the Company's wholly owned subsidiary signed a series of agreements with a third party with experience in the field of management of protected senior citizen residence in the U.S.

Each of the partners (the Company and said third party) was conferred 50% of the rights to each of the joint companies which were established for that purpose. As of the date of the financial statements, the Company's outstanding investment in these companies is NIS 21.8 million.

As of the date of the financial statements, the joint company (RSC) owns four protected tenancy properties with total cost of approximately NIS 112 million.

NOTE 1:- GENERAL (Cont.)

7. Dividend distribution policy:

   In November 1998, the Company's Board decided that it would publish during the fourth quarter of each year, the minimal dividend to be paid in each of the four quarters following the quarter in which the aforesaid notice was made.

   The aforesaid is subject to sufficient amounts appropriate for distribution at the relevant dates and subject to the provisions of any law relevant to the distribution of a dividend and to the decisions which the Company is entitled to make, including with respect to another designation of its income and the changing of this policy.

   In November 2004, the Company's Board decided that a dividend of at least NIS 0.20 per share per quarter (NIS 0.80 per share compounded annually) would be declared in 2005.

8. As for the exercise of options (series 4 and series 7) into the Company's shares and private placements and public issuances by the Company during the reported year, see Note 23.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis, except as described in a. below, are as follows:

a. Discontinuance of the adjustment of financial statements and financial reporting in reported amounts as of December 31, 2004 and for the year then ended:

   In 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuance of the adjustment of financial statements. According to this Standard (as amended by Accounting Standard No. 17), the adjustment of financial statements for the effects of inflation should be discontinued beginning January 1, 2004. The Company applied the provisions of the Standard and, accordingly, the adjustment for the effects of inflation was discontinued as from January 1, 2004.

   1. Starting point for the preparation of financial statements:

      a) In the past, the Company and its subsidiaries prepared their financial statements based on the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.

c) In the financial statements "cost" represents cost in the reported amount (see 2 below).

d) All comparative data for previous periods are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

2. Financial statements in reported amounts:

a) Definitions:

Adjusted amount - historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.

Reported amount - adjusted amount as of the transition date (December 31, 2003), plus additions in nominal values after the transition date and less amounts deducted after the transition date.

b) Balance sheet:

1) Non-monetary items are presented in reported amounts.

2) Monetary items are presented in nominal values as of the balance sheet date.

3) The book value of investments in investees is determined based on the financial statements of these companies in reported amounts.

c) Statement of income:

1) Income and expenses relating to non-monetary items are derived from the change in the reported amounts between the opening balance and the closing balance.

2) Other items in the statement of income are presented in nominal values.

3) The equity in the results of operations of investees is determined based on the financial statements of these companies in reported amounts.

3. Condensed financial data of the Company in nominal historical values for tax purposes is presented in Note 35.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Adjusted financial statements as of December 31, 2003 and for each of the two years in the period then ended:

1. The Company and its subsidiaries in Israel maintain their current accounting records in nominal NIS. In accordance with pronouncements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements are presented in adjusted NIS, which have an equivalent purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2003, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2004 (112.9 points on the average basis of 1998 = 100).

   As for foreign subsidiaries whose financial statements are prepared in the local currency of the countries in which they operate, see c below.

2. The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets which have been adjusted according to the changes in the general purchasing power of the currency.

3. Principles of adjustment:

   Balance sheet:

   a) The amounts for non-monetary items (items whose amounts in the balance sheet reflect their historical values upon acquisition or incurrence - see below) have been adjusted based on the changes in the Israeli CPI since their acquisition or incurrence.

      The following items have been treated as non-monetary items: prepaid expenses, fixed assets and related accumulated depreciation, long-term investments, other assets and deferred charges, net and capital and additional paid-in capital derived from equity investments made by shareholders.

   b) The carrying value of investments in subsidiaries is determined based on the adjusted financial statements of these companies.

   c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the adjusted balance sheet as of December 31, 2003 in their nominal amounts as of such date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Statement of income:

a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.

b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.

c) The components of the statement of income relating to accruals and provisions included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined based on the changes in the balances of the related balance sheet items after cash flows in respect thereof are taken into account.

d) Current taxes on income include the erosion in the value of the payments from the date of payment to the balance sheet date.

e) The equity and minority interest in the results of operations of subsidiaries is determined based on the adjusted financial statements of these companies.

f) The financing item, reflects real financial income or expenses including the erosion of monetary items during the year.

Statement of changes in shareholders' equity:

Dividends declared and actually paid during the reported year are adjusted based on the Israeli CPI upon actual payment date. Dividends declared by the date of the approval of the financial statements and not paid as of the balance sheet date are included without adjustment. The erosion of dividends which were declared in previous year and actually paid in the reported year is included in the statement of changes in shareholders' equity.

c. Translation of financial statements of foreign operations:

1. On January 1, 2004, Standard No. 13 with respect to the effect of changes in foreign exchange rates became effective ("Standard No. 13"). Standard No. 13 replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were superseded when Accounting Standard No. 12, as described above, became effective.

   Standard No. 13 deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Foreign operation that is classified as a foreign autonomous entity ("the entity"):

   In accordance with Standard No. 13, assets and liabilities, both monetary and non-monetary, of the entity are translated at the closing rate. The components of the statement of income and of the statement of cash flows of the entity are translated at the exchange rates at the dates of the transactions or at average exchange rates for the period if such exchange rates approximate the actual exchange rates. All exchange rate differences resulting from the translation, as above, are classified as a separate component of shareholders' equity ("Foreign currency translation adjustments for autonomous entities") until the disposal of the investment.

   Loans that have the characteristics of an investment are treated as part of the investment in the entity. Exchange rate differences in respect of these loans are also classified in the separate component of shareholders' equity. In addition, exchange rate differences in respect of liabilities in foreign currency that hedge the net investment in the entity are classified in the separate component of shareholders' equity.

   As a result of the adoption of Standard No. 13, goodwill arising on the acquisition of the entity is accounted for as an asset of the entity and translated at the closing rate and not at the rate as of the date of the transaction, which was the rate used until December 31, 2003. The components of the statement of income and of the statement of cash flows are no longer translated at the closing rate, but instead are translated as described above, and the financial statements of the entity are no longer adjusted for the changes in the foreign consumer price index before their translation into NIS.

d. Consolidated financial statements:

   The consolidated financial statements include the accounts of the Company and its subsidiaries. In addition, these statements include the proportionate share in the amounts of assets, liabilities, revenues and expenses of the jointly controlled entities which are included by the proportionate consolidation method based on the shareholding in these companies. Material intercompany transactions and balances among the companies whose accounts have been fully or proportionally consolidated, have been eliminated in the consolidated financial statements. Company's shares which were acquired by the Company are presented by the treasury stock method.

e. Cash equivalents:

   Cash equivalents include deposits in banks available for immediate withdrawal and deposits in banks for which the period up to their redemption, at the time of investment therein, is not over three months and which are not restricted by charges.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Marketable securities:

1. Marketable securities held for the short-term and available for immediate sale are presented at quoted market prices at balance sheet and shown net of a deduction of the expenses related to their realization, in accordance with Opinion 44 of the Institute of Certified Public Accountants in Israel. Changes in their value are included in the statement of income as financing.

2. Marketable securities held to maturity are stated at cost, net of impairment loss if the decline in value is other than temporary.

g. Allowance for doubtful accounts:

The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the management of the companies, is doubtful.

h. Fixed assets:

1. Fixed assets are stated at cost. Impairment loss is provided whenever the carrying amount of an asset exceeds its value in use. Financial expenses related to financing the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.

2. Expenditures for improvements, renovations and material upgrading are added to cost, whereas current maintenance and repair expenses are expensed as incurred.

3. Depreciation is calculated by the straight-line method at annual rates which are deemed adequate to depreciate the assets over their estimated useful lives, as follows:

	%	
Rental buildings	2 - 4	(mainly 2% and 2.5%)
Office furniture and equipment	14 - 33	
Motor vehicles	15	
Improvements in rental buildings *)	2 - 20	(mainly 7%)

*) Improvements in rental buildings are depreciated at the shorter of the estimated useful period of those properties or the term of the respective rent agreement.

4. Deferred charges relating to the purchase of properties - expenses attributed to rent contracts which exist when properties are purchased and expenses relating to rent of stores are included in other assets and amortized by the straight-line method over the term of the rent contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Impairment of assets:

1. Impairment of fixed assets:

On January 1, 2003, the Company adopted Accounting Standard No. 15, "Impairment of Assets". This Standard prescribes the accounting treatment and disclosures required in the event of impairment of assets. The Standard applies to all assets recognized in the balance sheet other than inventories, assets generated by construction contracts, assets generated by employee benefits, deferred tax assets and financial assets (except investments in investees that are not subsidiaries). According to the Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life. If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the impairment loss was recognized.

2. Impairment of investments in other companies:

The Company generally evaluates the fair value of its investments in each reporting period and whenever changes in circumstances or occurrence of other events indicate a decline in value that is other than temporary.

The evaluation of the fair value takes into consideration, among others, the market value of the investments (in respect of investments in marketable securities), estimates of analysts and valuations of the investments, the conditions of the industry in which the portfolio company is operating, the portfolio company's business condition, off-market transactions in the portfolio company's securities, prices of equity transactions in the portfolio company and additional information that the portfolio company presents to its board of directors (if the Company is represented on the board) or to its shareholders.

Based on the results of the above evaluation, the Company, if necessary, recognizes an impairment loss that is other than temporary in the statement of income.

j. Investments in investees:

1. The Company's investments in subsidiaries are presented by the equity method of accounting, i.e. investments are presented at cost plus the equity in the net operating results of those companies or other changes in their shareholders' equity since the time of their acquisition or establishment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Excess of cost of investments in investees over their book value upon the dates of acquisition ("initial difference") to which the provisions of the Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996, do apply, is presented according to the principles prescribed in those regulations, meaning, as an addition to or disposal from shareholders' equity, as appropriate.

The initial difference attributed to buildings is presented in fixed assets in the consolidated financial statements, and is depreciated over the remaining depreciation period of the buildings to which it is attributed, up to 50 years.

The initial difference attributed to land is also presented in fixed assets in the consolidated financial statements and is not depreciated.

The initial difference attributed to monetary assets and liabilities and to commitments is presented in these items and is amortized according to their realization.

The initial difference which is not attributed to certain assets and to which the aforesaid regulations do not apply, is recorded as goodwill and is amortized on a systematic basis over its useful life of 10 years from the date of acquisition, in accordance with Accounting Standard No. 20 of the Israel Accounting Standards Board which was published in March 2004. According to this Standard, goodwill should be amortized on a systematic basis over its useful life, which reflects the best estimate of the period during which future economic benefits from the goodwill are expected to flow to the Company. The amortization period should not exceed 20 years from the date of initial recognition. The Standard is effective with respect to financial statements for periods beginning on or after January 1, 2004 and the related accounting effect is treated as change in estimate ("prospective").

As a result of the publication of the new Standard and after reviewing it, the Company's management decided to extend the amortization period of goodwill up to 20 years in view of the following special circumstances and characteristics of the markets in which the Company operates which justify an amortization period of goodwill of up to 20 years:

a) Markets which are characterized by long-term engagements and tenants' loyalty.

b) Leading companies in their business segments.

The change in the amortization period resulted in a decrease of approximately NIS 4 million in the amortization of goodwill in the consolidated financial statements for 2004 (the effect on the Company's net income is approximately NIS 2 million).

2. The Company evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15 (see i above).

3. As for deferred taxes, see l below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Other assets and deferred charges, net:

1. Deferred charges which originate from obtaining long-term loans and debentures are amortized by the straight-line method over the term of the loans which ranges between 5 to 30 years, in proportion to the outstanding amounts in each year end.

2. Expenses attributed to rent contracts which exist when properties are purchased and expenses relating to rent of stores are amortized by the straight-line method over the term of the rent contract.

l. Deferred taxes:

1. Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel).

2. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to reverse, as known on the date the financial statements were prepared.

3. Taxes that would apply in the event of the realization of investments in investees have not been taken into account by the Group in computing the deferred taxes, as it is the Company's intention to hold these investments. Similarly, deferred taxes that would apply in the event of distribution of earnings by certain investees as dividends have not been taken into account in computing the deferred taxes, since it is the Company's policy not to initiate distribution of dividends from these companies that involves an additional tax liability.

4. Deffered taxes from the adjustment of the differences between the financial statements of foreign autonomous subsidiaries and the changes in the purchasing power of the local currency were not provided (see c above, v below and Note 20i).

5. The Company records deferred tax assets based on the Company's management estimate as to the probability of the utilization of the benefit.

m. Recognition of revenue from rental income and management fees:

Revenues from rental income and management fees are recognized as accrued, over the term of the rent period or at the time that management services are rendered.

Revenues from contracts which contain a raise in rental fees during the term of the contract are recognized by the straight-line method over the term of the contract. Excess of recognized revenues over rental fees as set in the contract are presented in long-term tenants.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Recognition of revenue from entrance fees and forfeiture of deposits:

In order to create an appropriate matching between revenues from tenants and expenses related to their occupation, the Company equally carries the expected revenues from entrance fees and from forfeiture of tenants' deposits to the statement of income over a period of 10 years beginning with the date on which the tenant enters the apartment, a period which, in management's opinion, reflects the average time of stay of a tenant who has entered into an agreement with the Company.

Expected revenues from the forfeiture of tenants' deposits based on period of stay of 10 years from the date of entering the center are presented as deferred revenue.

Financial income and expenses in connection with the expected balance of deposits to be refunded to tenants, revenues from forfeitures after 10 years of stay, as well as revenues from other services are charged to the statement of income as incurred.

o. Convertible debentures:

Convertible debentures are included on the basis of the probability of conversion, in accordance with criteria set forth in Opinion 53 of the Institute of Certified Public Accountants in Israel. In the event that the conversion is not probable, the debentures are included as a liability at their liability value; in the event that conversion is probable, the debentures are presented between long-term liabilities and shareholders' equity at the greater of their liability value or capital value.

Discount created upon the issuance of convertible debentures is amortized using the straight-line method over the term of the debentures.

Acquisition of convertible debentures redeemable for subsidiary's shares by the Company:

Since 2002, the Company is acting in accordance with the Securities Authority's staff position whereby if the Company acquires convertible debentures of a subsidiary, the difference created between the cost of acquisition of the debentures by the Company and their book value in the books of the subsidiary that issued these debentures in the past will be deferred and recognized as a gain only when the debentures are converted or redeemed.

p. Derivative financial instruments:

The results of forward transactions and interest swap transactions for hedging the liabilities which the Company undertakes to repay in foreign currency in connection with additional investments in subsidiaries, are reported in the statement of income, concurrently with the recording of the results relating to the transactions which they are designated to hedge.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Stock options and shares to employees and managers:

The Company records as an expense the intrinsic benefit on the date of the grant of stock options and shares to employees and managers. According to this policy, if the exercise price of the stock option or the price of the shares which are issued to employees and managers is less than the share market price on the date of grant, this difference is recorded as an expense over the vesting period of the stock options and shares.

r. Exchange rate and linkage basis:

1. Assets and liabilities in or linked to foreign currency are presented according to the representative exchange rates published by the Bank of Israel at balance sheet date.

2. Assets and liabilities linked to the Israeli CPI are presented according to the relevant index for each linked asset or liability.

3. Exchange rate and linkage differences are charged to the statement of income as incurred.

4. Below are data about the index in Israel, U.S. and Canada and the exchange rates of the U.S. dollar, the Canadian dollar and the Euro:

	Index for December			Representative exchange rate of		
	Israel	U.S.	Canada	U.S.$	C$	Euro
		Points *)			NIS	
As of:						
31.12.2004	114.3	190.3	125.4	4.308	3.5787	5.8768
31.12.2003	112.9	184.3	122.8	4.379	3.4075	5.5331
31.12.2002	115.1	180.9	120.4	4.737	3.0013	4.9696
31.12.2001	108.1	176.7	115.9	4.416	2.7763	3.9075
Change during the year:	%	%	%	%	%	%
2004	1.2	3.3	2.1	(1.6)	5.0	6.2
2003	(1.9)	1.9	2.0	(7.6)	13.5	11.3
2002	6.5	2.4	3.9	7.3	8.1	27.2

*) According to the index for the month ending on balance sheet date on an average basis of:

Israel - 1998 = 100
U.S. - 1984 = 100
Canada - 1992 = 100.

s. Earnings per share:

Earnings per share are computed in accordance with Opinion 55 of the Institute of Certified Public Accountants in Israel.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Fair value of financial instruments:

The Group's financial instruments include mainly non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, deposits in banks, marketable securities, tenants, other accounts receivable and long-term loans granted; non-derivative liabilities include short-term credit from banks and others, trade payables and other accounts payable). The fair value of these financial instruments is generally equivalent to or approximates the value in which they are presented in the financial statements.

As for long-term loans and debentures, see Notes 16 and 17.

As for derivative financial instruments, see p above.

u. Use of estimates for the preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

v. Disclosure of the effect of a new Accounting Standard prior to its adoption:

In July 2004, the Israel Accounting Standards Board approved Accounting Standard No. 19, "Taxes on Income" ("the Standard"). The Standard prescribes the principles for recognition, measurement, presentation and disclosures of taxes on income in the financial statements.

The major changes pursuant to the Standard compared to the principles presently applied are: recognition of deferred taxes for temporary differences which are created if the measurement currency for accounting is other than the measurement currency for tax purposes and recognition of deferred taxes for temporary differences relating to land.

The Standard will apply to financial statements for periods beginning on or after January 1, 2005. The effects of the adoption of the Standard will be recognized by including the cumulative effect as of the beginning of the period in which the Standard is adopted in the statement of income.

The Company estimates that the amount to be recognized in the statement of income (on a one time basis) as cumulative effect as of the beginning of the period in which the Standard is adopted is an expense of between NIS 55 to NIS 60 million.

The Company believes that, except the aforementioned, the new Standard will not have an effect on its results of operations, financial position and cash flows.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Cash and deposits for immediate withdrawal	45,546	19,710	5,394	8,089
Deposits	7,261	33,941	-	9,943
	52,807	53,651	5,394	18,032

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities stated at quoted market prices (1)	12,560	33,492	3,026	252
Deposits (2)	43,461	34,217	1,457	-
	56,021	67,709	4,483	252

(1) Mainly investments in shares of income producing real estate companies and/or companies that are engaged in segments that relate to the Group's activity in the U.S., Canada and Israel.

(2) Deposits for the examination of investments in real estate and other deposits. Most of these deposits are in dollars and bear insignificant interest.

NOTE 5:- TENANTS

a. Composition:

	Consolidated	
	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Open accounts	114,057	90,658
Less - allowance for doubtful accounts	10,934	5,747
	103,123	84,911

b. In 2004 and 2003, the Company had no lessee who accounted for more than 10% of total income from the rental of buildings.

NOTE 6:- ACCOUNTS RECEIVABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Government authorities (1)	42,057	32,693	307	216
Prepaid expenses	24,370	20,364	2,889	4,419
Employees	853	679	-	2
Receivables for sale of land	-	6,240	-	-
Other	2,721	6,218	788	9
	70,001	66,194	3,984	4,646

(1) Mainly for municipal taxes.

NOTE 7:- LOANS TO PARTNERS IN PROPERTY UNDER DEVELOPMENT

Loans which FCR provided to partners in property under development for their share in financing the development of the properties of those companies. The loans are in Canadian dollars and bear average interest of 10%. The loans are secured by the partners' rights to the properties. According to the partnership agreement and the agreement of loans to partners, these loans are intended to be repaid by December 2005, after receiving a loan in connection with the property when its development is completed or after its sale, whichever is earlier.

NOTE 8:- INVESTMENTS IN INVESTEES

a. Composition:

	The Company	
	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
1. Investments in subsidiaries:		
Cost of shares	814,388	621,405
Capital reserve from investments in subsidiaries	(32,252)	(32,252)
Equity in post-acquisition earnings	550,892	445,050
Dividend received from subsidiaries	(45,517)	(39,464)
Foreign currency translation adjustments for foreign autonomous entities	116,678	89,259
	1,404,189	1,083,998
2. Investments in jointly controlled entity *):		
Cost of shares	108,470	108,470
Equity in post-acquisition losses	(9,881)	(11,035)
	98,589	97,435
3. Investment in affiliate **):		
Cost of shares	467,143	-
Equity in post-acquisition earnings	38,033	-
Foreign currency translation adjustments for foreign autonomous entities	29,927	-
Equity in capital reserve from derivatives	(2,726)	-
	532,377	-
4. Loans ***):	775,262	559,710
	2,810,417	1,741,143

*) See e below.

**) See d below.

***) Loans to subsidiaries in U.S. amounting approximately NIS 390 million are in U.S. dollars and bear interest at the rate of 3.45% to 6.5%. Loans to subsidiaries in Canada amounting to approximately NIS 77 million are in Canadian dollars and bear interest at the rate of 8.5%, or Libor + 2.5%, whichever is higher. Loan to a subsidiary in Israel amounting approximately NIS 302 million is linked to the Euro and bears interest at the rate of Eurobor + 2%. Loans to subsidiaries in Israel amounting approximately NIS 6 million are linked to the Israeli CPI and bear interest at the rate of 4% to 6%. The principal and the interest are repayable upon the earlier of five years from the date of receipt of said loan or at the Company's request in the occurrence of certain events.

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

5. Change in investments in 2004:

	The Company			
	Subsidiaries	Jointly controlled entities	Affiliates	Total
	Reported NIS in thousands			
Balance at the beginning of the year	1,643,708	97,435	-	1,741,143
Change during the year:				
Investments:				
In shares	192,983	-	467,143	660,126
In loans and current accounts, net	215,552	-	-	215,552
Gains from change in shareholdings in investees	2,556	-	-	2,556
Equity in earnings, net	103,286	1,154	38,033	142,473
Dividends	(6,053)	-	-	(6,053)
Foreign currency translation adjustments	27,419	-	29,927	57,346
Changes in capital reserve	-	-	(2,726)	(2,726)
Balance at the end of the year	2,179,451	98,589	532,377	2,810,417

b. Investment in EQY:

1. The investment, directly and indirectly (net of minority interest), in EQY, which is listed for trade on the New York Stock Exchange:

	December 31, 2004		December 31, 2003	
	Carrying amount *)	Market value	Carrying amount *)	Market value
	NIS in thousands			
	Reported		Adjusted	
Shares	1,382,166	2,417,284	1,294,799	1,676,060

*) Including initial difference.

As of the balance sheet date, the Company holds, directly and indirectly (net of minority interest), approximately 32.13% (31.62% assuming full dilution) of the share capital of EQY.

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

2. The stock options of EQY as of the balance sheet date are as follows:

Series	Average exercise increment per share *)	Expiration date	Total number in units **)
Options to employees and managers	U.S.$ 14.52	2007 - 2013	***) 1,481

*) The price for an EQY share as of the balance sheet date is U.S.$ 23.73.

**) Including all of the stock options which were issued to employees and managers, as well as the 390 thousand stock options which have not yet gained the minimal length of time required for their vesting rights. As of the balance sheet date, EQY has 73,598 thousand issued shares.

***) Including 680 thousands options which had been allocated in the context of the employment contract between the Company's Chairman of the Board and EQY. See Note 32c.

3. EQY issued Ordinary shares with various capping periods to directors, managers and employees. As of December 31, 2004, the share capital of EQY consists of 693 thousand shares which have not yet gained the minimal length of time required for their vesting rights.

4. As of December 31, 2004, EQY is the general partner in a partnership which acquired an income producing property. The partners in this partnership are entitled to exchange their participating units for 93 thousand of EQY shares. The partners' share in the partnerships' equity, amounting approximately NIS 4,261 thousand, is presented in minority interest in the consolidated balance sheet. During 2004, partners in other partnerships exchanged their participating units for 734 thousand of EQY shares.

	The Company	
	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
5. Dividend directly received by the Company from EQY during the reported year	6,053	5,630

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

c. Investment in FCR:

1. The indirect investment in FCR which is listed for trade on the Toronto Stock Exchange:

	December 31, 2004		December 31, 2003	
	Carrying amount *)	Market value	Carrying amount *)	Market value
	NIS in thousands			
	Reported		Adjusted	
Shares and traded options	1,386,306	1,978,974	913,428	1,125,920

*) Including initial difference.

The Company holds, through subsidiaries, approximately 56.75% (53.78% assuming full dilution) of the share capital of FCR.

2. The stock options of FCR as of the balance sheet date are as follows:

Series	Average exercise increment per share (1)	Expiration date	Number in units in thousands
Options to employees and managers in FCR and the property management company	C$ 14.49	2008 - 2014	(2) 1,258
Traded options	C$ 11.8	2008	927

As for FCR debentures that are redeemable into FCR shares, see Note 21.

(1) The price for FCR share as of the balance sheet date is C$ 18.85. As of the balance sheet date, FCR has 51,692 thousand issued shares.

(2) Including all of the stock options which were issued to employees and managers of FCR and the property management company (including issuance of stock options to the Company's Chairman of the Board and CEO, see Note 32) as well as the 600 thousand stock options which have not yet gained the minimal length of time required for their vesting rights.

3. FCR has a plan for the issuance of capped units which are exercisable at no consideration into Ordinary shares of FCR to directors, managers and employees. As of December 31, 2004, out of the 213 thousand units which FCR has undertaken to issue some 153 thousand units were issued in the context of the plan (see Note 32c(5)).

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

d. Investment in Citycon:

1. The direct investment in Citycon, which is listed for trade on the Helsinki Stock Exchange:

	December 31, 2004	
	Carrying amount *)	Market value
	Reported NIS in thousands	
Shares	532,377	632,195

*) Including goodwill.

The Company holds approximately 38.0% (36.35% assuming full dilution) of the issued share capital of Citycon and net of shares held by Citycon - approximately 39.31% (37.55% assuming full dilution).

2. Goodwill included in the investment in Citycon:

	December 31, 2004
	Reported NIS in thousands
Goodwill created upon acquisition	14,673
Accumulated amortization	183
	14,490

3. The stock options of Citycon as of the balance sheet date are as follows:

Series	Exercise increment per share *)	Expiration date	Number in units in thousands
Traded options to employees and managers (series 1999)	(1) € 1.54	2007	(2) 5,237
Options to employees and managers (series 2004)	(3) € 2.51	2009 - 2011	(4) 3,900

*) The price for Citycon share as of the balance sheet date is € 2.44. As of the balance sheet date, Citycon has 116,041 thousand issued shares (including 3,874 thousand shares that are held by Citycon).

(1) The exercise increment is discounted by the amount of distributed dividends per share, however not below the par value per share (€ 1.35).

(2) Including 172 thousand options which have not yet been issued to the employees and managers of Citycon.

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

(3) The exercise increment was determined only for the first portion of the series (1,300 options). The exercise increment is discounted by 50% of the amount of dividends per share, however not below the par value per share (€ 1.35). 165 thousand options have not yet been issued to the employees and managers of Citycon.

(4) 2,600 options will be issued in equal portions in 2005 and 2006. The exercise price will be determined based on the average price per share in April of each year with the addition of 20%. The exercise increment will be discounted by 50% of the amount of dividends per share, however not below the par value per share (€ 1.35).

4. Dividend directly received by the Company from Citycon during the reported year and was recorded as a deduction from the investment:

	The Company
	December 31, 2004
	Reported NIS in thousands
	22,370

5. Following are principal data of the financial statements of Citycon that are attached to the financial statements:

	December 31, 2004
	Reported NIS in thousands
Current assets	71,574
Non-current assets (mainly fixed assets)	4,353,657
Current liabilities	178,996
Long-term liabilities	2,918,172
Shareholders' equity	1,328,063
Revenues	471,719
Expenses	345,100

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

e. Investment in Mishkenot Clal and in RSC:

1. The investment, directly and indirectly, in investees which were consolidated by the proportionate consolidation method and which are engaged in the protected senior citizen residence centers in the U.S. and Israel:

Following are principal financial data (Company's share) of these companies:

	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Current assets	9,382	3,011
Non-current assets (mainly fixed assets)	313,636	153,027
Current liabilities	28,077	19,969
Long-term liabilities	241,644	100,140

	Year ended December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Revenues	41,502	16,589
Expenses	39,235	14,839

2. Goodwill included in the investment in jointly controlled entities:

	Year ended December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Goodwill created upon acquisition	15,149	15,149
Accumulated amortization	4,999	4,355
	10,150	10,794

f. As for the charge placed on part of the shares of subsidiaries, an affiliate and jointly controlled entities as collateral for the Group's liabilities, see Note 24.

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

g. Investment in affiliates - consolidated:

	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Investment in Citycon (1)	532,377	-
Investment in affiliates of EQY (2)	1,490	14,942
Investment in affiliate of Mishkenot Clal (3)	-	764
	533,867	15,706

(1) See d above.

(2) The investment as of December 31, 2004, represents EQY's investments in 50% of a company which is the owner of land for future development.

EQY's stake in the land amounts to approximately NIS 4.6 million (in 2003 - approximately NIS 68.9 million). This company has no liabilities (EQY's stake in the liabilities of these companies in 2003 amounts to approximately NIS 53.2 million).

In 2004, EQY sold an affiliate in consideration of approximately U.S.$ 3.2 million (approximately NIS 14.1 million) at a gain of approximately U.S.$ 38 thousand (approximately NIS 168 thousand).

(3) As of December 31, 2004, the consolidated financial statements include the accounts of that company, see Note 1b(5).

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Long-term deposits (1)	27,990	18,957	12,425	13,263
Marketable securities presented at cost (2):				
Shares of companies in Israel	10,218	4,205	10,218	4,205
Shares of companies in the U.S. and Canada	177,897	17,191	10,759	-
	188,115	21,396	20,977	4,205
	216,105	40,353	33,402	17,468

(1) A deposit of NIS 12,425 thousand (2003 - NIS 13,263 thousand) is an unrestricted deposit, deposited with an Israeli bank and bears interest at the rate of 1.6%. According to the agreement with the bank, as long as the deposit is maintained, the interest rate on loans, provided by the bank to the Company's employees and CEO for purchase of Company's shares issued to them, shall be 2%. If the deposit is withdrawn, the interest rate on these loans shall be as the interest rate in the market. The balance of the deposits was granted to the providers of the mortgages in order to secure the performance of renovations in the mortgaged properties as to maintain their value.

(2) The market value of these shares as of the balance sheet date is approximately NIS 214.5 million (2003 - approximately NIS 23.5 million).

NOTE 10:- LONG-TERM LOANS AND RECEIVABLES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Loans:				
Employees	646	16,148	-	353
Related parties (1)	5,189	-	-	-
Loan provided by a jointly controlled entity (2)	14,625	17,135	-	-
Loans to jointly controlled entities	373	369	-	-
Other loans (3)	31,364	13,795	-	-
	52,197	47,447	-	-
Tenants, see Note 2m	36,490	11,070	-	-
	88,687	58,517	-	353

(1) In October 2004, after receiving the approval of the Company's meeting of shareholders, a wholly owned subsidiary of the Company provided a loan amounting approximately C$ 1.45 million (approximately NIS 5 million when the loan was granted) to the Company's CEO.

The loan is for a period of 5 years (the borrower retains the right to repay the principal in three equal annual payments, the first of which is on the date of the original repayment), bears annual interest at the rate of 3%, but in any case not below the minimal interest rate required under the Canadian income tax regulations and the loan principal is payable at the end of the term of the loan. The loan is secured by a charge on Company's shares which are owned by the Company's CEO and by other liabilities of the Company toward the Company's CEO. The loan is other than non-recourse type loans.

(2) A loan that Mishkenot Clal provided to Azorim. The loan is linked to the U.S. dollar and bears annual interest at the rate of 4%.

(3) Loans provided by FCR and EQY for the sale of fixed assets and loans provided to companies and other entities. The loans are in Canadian dollars and U.S. dollars, mostly bearing interest of 8% to 10% and mature from 2006 to 2021.

NOTE 10:- LONG-TERM LOANS AND RECEIVABLES (Cont.)

b. Maturity dates:

	Consolidated
	December 31, 2004
	Reported NIS in thousands
Second year	6,793
Third year	21,160
Fourth year	224
Fifth year	5,408
Sixth year and thereafter	3,614
Maturity date not yet determined	14,998
	52,197

NOTE 11:- FIXED ASSETS

a. Composition:

	Consolidated			The Company
	Fixed assets - abroad (1)	Fixed assets - Israel (1)	Total	Total
	Reported NIS in thousands (except 2003)			
Cost:				
Balance at January 1, 2004	12,385,294	223,394	12,608,688	2,851
Foreign currency translation adjustments for foreign autonomous entities	139,026	-	139,026	-
Purchases during the year	2,933,232	4,293	2,937,525	848
Disposals during the year	(372,792)	(3,541)	(376,333)	-
Additions for newly consolidated subsidiary	-	139,769	139,769	-
Rental property held for sale (2)	(56,818)	-	(56,818)	-
Balance at December 31, 2004	15,027,942	363,915	15,391,857	3,699
Accumulated depreciation:				
Balance at January 1, 2004	505,230	25,046	530,276	877
Foreign currency translation adjustments for foreign autonomous entities	5,671	-	5,671	-
Additions during the year	251,214	9,368	260,582	512
Disposals during the year	(29,646)	(202)	(29,848)	-
Additions for newly consolidated subsidiary	-	13,371	13,371	-
Rental property held for sale (2)	(1,930)	-	(1,930)	-
Balance at December 31, 2004	730,539	47,583	778,122	1,389
Depreciated cost at December 31, 2004	14,297,403	316,332	14,613,735	2,310
Depreciated cost at December 31, 2003 (adjusted NIS in thousands)	11,880,064	198,348	12,078,412	1,974

(1) Mainly real estate.

(2) An income producing property which was sold in January 2005. As of the balance sheet date, it was held for sale and there was a selling contract with third parties in respect thereto. The depreciated cost of the property as of December 31, 2004 amounting NIS 54,888 thousand was classified to current assets.

b. Rights to real estate:

The ownership rights to land in the U.S. and Canada are registered in the names of the subsidiaries according to the registration regulations in their respective countries of residence, except for two leased real estate properties in Canada amounting NIS 80.9 million (2003 - two leased real estate properties amounting NIS 74.1 million) and five leased real estate properties in the U.S. amounting NIS 87.7 million (2003 - eight leased real estate properties amounting NIS 165.1 million)

NOTE 11:- FIXED ASSETS (Cont.)

Subsidiaries own real estate in Israel under a capitalized lease amounting approximately NIS 27.3 million. The lease period terminates in 2011. The subsidiaries have an option to lease the land for an additional 49 years.

A jointly controlled entity owns real estate in Israel under a capitalized lease amounting approximately NIS 61 million. The lease period terminates in 2047. The jointly controlled entity has an option to lease the land for an additional 49 years.

c. In 2004, financial expenses of NIS 29,896 thousand were capitalized to real estate under development (in 2003 - NIS 28,642 thousand were capitalized and in 2002 - NIS 24,275 thousand were capitalized).

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Cost:				
Deferred charges relating to the purchase of properties and rent, see Note 2k	160,185	42,798	-	-
Expenses relating to raising long-term loans and debentures and other expenses	113,297	97,445	12,194	6,961
Goodwill (1)	73,541	74,481	-	-
	347,023	214,724	12,194	6,961
Accumulated amortization:				
Deferred charges relating to the purchase of properties and rent, see Note 2k	31,981	9,677	-	-
Expenses relating to raising long-term loans and debentures and other expenses	44,922	37,950	1,919	817
Goodwill (1)	13,025	9,544	-	-
	89,928	57,171	1,919	817
	257,095	157,553	10,275	6,144
Deferred taxes, see Note 20i	50,356	72,071	-	-
	307,451	229,624	10,275	6,144

(1) Goodwill created upon the acquisition of IRT (see Note 1b(2)b) and upon the acquisition of Mishkenot Clal (see Note 1b(5)).

NOTE 13:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition:

	Weighted interest rate 31.12.2004	Consolidated December 31, 2004	Consolidated December 31, 2003	The Company December 31, 2004	The Company December 31, 2003
		NIS in thousands			
	%	Reported	Adjusted	Reported	Adjusted
Short-term credit from banks	4.2	46,511	3,099	11	91
Current maturities of long-term liabilities (Note 17)		687,409	363,291	11,806	16,946
Current maturities of debentures (Note 16)		21,471	12,554	21,471	12,554
		755,391	378,944	33,288	29,591

b. To secure the credit it received, the Company recorded a charge on certain assets, see Note 24.

NOTE 14:- TRADE PAYABLES

	Consolidated December 31, 2004	Consolidated December 31, 2003	The Company December 31, 2004	The Company December 31, 2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Open accounts	151,882	128,772	133	142
Checks payable	592	1,149	117	923
	152,474	129,921	250	1,065

NOTE 15:- OTHER ACCOUNTS PAYABLE

Interest payable	91,645	69,709	23,233	9,991
Current maturity of deposits and entrance fees from tenants (see Note 18)	19,420	10,788	-	-
Government authorities (1)	46,065	39,692	276	373
Revenues received in advance from tenants	27,008	23,435	-	-
Unrealized gain	-	-	-	447
Employees	30,384	16,700	170	143
Dividend declared by subsidiary	23,809	13,272	-	-
Other payables and accrued expenses	17,885	13,498	2,953	1,182
	256,216	187,094	26,632	12,136

(1) Mainly for municipal taxes.

NOTE 16:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Debentures (series D), see b below	11,360	25,860	11,360	25,860
Less - discount	128	752	128	752
	11,232	25,108	11,232	25,108
Less - current maturities	11,232	12,554	11,232	12,554
	-	12,554	-	12,554
Debentures (series A), see c below	378,656	175,710	388,924	178,194
Add - premium (discount)	5,172	(522)	6,911	(611)
	383,828	175,188	395,835	177,583
Non-marketable debentures, see d below	111,197	112,097	111,197	112,097
Less - discount	7,510	8,119	7,510	8,119
	103,687	103,978	103,687	103,978
Non-marketable debentures, see e below	81,915	81,182	81,915	81,182
Less - current maturities	10,239	-	10,239	-
	71,676	81,182	71,676	81,182
Non-marketable debentures, see f below	121,328	-	121,328	-
Debentures (series B), see g below	71,983	-	375,192	-
Less - discount	413	-	1,780	-
	71,570	-	373,412	-
Debentures of EQY, see h below	646,200	656,850	-	-
Add - premium	39,181	54,470	-	-
	685,381	711,320	-	-
Debentures of EQY, see i below	861,600	-	-	-
Less - discount	913	-	-	-
	860,687	-	-	-
	2,298,157	1,084,222	1,065,938	375,297

NOTE 16:- DEBENTURES (Cont.)

b. In the context of agreements signed between the Company and Gazit Group in August 1998 and April 1999, the Company assumed the liabilities in respect of debentures (series D) which were issued to the public by Gazit, towards Gazit and the debenture holders.

The series included NIS 96.5 million par value of registered debentures, redeemable in five equal annual payments beginning December 2001, bearing annual interest at the rate of Libor + 0.5% and are linked to the representative exchange rate of the U.S. dollar (base exchange rate of U.S.$ 1 = NIS 3.23).

As of December 31, 2004, the Company redeemed 90% of the outstanding amount of debentures by payment of annual principal and by acquisition of debentures (series D) in the course of trade on the stock exchange and delisting them. As collateral for the outstanding amount of debentures (series D), there remained a senior fixed charge on income producing property known as "Gazit House" in Tel Aviv in the amount of U.S.$ 9 million.

As of the balance sheet date, the Company holds approximately NIS 9.5 million par value of debentures (series D) of which the Company holds approximately NIS 1 million par value of debentures (Series D) which it acquired and which were not yet delisted.

c. In May 2002, the Company issued to the public pursuant to a prospectus, among others, NIS 140 million par value of debentures (series A). In November 2002, stock options (series A) were exercised into additional NIS 57 million par value of debentures (series A).

In January 2004, the Company issued by private placement to institutional investors pursuant to a prospectus additional NIS 90 million par value of debentures (series A) for the total consideration of approximately NIS 91 million and in May 2004, the Company issued to the public, pursuant to a prospectus by the extension of an existing series, among others, NIS 150 million par value of debentures (series A), of which approximately NIS 126 million par value to the Company's wholly owned subsidiaries.

During the year, the Company's wholly owned subsidiaries sold approximately NIS 117 million par value of debentures which they held in consideration of a total of approximately NIS 110 million. As of the balance sheet date, NIS 437 million par value of debentures (series A) are outstanding, approximately NIS 11.5 million par value are held by the Company's wholly owned subsidiary. The debentures are linked to the U.S. dollar (base exchange rate of U.S.$ 1 = NIS 4.84), redeemable in 11 equal annual payments beginning June 2007 and bear interest at the rate of 6.5%.

d. In January 2001, the Company issued non-marketable debentures in the approximate amount of NIS 104 million par value to two provident funds. The debentures are linked to the Israeli CPI, bear interest which reflects a gross annual yield of 8.25% and are redeemable in the years 2006 to 2015.

In a transaction with a bank in Israel, the Company exchanged, for a period of five years, the linkage basis for part of the debentures in the amount of U.S.$ 20 million to U.S. dollars at an additional cost of 0.2% per year.

NOTE 16:- DEBENTURES (Cont.)

e. In February 2002, the Company issued to institutional investors NIS 77.5 million par value of non-marketable debentures in consideration of their par value. The debentures are linked to the Israeli CPI and bear interest at the rate of 5.65%. The redemption of the debentures is in 8 equal annual payments, beginning 2005.

f. In January 2004, the Company issued to institutional investors NIS 120 million par value of non-marketable debentures in consideration of their par value. The debentures are linked to the increase in the Israeli CPI and bear fixed annual interest at the rate of 5.55%, payable annually. The principal of the debentures is payable in one sum in February 2010.

g. In May 2004, the Company issued to the public, pursuant to a prospectus, among others, NIS 350 million par value of debentures (series B) for the consideration of approximately NIS 348.3 million, of which approximately NIS 283 million par value were issued to the Company's wholly owned subsidiaries. The debentures are linked to the Euro (base exchange rate of € 1 = NIS 5.4822), bear interest at the rate of Eurobor + 2% and are redeemable in 3 equal annual payments beginning December 2014.

h. Debentures amounting U.S.$ 150 million par value which were consolidated for the first time in the context of the acquisition of IRT by EQY in February 2003, see Note 1b(2)b.

Following are details pertaining to the terms of the debentures as of December 31, 2004:

Redemption date	Interest rate	Par value	Consolidated Balance
	%	U.S. dollars in thousands	Reported NIS in thousands
April 1, 2005	7.77	50,000	215,400
August 15, 2007	7.25	75,000	323,100
January 23, 2012	7.84	25,000	107,700
		150,000	646,200
Add - premium			39,181
			685,381

i. In March 2004, EQY issued a series of debentures in the scope of U.S.$ 200 million for the consideration of approximately U.S.$ 200 million. The debentures are redeemable in one sum on April 15, 2009 and bear interest at the rate of 3.875%. Additionally, EQY entered into an interest swap transaction with a bank in order to exchange fixed interest for variable interest in the amount of U.S.$ 100 million, so that after the swap transaction, the interest on the exchanged amount is 6-month Libor plus a margin of 0.4375%.

NOTE 17:- LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31,						
	2004						2003
	In NIS - linked to CPI	In NIS - unlinked	In C$	In U.S. $	In Euro	Total	Total
	NIS in thousands						
	Reported						Adjusted
Banks	6,540	136,365	970,972	1,352,923	181,376	2,648,176	2,377,512
Other financial institutions	-	-	2,999,687	2,187,503	-	5,187,190	4,103,300
Loan from jointly controlled entity	-	-	-	14,625	-	14,625	16,180
Other liabilities (1)	-	-	19,726	-	-	19,726	9,392
	6,540	136,365	3,990,385	3,555,051	181,376	7,869,717	6,506,384
Less - current maturities	1,000	9,518	337,610	339,281	-	687,409	363,291
	5,540	126,847	3,652,775	3,215,770	181,376	7,182,308	6,143,093
Weighted interest rate (2) (%)	6.9	5.5	6.2	5.8	4.0	6.0	6.0

(1) Mainly an unrealized gain and excess of cost attributed to long-term loans.

(2) For part of the loans, the interest is based on the Libor rate. The above rate constitutes the weighted interest based on the Libor interest at the balance sheet date.

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2004					
	In NIS - linked to CPI	In NIS - unlinked	In C$ (1)	In U.S. $	In Euro	Total
	Reported NIS in thousands					
First year - current maturities	1,000	9,518	337,610	339,281	-	687,409
Second year	1,000	101,420	681,843	970,560	-	1,754,823
Third year	1,000	6,468	426,051	418,833	181,376	1,033,728
Fourth year	1,000	6,468	272,278	233,621	-	513,367
Fifth year	1,000	6,468	270,406	156,520	-	434,394
Sixth year and thereafter	1,540	6,023	2,000,644	1,421,611	-	3,429,818
Maturity date was not yet determined	-	-	1,553	14,625	-	16,178
	5,540	126,847	3,652,775	3,215,770	181,376	7,182,308
	6,540	136,365	3,990,385	3,555,051	181,376	7,869,717

(1) The Company's wholly owned subsidiary has an option until July 2005 from a bank in Israel to refinance a loan amounting C$ 130 million whose final maturity is in 2006 for a period of nine years and the principal is payable from the fifth to the ninth year.

NOTE 17:- LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (Cont.)

b. The Company:

1. Composition:

	December 31,						
	2004						2003
	In NIS - linked to CPI	In NIS - unlinked	In C$	In U.S. $	In Euro	Total	Total
	NIS in thousands						
	Reported						Adjusted
Banks	6,540	136,365	98,404	-	181,376	422,685	215,255
Loan from jointly controlled entity	-	-	-	29,249	-	29,249	32,359
	6,540	136,365	98,404	29,249	181,376	451,934	247,614
Less - current maturities	1,000	9,518	1,288	-	-	11,806	16,946
	5,540	126,847	97,116	29,249	181,376	440,128	230,668
Weighted interest rate (1) (%)	6.9	5.5	4.4	4.0	4.0	4.0	4.6

(1) For part of the loans, the interest is based on the Libor rate and on the Eurobor rate. The above rate constitutes the weighted interest based on the above interests at the balance sheet date.

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2004					
	In NIS - linked to CPI	In NIS - unlinked	In C$	In U.S. $	In Euro	Total
	Reported NIS in thousands					
First year - current maturities	1,000	9,518	1,288	-	-	11,806
Second year	1,000	101,420	71,263	-	-	173,683
Third year	1,000	6,468	1,288	-	181,376	190,132
Fourth year	1,000	6,468	1,288	-	-	8,756
Fifth year	1,000	6,468	23,277	-	-	30,745
Sixth year and thereafter	1,540	6,023	-	-	-	7,563
Maturity date was not yet determined	-	-	-	29,249	-	29,249
	5,540	126,847	97,116	29,249	181,376	440,128
	6,540	136,365	98,404	29,249	181,376	451,934

c. To secure the above loans, the subsidiaries recorded charges on specific assets, see Note 24.

NOTE 17:- LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (Cont.)

d. Contractual restrictions and financial covenants:

1. For part of the loans and the credit facilities which the Company and its subsidiaries receive in the ordinary course of business, other than non-recourse loans, there exist, as is common practice, undertakings to satisfy financial and other covenants among which are the following undertaking:

   a) Maintaining a ratio of debt to value of securities (mainly marketable securities) of 50% to 80%.

   b) Receiving minimal dividends from FCR in the amount of C$ 0.2 per share per quarter.

   c) Maintaining a minimal debt coverage ratio (EBITDA for interest expenses) of 1.5 in the statements of FCR, 1.8 in the statements of the Company and its wholly owned subsidiaries and 1.9 in the statements of EQY.

   d) Restricting the amount invested by EQY in properties which are not income producing properties.

   e) Maintaining a minimal ratio of unpledged assets of EQY to its debt which is not secured by assets.

   f) Restricting the amount of dividends distributed by EQY to a rate exceeding 95% of its FFO, provided that the restriction does not impair EQY designation as a REIT or that would cause tax liability upon sale of properties.

   g) Maintaining a minimal shareholders' equity of the Company of NIS 500 million.

   h) Maintaining a minimal shareholders' equity of the Company's wholly owned subsidiary of C$ 50 million.

   i) Restricting the decrease in the Company's shareholding in Mishkenot Clal to below 50%.

   j) Receiving minimal dividends from EQY in the amount of U.S.$ 0.9 per share per year.

   k) Maintaining a maximal ratio of Company's liabilities (including guarantee for the liability of a wholly owned subsidiary) to its shareholders' equity of 2.

   As of December 31, 2004, the Company and its subsidiaries have complied with all of the covenants as determined.

NOTE 17:- LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (Cont.)

2. Part of the mortgages on EQY properties, which are non-recourse, whose scope as of December 31, 2004 is approximately U.S.$ 169 million, contain restrictions as to the transfer of ownership in EQY in the absence of lender consent. The violation of the provisions, as aforementioned, may constitute a cause for the acceleration of the repayment of the loans. It may be that such restrictions were violated due to former issuances of shares in EQY and they may be violated due to issuances in the future, if such exists. The Company is of the opinion that under the circumstances, the provisions were not violated by these issuances. However, in view of these restrictions, EQY has referred to the lenders in order to receive their consent that they are not intending to demand the acceleration of the repayment of these loans. Based on its negotiations with various lenders and based on market conditions and other factors, EQY estimates that either the consent of the lenders will be received or that the maturity of the loans will not be accelerated and, accordingly, this matter will not have an effect on its results and financial position. In any case, since we are speaking of non-recourse loans, even if the lenders claim that there was a violation and they demand the acceleration of the repayment of the loans, their only solution is selling the pledged asset in order to repay the loan.

   As of the date of the approval of the financial statements, EQY was not informed by any lender of its intention to accelerate the repayment of the loans.

e. In January 2001, the Company entered into a transaction with a bank in Israel, according to which the Company exchanged, for a period of five years, the linkage basis for part of the debentures which were linked to the Israeli CPI and which it issued in that month in the amount of U.S.$ 20 million to U.S. dollars. The asset relating to said transaction as presented in the Company's books as of December 31, 2004 totals approximately NIS 0.7 million. The fair value of the transaction as of December 31, 2004 is an asset of NIS 0.5 million.

f. The Company and its subsidiaries entered into swap transactions with banks for fixing floating interest to fixed interest and vice versa (IRS), transactions which hedge the loans of the Company and its subsidiaries against changes in interest rates, as follows:

1. The Company and its wholly owned subsidiaries have commitments under IRS transactions in the amount of U.S.$ 27 million with an average life of one year which pay fixed interest at the average rate of 5.6% and receive interest of Libor for three months (2.6%). The fair value of IRS transactions as of December 31, 2004 is a liability of approximately NIS 3.7 million.

2. A wholly owned subsidiary of the Company has commitments under IRS transactions in the amount of C$ 35 million until March 2006, paying interest at the average rate of 4.9% and receiving interest of Libor for three months (2.7%). The fair value of IRS transactions as of December 31, 2004 is a liability of approximately NIS 3.2 million.

3. A subsidiary of the Company has commitments under IRS transactions in the amount of U.S.$ 35 million until 2014, paying interest at the average rate of 4.3% and receiving interest of Libor for three months (2.6%). The fair value of IRS transactions as of December 31, 2004 is an asset of approximately NIS 0.4 million.

NOTE 17:- LONG-TERM LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (Cont.)

4. A subsidiary of the Company has commitments under IRS transactions in the amount of U.S.$ 100 million until April 2009, paying interest at the average rate at the average rate of Libor for six months plus a margin and receiving fixed interest, so that the effective annual margin is 0.4375%. The fair value of the transaction as of December 31, 2004 is an asset of approximately NIS 11.6 million.

g. A subsidiary of the Company's entered into a future swap transaction with a bank in order to exchange U.S.$ 6 million for Canadian dollars paying in 2005 at the average rate of C$ 1.29 per one U.S.$. The fair value of the transactions as of December 31, 2004 is an asset of approximately NIS 1.8 million.

NOTE 18:- TENANTS' SECURITY DEPOSITS

	Consolidated	
	December 31,	
	2004	2003
	NIS in thousands	
	Reported	Adjusted
Deposits from tenants (1)	49,914	41,966
Deposits and entrance fees from tenants (2)	236,922	115,082
Less - current maturities (3)	19,420	10,788
	217,502	104,294
	267,416	146,260

(1) Deposits from tenants are received to secure their fulfillment of the terms of the rental agreements. Deposits are refunded to the tenants mainly with either linkage to the U.S. dollar or the Canadian dollar at the end of the rental period.

(2) (a) Mishkenot Clal and tenants have signed agreements to occupy residential units in existing buildings. In addition, potential tenants have purchased options to occupy residential units in the future, in accordance with the terms specified in the agreements reached with them.

b) Amounts deposited by tenants which are mainly forfeited at the annual rate of 2.5% to 6% during their stay at the center, or during the first 10 to 12 years. As of the balance sheet date, the outstanding amount not forfeited includes exchange rate differences or linkage differences.

(3) The amounts carried to the statement of income in the coming year in respect to forfeiture of deposits and amounts available for refunds to tenants in connection with the cancellation of agreements and options, as per the estimate of the management of Mishkenot Clal, are included in "Other accounts payable" among current liabilities.

NOTE 18:- TENANTS' SECURITY DEPOSITS (Cont.)

(4) In order to secure the commitment of Mishkenot Clal to the tenants, Mishkenot Clal has undertaken to provide a bank guarantee to certain tenants, if they so demand, and the cost of the guarantees shall be borne by the tenants. This commitment is not to exceed approximately NIS 80 million (the Company's share is approximately NIS 40 million). As of the balance sheet date, the tenants in Mishkenot Clal did not exercise this right, except for a guarantee of NIS 4.2 million (the Company's share is approximately NIS 1.4 million).

(5) As of the balance sheet date, commitments to tenants which are secured by the guarantee of the Company, Azorim and I.D.B. Development Ltd. total NIS 15 million (the Company's share is approximately NIS 7.5 million, including guarantees to Azorim and I.D.B. Development Ltd.)

NOTE 19:- ACCRUED SEVERANCE PAY

The liabilities of the Company and its Israeli subsidiaries for severance pay are computed on the basis of the employees' most recent salary as of the balance sheet date and in accordance with the Severance Pay Law and are fully covered by current payments to insurance companies in respect of managers' insurance policies and severance pay funds, as well as by the balance sheet accrual.

The amounts accrued in managers' insurance policies, in other insurance policies and provident funds on behalf of the employees and the related liability are not reflected in the balance sheet since the funds are not controlled and managed by either the Company or the subsidiaries.

The liabilities of the subsidiaries in the U.S. and Canada, under the law prevailing in those countries, are covered, on a regular basis, by payments for social security, medical insurance, unemployment insurance and by payments which the employee bears (such as: insurance fees for disability insurance). Additional payments for sick leave, severance pay, vacation etc. are at these subsidiaries' discretion, unless otherwise indicated in a specific employment contract.

The payments to insurance companies and to provident funds and the other current payments, as well as the balance sheet accrual, fully cover the Group's liability for severance pay.

NOTE 20:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

1. Companies in Israel:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI. The Company is taxed under this law.

NOTE 20:- TAXES ON INCOME (Cont.)

Reform in the Israeli tax system:

In 2003, the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003, became effective ("the reform law") which deal with a comprehensive reform in certain aspects of the Israeli tax system. It is expected that the adoption of the law will result in a gradual decrease in the companies tax liabilities, since a certain portion of the companies income derives from profits which are subject to capital gains tax. According to the provisions of the reform law, tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of the sale of properties purchased before the adoption of the reform law, the reduced tax rate will apply only to the portion of the profit which accrued after the adoption of the law, as computed according to the law. Further, the reform law states that capital losses carried forward for tax purposes may be offset against capital gains for an indefinite period. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

2. Foreign subsidiaries:

Subsidiaries which were incorporated outside Israel are taxed according to the tax laws in their countries of residence.

b. Tax rates applicable to the income of the Group companies in Israel:

Until December 31, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament), which determines, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 32% and 2007 and thereafter - 30%.

c. Taxation in the U.S.:

Since January 1, 1995, EQY has not recorded taxes on income in its statements because its tax status in the U.S. has been changed to that of a REIT, as effective from the above date. The implication of this status is that its income is tax-exempt, requiring it to distribute at least 90% of the earnings and the recipients being subject to taxation.

In the opinion of Company management, EQY operates as a REIT as of the date of these financial statements. If EQY is not recognized as a REIT, it will be subject to corporate tax at rates common in the U.S. (up to 35%) and similarly, in this case, earnings (gross) distributed to the shareholders of EQY as dividends will be subject to tax at the rate of 12.5% and, in certain cases, to tax at the rate of 25%.

The other Group members in the U.S. are subject to corporate tax at rates common in the U.S. (up to 35%).

NOTE 20:- TAXES ON INCOME (Cont.)

d. Taxation in Canada:

The taxable income of the Group companies is subject to tax at rates varying between 33% to 41%, depending on the source of income.

e. Taxation in Finland:

The taxable income of Citycon is subject to tax at the rate of 29% (beginning 2005 - 26%). As from 2005, distribution of dividends to the Company by Citycon will be subject to withholding tax of 5%.

f. Final tax assessments:

The Company received assessments deemed final through 1999 and its wholly owned subsidiaries in Israel received tax assessments deemed final through 2000. Mishkenot Clal and its subsidiaries (except one subsidiary which has received assessments deemed final through 1999), received final assessments through 2000.

g. Tax assessments in dispute:

On December 28, 2004, the Company was informed that, according to the best judgment, it was issued an assessment for 2000 in accordance with section 145(a)(c)(b) to the Income Tax Ordinance (New Version), whereby the assessing officer ascribed expenses in the amount of approximately NIS 19,083 thousand, in accordance with section 18c to the Income Tax Ordinance. As a result of this ascription, a like amount was deducted from the loss carried forward to future years.

The Company submitted an objection to the above assessment in which it rejects all of the claims of the assessing officer. The Company's management believes that the effect of the assessment on the Company is not expected to be material.

h. Losses carried forward for tax purposes:

The Company and its subsidiaries in Israel have operating loss carryforward for tax purposes estimated at approximately NIS 103 million (2003 - NIS 37.5 million). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other timing differences.

The Company's subsidiaries in Canada have operating loss carryforward for tax purposes estimated at approximately NIS 158 million (2003 - NIS 140.2 million), see i below.

NOTE 20:- TAXES ON INCOME (Cont.)

i. Deferred taxes, net:

The composition and change in deferred taxes are as follows:

	Consolidated				The Company
	Depreciable fixed assets	Carryforward tax losses	Other	Total	Total
	Adjusted NIS in thousands				
Balance as of January 1, 2003	53,262	27,616	(5,762)	75,116	-
Foreign currency translation adjustments for foreign subsidiaries and other differences	11,094	2,221	(80)	13,235	-
Amounts carried to statement of income	(22,720)	21,418	(15,779)	(17,081)	-
Balance as of December 31, 2003	41,636	51,255	(21,621)	(1) 71,270	-
	Reported NIS in thousands				
Balance as of January 1, 2004	41,636	51,255	(21,621)	(1) 71,270	-
Foreign currency translation adjustments for foreign subsidiaries and other differences	10,401	(763)	(2,010)	7,628	-
Amounts carried to statement of income	(54,367)	19,637	6,188	(28,542)	(1,814)
Balance as of December 31, 2004	(2,330)	70,129	(17,443)	(2) 50,356	(2) (1,814)

(1) Of this balance, NIS 72,071 thousand is presented in the balance sheet in "Other assets" and the balance, NIS 801 thousand, is presented in the balance sheet in "Long-term liabilities".

(2) The balance in the consolidated is presented in "Other assets" and the balance in the Company is presented in "Long-term liabilities".

The deferred taxes are computed at tax rates varying between 33% and 43% (the tax rates expected to be in effect at the time of reversal). The utilization of these deferred taxes is subject to the existence of taxable income in an appropriate amount in future years.

NOTE 20:- TAXES ON INCOME (Cont.)

j. Taxes on income included in the statements of income:

Composition:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	NIS in thousands					
	Reported	Adjusted		Reported	Adjusted	
Current taxes (1)	28,301	26,548	23,198	4,172	3,781	3,882
Deferred taxes	26,728	17,081	(5,289)	-	-	-
	55,029	43,629	17,909	4,172	3,781	3,882

(1) The Company - including mainly withholding tax of 30% on dividend paid to the Company by EQY, and withholding tax on interest paid to the Company by other foreign subsidiaries.

Consolidated - including, in addition to the aforementioned, current tax expenses in respect of the activities of foreign subsidiaries.

The provision for current taxes is computed at tax rates between 15% and 35%.

NOTE 20:- TAXES ON INCOME (Cont.)

k. Below is a reconciliation between the tax expense assuming that all the income was taxed at the statutory tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in thousands		
	Reported	Adjusted	
Income before taxes on income	427,518	386,431	243,449
Statutory tax rate	35%	36%	36%
Tax computed at the statutory tax rate	149,631	139,115	87,642
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Tax-exempt income and income subject to special tax rates	(15,781)	*) (13,778)	(5,059)
Increase (decrease) in taxes resulting from incurrence (utilization) of losses for tax purposes for which deferred taxes were not provided	18,271	(1,530)	6,813
Tax on minority interest in earnings of investee designated as a REIT	(85,683)	(61,775)	(30,191)
Adjustment for CPI of statements of foreign investees	-	(31,966)	(48,857)
Tax difference applicable to income of foreign companies and other differences	(11,409)	*) 13,563	7,561
Taxes on income	55,029	43,629	17,909

*) Reclassified.

NOTE 21:- CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES ("THE DEBENTURES")

Two series of convertible debentures which FCR issued in an aggregate of C$ 261.7 million par value (after the early redemption of convertible debentures (series B) for cash and FCR shares, as discussed below) are convertible into FCR shares and bear interest as detailed below, payable semi-annually. FCR is entitled to enforce the conversion of the debentures at the determined dates. The conversion ratio in this case will be determined according to the share price on the Stock Exchange during the period prior to the conversion multiplied by the rate of 95% (FCR is also entitled to pay the accrued interest in shares, at terms identical to the terms for the repayment of the principal of the debentures). In view of the aforesaid, these debentures were presented in a separate item between long-term liabilities and minority interest.

During 2004, FCR made all interest payments in connection with both series in FCR shares, and this according to its right, as detailed above.

In August 2004, FCR completed an early redemption of the remainder of the series of convertible debentures (7.875%) (series B) for the total consideration of approximately C$ 35 million, in cash. Prior to the early redemption, convertible debentures of C$ 42 million and of C$ 20 million, which were held by Gazit Canada and by others, respectively, were converted into 3.8 million of FCR shares.

As of the balance sheet date, Gazit Canada holds approximately C$ 125.3 million par value of FCR's convertible debentures (47.9% of the issued amount). The majority of the convertible debentures which are held by Gazit Canada are pledged as a security for the credit received in connection with their acquisition by the Bank of Israel.

In order to present the debentures at their fair value, the debentures are presented in the consolidated financial statements less debentures acquired by the subsidiary and less a discount which was computed upon the acquisition of FCR, taking into account the interest rates common at the date of acquisition.

Below are details of the composition and terms of the convertible debentures as of December 31, 2004:

First redemption date **)	Series by name	Redemption date	Interest rate	Conversion price per share *)	Consolidated Balance
			%	In C$	Reported NIS in thousands
February 28, 2004	C	February 28, 2008	7.0	22.71	221,335
June 30, 2004	D	June 30, 2008	7.25	24.40	266,878
					488,213
Less - discount of convertible debentures					8,993
					479,220

*) The price for an FCR share as of the balance sheet date is C$ 18.85.

**) The first date on which FCR is entitled to convert the debentures into FCR shares (see above).

As for FCR announcement regarding the conversion of convertible debentures (series D) into FCR shares on March 31, 2005, according to its right, as detailed above, see Note 33d.

NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

1. Shareholders agreement between the Company and Aloney-Hetz in connection with EQY:

   In October 2000, concurrent with an agreement for the issuance of shares which was signed between Aloney-Hetz Properties and Investments Ltd. ("Aloney-Hetz") and EQY, the Company and Aloney-Hetz signed a shareholders agreement (which was amended several times and recently in June 2004) in which it is determined that the Company supports the nomination of one representative of Aloney-Hetz for the EQY Board as long as Aloney-Hetz holds at least 3% of EQY's share capital (fully diluted) and, simultaneously, Aloney-Hetz has undertaken to support the nomination of all of the Company's representatives for the EQY Board (as of the date of the financial statements, 9 members serve on the EQY Board). Additionally, the agreement stipulates provisions as to the participating right of Aloney-Hetz in the sale of EQY shares in the event of a sale of shares, as above, by the Company (with certain exceptions to this right) and also provisions as to the Company's right to compel Aloney-Hetz to participate in the sale of its shares in EQY under certain conditions, in the event of a sale of shares, as above, by the Company.

   Further, it was stated in the agreement that as long as the Company (and its subsidiaries) and Aloney-Hetz hold a third or more of the shares in EQY and Aloney-Hetz holds at least 3% of EQY's share capital, then Aloney-Hetz shall not take certain actions as elaborated in the agreement which embody interference in the way EQY is managed or an attempt to take it over, and all without prejudicing the rights of nomination of directors recommended by it, as aforementioned.

   The shareholders agreement is in effect at the earlier of the following dates: 10 years or at the time when Aloney-Hetz's holdings in EQY is below 3% of the issued share capital of EQY, or at the time when the Company's holdings in EQY, directly and indirectly, are below 20%.

2. Shareholders agreement between the Company and Aloney-Hetz in connection with FCR:

   In October 2000, in furtherance to the sale of FCR shares to Aloney-Hetz, the Company and Aloney-Hetz (and their subsidiaries) signed a shareholders agreement (which was amended in February 2001 and once again subsequent to the balance sheet date) in which the Company undertook to support the nomination of two representatives of Aloney-Hetz for the FCR Board, and if the number of FCR shares held by Aloney-Hetz and the rate which they constitute are below that stated in the agreement, Aloney-Hetz will have the right to nominate one member for FCR Board (this right is also conditioned upon the fulfillment of a minimal level of holdings in FCR share capital). Simultaneously, Aloney-Hetz has undertaken to support the nomination of the Company's representatives for the remaining members of FCR Board, which will be comprised of no more than 15 members (as of the date of the financial statements, 8 members serve on the FCR Board).

NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Additionally, the agreement stipulates provisions as to the participating right of Aloney-Hetz in the sale of FCR shares in the event of a sale of shares, as above, by the Company (with certain exceptions to this right) and also provisions as to the Company's right to compel Aloney-Hetz to participate in the sale of its shares in FCR under certain conditions, in the event of a sale of shares, as above, by the Company.

Further, it was stated in the agreement that if one of the parties acquires additional securities of FCR (shares, debentures and other securities) then (subject to certain exceptions) the buyer will offer the other party to acquire a relative share in these securities at the purchase terms as effected by the buyer. Aloney-Hetz has undertaken that it will not interfere and affect the way FCR is managed, except in the context of its rights to nominate directors, as aforementioned, and that it will not act alone or with others to execute a takeover of FCR.

The shareholders agreement is in effect at the earlier of the following dates: 10 years or at the time when Aloney-Hetz's holdings in FCR shares is below 5% of the issued share capital of FCR.

3. Shareholders agreement between the Company and an American partner in RSC:

In the context of the Company's penetration into investments in acquiring, developing and managing of protected senior citizen residence in the U.S., the Company's wholly owned subsidiary signed in January 2002 a series of agreements with a third party with experience in the field of management of protected senior citizen residence in the U.S., whereby two partnerships were established - one whose purpose is to acquire and develop such properties ("the real estate company") and the other whose purpose is their management ("the management company").

Each of the partners (the Company and said third party) was conferred 50% of the rights to each of the above companies against a commitment to invest U.S.$ 3 million by each party. Additionally, the Company has undertaken to invest additional U.S.$ 7 million against the issuance of a convertible debenture (unsecured) by the real estate company.

Furthermore, the real estate company and the management company signed a primary management agreement, according to which management agreements will be signed between the latter and the specific residence centers to be acquired. This agreement provides exclusiveness for a period of five years, in such a manner that each property to be acquired by the real estate company in the course of the coming five years will be managed by the management company only, according to the directives of the primary management agreement. The management, as above, will be for a period of at least five years beginning from the specific engagement between the buyer of the relevant residence and the management company and, based on that agreement, the management company will be entitled to management fees as common in the industry.

Subsequent to the balance sheet date, an addendum to the agreements, as above, was signed which settles the payments that each party shall receive from the real estate company and the management company during two years.

NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

4. As for commitments with related parties, see Note 32.

b. Guarantees:

FCR is a guarantor for loans from various parties to its jointly controlled entities, which are engaged in the development of properties, in the amount of approximately NIS 108 million (C$ 30.3 million).

In addition, FCR provided bank guarantees in the ordinary course of its business in the amount of approximately NIS 39 million (C$ 10.9 million).

To secure various commitments to third parties, EQY provided a bank guarantee in the amount of approximately NIS 6 million (U.S.$ 1.4 million).

As for guarantees of the Company and a jointly controlled entity to tenants, see Note 18(4) and (5).

c. Contingent liabilities for the completion of the development and redevelopment of properties:

EQY has off-balance sheet commitments for the completion of the development and redevelopment of income producing properties which, as of the balance sheet date, total approximately NIS 108 million (U.S.$ 25 million).

FCR has off-balance sheet commitments for the completion of the development and redevelopment of income producing properties which, as of the balance sheet date, total approximately NIS 114 million (C$ 32 million).

d. Legal claims:

Several negligence claims are pending against subsidiaries in respect of damages caused in their shopping centers and in other properties. The Company estimates that all the aforementioned claims are covered by the insurance policies of these companies.

The management of these companies, based on the advice of their legal counsels, believe that there is no exposure in respect of these claims and, accordingly, no provisions were made in the financial statements.

NOTE 23:- SHAREHOLDERS' EQUITY

a. Composition:

	December 31, 2004		December 31, 2003	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 1 par value each	200,000,000	*) 91,646,707	200,000,000	*) 85,548,677

*) Of which, NIS 7,385,700 par value of shares are held by the Company (December 31, 2003 - NIS 6,588,464 par value).

b. The Ordinary shares of NIS 1 par value confer upon their holders the right to receive dividends, the right to receive a stock dividend and the right to receive the Company's assets in the event of liquidation, whether voluntary or in any other manner. Each share confers one voting right. The shares are traded on the Tel-Aviv Stock Exchange.

c. Pursuant to a stock option award plan, which was approved by the shareholders' meeting in March 2002, the Company will issue at the beginning of each year of service 25,000 non-marketable options to each of the Company's Board members who do not hold other positions in the Company, as they will be from time to time. Each option is exercisable into one share of the Company (except the options issued in 2002 which were exercisable into 1.1111 shares) for an exercise increment in the amount of the average price of the Company's share at the beginning of each year of service, subject to adjustments. The options are exercisable from the first to the fifth anniversaries of the date of grant. Each optionee is entitled to demand to be issued, at no consideration, shares in the amount of the difference between the price per share at the date of exercise and the predetermined exercise increment.

During the reported year, 10 thousand shares were issued to directors in consideration of approximately NIS 108 thousand. Similarly, as a result of the exercise of the stock options, about 16.8 thousand shares were issued to directors at no consideration, in accordance with their right according to the award plan.

Following are the options which exist as of the balance sheet date:

Year of issuance	Number of options	Average exercise increment *)
2002	100,000	NIS 15.45
2003	90,000	NIS 12.96
2004	125,000	NIS 21.29

*) Before adjustments.

NOTE 23:- SHAREHOLDERS' EQUITY (Cont.)

d. In the context of a prospectus from May 24, 2004, the Company distributed to the buyers of the debentures (see Note 16) stock options (series 8) and distributed to its shareholders, by way of rights, without consideration, 2 series of stock options: stock options (series 7) and stock options (series 8).

e. During 2004, 1.6 million stock options (series 4) were exercised into 2 million shares of the Company for the total consideration of approximately NIS 23.9 million. Additionally, the Company exercised additional 0.6 million stock options which it held into 0.8 million shares. About 3 thousand stock options (series 4) which had not been exercised by February 20, 2004, the last exercise day, expired.

In furtherance to the above, during 2004, 3.2 million stock options (series 7) were exercised into 3.2 million shares of the Company for the total consideration of approximately NIS 53.9 million. About 6 thousand stock options (series 7) which had not been exercised by July 22, 2004, the last exercise day, expired.

f. As of December 31, 2004, the Company has 13,240 thousand options (series 8), of which 8,181 thousand options (series 8) are held by the Company's wholly owned subsidiary. Each stock option (series 8) is exercisable into one Ordinary share in exchange for NIS 24, linked to the dollar (base exchange rate of U.S.$ 1 = NIS 4.594) until October 13, 2005.

NOTE 24:- CHARGES (ASSETS PLEDGED)

As collateral for most of the Group's liabilities, its rights to various real estate were mortgaged. In addition, charges were placed on part of the shares of investees and of other companies which are held by the Group's companies.

The balances of the secured liabilities are as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2004	2003	2004	2003
	NIS in thousands			
	Reported	Adjusted	Reported	Adjusted
Short-term loans and credit	46,511	3,099	11	91
Long-term liabilities (including current maturities)	7,202,090	5,771,414	422,685	215,255
Debentures (including current maturities)	11,232	25,108	11,232	25,108
	7,259,833	5,799,621	433,928	240,454

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2004					
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C$ or linked thereto	In Euro or linked thereto	In NIS - unlinked	Total
	Reported NIS in thousands					
Assets:						
Cash and cash equivalents	3,421	31,685	17,273	62	366	52,807
Short-term investments	1,457	39,685	2,319	-	-	43,461
Tenants and accounts receivable	1,317	88,253	58,036	-	1,148	148,754
Loan to partners in property under development	-	-	55,810	-	-	55,810
Long-term investments	12,425	220	15,345	-	-	27,990
Long-term loans	373	68,596	19,718	-	-	88,687
	18,993	228,439	168,501	62	1,514	417,509
Liabilities:						
Short-term credit from banks and others	-	46,500	-	-	11	46,511
Trade payables and other accounts payable	178	156,173	186,027	-	19,882	362,260
Debentures	221,494	2,026,564	-	71,570	-	2,319,628
Liabilities to financial institutions and others	6,540	3,555,051	3,990,385	181,376	136,365	7,869,717
Tenants' security deposits	6,677	224,416	13,041	-	137	244,271
Accrued severance pay	-	-	-	-	1,042	1,042
Convertible debentures redeemable for subsidiary's shares	-	-	479,220	-	-	479,220
	234,889	6,008,704	4,668,673	252,946	157,437	11,322,649

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES (Cont.)

Consolidated:

	December 31, 2003				
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C$ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	1,594	43,796	7,768	493	53,651
Short-term investments	-	32,650	1,567	-	34,217
Tenants and accounts receivable	1,612	86,967	42,162	-	130,741
Loan to partners in property under development	-	-	57,522	-	57,522
Long-term investments	13,263	-	5,694	-	18,957
Long-term loans	17,855	33,889	6,773	-	58,517
	34,324	197,302	121,486	493	353,605
Liabilities:					
Short-term credit from banks and others	-	4	-	3,095	3,099
Trade payables and other accounts payable	3,212	122,871	146,495	9,767	282,345
Debentures	104,521	992,255	-	-	1,096,776
Liabilities to financial institutions and others	7,561	3,399,982	3,018,684	80,157	6,506,384
Tenants' security deposits	4,106	126,052	8,226	56	138,440
Accrued severance pay	-	-	-	846	846
Convertible debentures redeemable for subsidiary's shares	-	-	649,463	-	649,463
	119,400	4,641,164	3,822,868	93,921	8,677,353

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES (Cont.)

b. The Company:

	December 31, 2004					
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C$ or linked thereto	In Euro or linked thereto	In NIS - unlinked	Total
	Reported NIS in thousands					
Assets:						
Cash and cash equivalents	-	2,838	2,149	62	345	5,394
Short-term investments	1,457	-	-	-	-	1,457
Accounts receivable	307	245	-	-	543	1,095
Investments in investees	6,338	389,773	77,426	301,725	-	775,262
Long-term investments	12,425	-	-	-	-	12,425
	20,527	392,856	79,575	301,787	888	795,633
Liabilities:						
Short-term credit from banks and others	-	-	-	-	11	11
Trade payables and other accounts payable	-	12,744	-	-	14,138	26,882
Debentures	221,494	492,503	-	373,412	-	1,087,409
Liabilities to financial institutions and others	6,540	29,249	98,404	181,376	136,365	451,934
	228,034	534,496	98,404	554,788	150,514	1,566,236

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES (Cont.)

	December 31, 2003				
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C$ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	10,021	7,768	243	18,032
Accounts receivable	227	-	-	-	227
Investments in investees	(6,945)	491,628	75,027	-	559,710
Long-term investments	13,263	-	-	-	13,263
Long-term loans	353	-	-	-	353
	6,898	501,649	82,795	243	591,585
Liabilities:					
Short-term credit from banks and others	-	-	-	91	91
Trade payables and other accounts payable	-	5,807	-	6,947	12,754
Debentures	104,521	283,330	-	-	387,851
Liabilities to financial institutions and others	7,561	155,120	4,776	80,157	247,614
Accrued severance pay	-	-	-	43	43
	112,082	444,257	4,776	87,238	648,353

NOTE 26:- INCOME FROM RENTAL OF BUILDINGS - MAJOR CUSTOMERS

In 2004, 2003 and 2002, the Company had no lessee who accounted for more than 10% of total income from the rental of buildings.

NOTE 27:- RENTAL PROPERTY OPERATING EXPENSES

	Consolidated		
	Year ended December 31,		
	2004	2003	2002
	NIS in thousands		
	Reported	Adjusted	
Salaries and related expenses	57,872	42,235	22,240
Fees and taxes on properties	281,760	212,035	141,876
Maintenance and repairs	112,664	92,770	59,338
Utilities	42,244	34,804	27,887
Insurance and security expenses	42,380	37,345	15,354
Other	61,755	38,601	36,402
	598,675	457,790	303,097

NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	NIS in thousands					
	Reported	Adjusted		Reported	Adjusted	
Salaries and management fees *)	103,246	75,135	51,160	5,965	3,610	3,584
Professional fees	14,089	9,617	10,631	1,802	1,228	2,086
Depreciation	2,648	1,917	354	512	369	321
Amortization of goodwill	3,682	6,790	1,600	-	-	-
Other (including office and office maintenance)	35,727	22,346	17,219	3,585	2,927	1,792
	159,392	115,805	80,964	11,864	8,134	7,783

*) As for salaries and management fees to related parties, see Note 32.

NOTE 29:- FINANCIAL EXPENSES (INCOME), NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	NIS in thousands					
	Reported	Adjusted		Reported	Adjusted	
Loss (gain) from investments in marketable securities, net	(20,167)	(14,122)	(25,098)	(3,536)	(6,558)	86
Financial expenses for debentures	102,184	47,849	18,036	70,020	18,336	15,957
Financial expenses for convertible debentures	45,469	47,061	27,824	-	-	-
Financial expenses for liabilities to financial institutions and others	433,367	256,349	158,004	15,249	6,632	4,666
Loss (gain) from early redemption of debentures and convertible debentures	15	288	(8,202)	15	288	784
Other financial expenses (income) *)	(11,296)	(8,620)	914	(61,704)	(17,014)	(9,779)
Less - expenses carried to cost of fixed assets	(29,896)	(28,642)	(24,275)	-	-	-
	519,676	300,163	147,203	20,044	1,684	11,714

*) In the Company - primarily financial income from subsidiaries.

NOTE 30:- OTHER INCOME, NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	NIS in thousands					
	Reported	Adjusted		Reported	Adjusted	
Gain from issuance to third party, net	32,583	44,627	1,100	2,556	3,721	1,798
Capital gain (loss)	81,396	11,070	*) 35,025	-	(72)	-
Management fees from related company and third parties	2,246	1,660	1,296	2,514	2,514	2,529
Provision for impairment of long-term investments	-	(250)	(32,899)	-	-	(3,943)
Activity and provision for impairment of Internet ventures in the real estate sector	-	-	(1,416)	-	-	-
Expenses related to early repayment of mortgage	-	(2,732)	-	-	-	-
Other income **)	12,977	2,117	42	461	-	42
	129,202	56,492	3,148	5,531	6,163	426

*) Including a partial waive of mortgage on property in the amount of NIS 7,102 thousand.

**) Mainly collection of debts which FCR has written off in the past.

NOTE 31:- EARNINGS PER SHARE

Details pertaining to the number of shares and income used in the computation of earnings per share:

	Year ended December 31,					
	2004		2003		2002	
	Weighted number of shares	Net income	Weighted number of shares	Net income	Weighted number of shares	Net income
	In thousands	Reported NIS in thousands	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands
Number of shares and net income, according to the statement of income	83,045	110,110	76,198	136,576	65,290	104,153
Effect of convertible securities whose conversion is probable	3,174	(8,957)	2,044	(4,678)	8,826	3,834
Number of shares and basic net income	86,219	101,153	78,242	131,898	74,116	107,987

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2004	2003	2002	2004	2003	2002
	Adjusted NIS in thousands					
	Reported	Adjusted		Reported	Adjusted	
Financial income for loans to related parties (1)	52	355	764	-	-	-
Management fees from the parent company	214	219	226	214	219	226
Management fees from subsidiaries	-	-	-	2,300	2,295	2,303
Financial income for balances with subsidiaries, net	-	-	-	44,271	19,271	21,795

(1) For 2004 - the loan and its terms are detailed in Note 10a(1).

b. Other expenses and payments:

	Consolidated					
	Year ended December 31,					
	2004		2003		2002	
	Number of recipients	Reported NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees (1)	7	277	5	296	5	302
Salaries and related expenses, see below (2)	2	(3) 20,690	3	20,538	3	15,398

	The Company					
	Year ended December 31,					
	2004		2003		2002	
	Number of recipients	Reported NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees (1)	7	277	5	296	5	302
Salaries and related expenses	-	-	1	790	1	803

(1) As for the issuance of options to directors, see Note 23c.

(2) Additionally, EQY and FCR issued securities to the Company's Chairman of the Board and CEO in connection with their positions in these companies, see c(2), (5) (6) and (7) below.

(3) Additionally, Citycon remunerated the Company's CEO in connection with his position as its director, see c(7) below.

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

c. Employment contracts:

(1) According to an employment contract from February 2000 (which was updated in September 2001 and September 2004), the Company's Chairman of the Board, who is also a controlling shareholder in the Company, is entitled to an annual salary from the Company (through its wholly owned subsidiary), which as from October 2001, is at cost of U.S.$ 136 thousand (updated annually at the greater of the rate of the increase in the Consumer Price Index in the U.S. or 6%) (for 2004 - approximately U.S.$ 177 thousand). Since July 1998, the Chairman is also entitled to a bonus at the rate of 5% of the pre-tax income of the Company, as reported in the financial statements. The above individual is also entitled to life insurance policy of U.S.$ 1 million in which his family members are beneficiaries. The contract with the above related party contains certain provisions, in the event that his employment at the Company and the subsidiary is terminated.

(2) Additionally, in July 2002, EQY entered into an updated employment contract, which was updated once again in September 2003, with its Chairman of the Board and CEO, who also serves as Chairman of the Company. The aforementioned contract is for a period of five years beginning 2002 (after this period, the contract renews automatically in each year).

According to the contract, the Chairman of the Board is entitled to an annual base salary of U.S.$ 430 thousand which is updated annually at the greater of the rate of the increase in the Consumer Price Index in the U.S. or 6% (for 2004 - approximately U.S.$ 483 thousand).

The contract also stipulates the Chairman of the Board's entitlement to an annual cash bonus, taking into account the fulfillment of annual targets to be determined by the EQY remuneration committee and, in such case that 50% or less of the predetermined targets are met, the individual shall not be entitled to any bonus whereas the maximum possible amount of bonus according to this criteria equals 150% of the aforementioned base salary if EQY doubles the performances determined by the remuneration committee. The Chairman of the Board shall be entitled to convert the bonus (or part of it) into EQY shares to be issued to him at 85% of the market price. The shares are capped and the entitlement to those shares will be divided into two; half for the first year and half for two years. The contract also stipulates that if in a given year the performances surpass the targets determined by the remuneration committee, the Chairman of the Board shall be entitled to receive additional capped shares at the value of U.S.$ 300 thousand (if EQY's performances is 1.5 times the determined targets) or at the value of U.S.$ 850 thousand (if EQY's performances is 2 times the determined targets).

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

In March 2005, 20 thousand EQY shares were issued to the Chairman of the Board for 2004. The shares are capped and the entitlement to those shares will be divided into two; half for the first year and half for two years. In August 2004, 93 thousand EQY shares were issued for 2003. The shares are capped and the entitlement to those shares will be divided into two; half for the first year and half for two years (in respect of the cash bonus that he was entitled to and which he has converted into shares and in respect of the additional bonus which is originally granted only in shares) and in March 2003, 47 thousand EQY shares were issued for 2002. The shares are capped and the entitlement to those shares will be divided into two; half for the first year and half for two years, as aforesaid, the price per share at the date of grant is U.S.$ 22.4, U.S.$ 19.3 and U.S.$ 14.9 per each year, respectively.

According to the contract, 850 thousand options exercisable into EQY shares were issued to the Chairman of the Board. About 300 thousand stock options were issued in 2002 for an exercise increment of U.S.$ 13.25 per share; about 300 thousand stock options were issued in 2003 for an exercise increment of U.S.$ 13.19 per share and the remainder (250 thousand stock options) was issued in 2004 for an exercise increment of U.S.$ 17.17 per share. The options are exercisable ratably so that 170,000 options may be exercised at the end of each calendar year beginning from the end of 2002 and, in any case, they will expire at the end of the tenth anniversary. As of December 31, 2004, the Chairman of the Board has about 680 thousand stock options which were not yet exercised, of which 340 thousand stock options whose vesting period terminated. Additionally, according to the contract, the Chairman of the Board was issued at no consideration 103 thousand EQY shares that are capped, and the entitlement to those shares will be divided into five equal parts beginning from 2003. Likewise, according to an update of the employment contract from September 2003, the Chairman of the Board was issued, at no consideration, an additional 124 thousand EQY shares that are capped, and the entitlement to those shares will be divided into four equal parts beginning from September 2003 (the price per share at the date of grant is approximately U.S.$ 14.2 and U.S.$ 17.3, respectively)

As of December 31, 2004, the entitlement of the Chairman of the Board to 271 thousand EQY shares that are capped was not yet formed. These shares were either issued to him according to the contracts, as aforesaid, or instead of a cash bonus and additional bonus in shares, as above.

It is indicated that the holder of capped shares is entitled to dividends from EQY for those capped shares also during the capping period.

Further, the contract refers to the various payments to which the Chairman of the Board would be entitled upon the termination of the contract (which are the result of the base salary and the last bonus) and these amounts may vary in conjunction with the circumstances of termination (dismissal with cause or without cause, non-renewal of the term of the contract, resignation due to a change in EQY's ownership structure, resignation for other reasons or termination of employment due to sickness or disability).

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

(3) According to an updated employment contract from October 2004, the Company's CEO (who is also a director and related party in the Company), is entitled to an annual salary from the Company (through its wholly owned subsidiary), which as from October 2001, is at cost of U.S.$ 153 thousand (updated annually at the greater of the rate of the increase in the Consumer Price Index in the U.S. or 6%) (for 2004 - approximately U.S.$ 202 thousand). The CEO is also entitled to a bonus at the rate of 2% of the pre-tax income of the Company, as reported in the financial statements. The above individual is also entitled to life insurance policy of U.S.$ 2 million in which his family members are beneficiaries. The updated contract is for a period of seven years (terminating in 2011) which will be renewed automatically for additional periods of seven years, unless one of the parties notifies otherwise 90 days before the date of the renewal.

As approved by the general meeting of the Company in October 2004, the contract also refers to the various payments to which the above related party would be entitled (or its heirs) upon the termination of the contract and these amounts may vary in conjunction with the circumstances of termination, as follows:

(a) In case of dismissal (of any cause whatsoever, except causes which entitle under the present contract the right to dismiss immediately), the related party would be entitled to choose one of the following two alternatives:

(1) To continue and to receive all rewards and benefits (including salary, bonus, accruals etc.) to which he would have been entitled to had the contract continued to apply until the end of the term of the contract and, in any case, for a period of at least 24 months.

(2) To receive (within 90 days) a one time payment in an amount equal to total rewards and benefits, as above, which he had received (or which he was entitled to) in respect of the full calendar year before the date of termination of the contract multiplied by the number of years (as well as any portion thereof) which remained until the end of the contractual period, however, not less than two years.

(b) In case of a Company's resolution not to extend the term of the contract, whether the original or the renewed, the related party would be entitled to receive (within 90 days) a one time payment in an amount equal to total rewards and benefits, as above, to which he was entitled in respect of the full calendar year before the date of termination of the contract.

(c) If the related party dies during the term of the contract, his legal heirs would be entitled to receive a one time payment in an amount equal to twice the total rewards and benefits, as above, to which he would have been entitled in respect of the full calendar year before the date of his death.

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

(4) In October 2001, FCR entered into an employment contract with the CEO of FCR, who also serves as the Company's CEO. The salary of the CEO of FCR for 2004 was C$ 445 thousand. The above individual is also entitled to annual grants and participation in FCR's compensation plans, at the discretion of FCR Board.

At the same date, FCR also entered into an employment contract with the Chairman of FCR Board, who also serves as the Chairman of the Company's Board. FCR's Chairman was entitled to a reward of C$ 167 thousand. The Chairman of the Board is also entitled to 50% of the grants and participation in compensation plans to be received by the CEO of FCR.

The contracts with the above related parties contain certain provisions, in the event that their employment at FCR is terminated.

(5) In March and April 2004, FCR's compensation committee approved the issuance of 120,000 restricted units to FCR's CEO (who also acts as the Company's CEO) without consideration. The restricted units are convertible, at no consideration, into FCR shares at the end of a vesting period of 3 years, beginning December 15 of the year in respect of which the shares are granted. Of the above, 80,000 units were issued during 2004 (half of the amount in respect of 2003 and the other half in respect of 2004 based on a price per share of C$ 16.9 and C$ 16.6 at the date of grant, for each of the years, respectively) and the remainder amount will be issued until May 2005. Additionally, FCR is entitled to redeem all of the restricted units in cash, based on the quoted market price of FCR shares at the end of the period. The restricted units accrue dividends, however they do not confer voting rights.

(6) In the context of issuance of options to officers and employees at FCR during 2002, the CEO and Chairman in FCR received 200 thousand and 100 thousand options, respectively which are exercisable until January 2012 at an exercise price of C$ 12.42 per share.

During 2004, the CEO in FCR exercised 110 thousand options into FCR shares and the Chairman in FCR exercised 25 thousand options into FCR shares.

As of December 31, 2004, the CEO and Chairman in FCR remained with 82 thousand options and 25 thousand options, respectively.

(7) The Company's CEO serves as a director in EQY and Citycon and, in respect of these positions, he is entitled to participate in compensation plans from directors in these companies, as well as compensation by securities. In respect of his position as a director in EQY from 2002 to 2004, the Company's CEO received about 6 thousand EQY shares that are capped (at an average price per share of U.S.$ 14) and compensation in cash and in respect of his position as a director in Citycon, the Company's CEO received in 2004 approximately NIS 66 thousand.

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont.)

(8) In August 2004, in the context of a purchase of EQY shares which the Company performs from time to time in the ordinary course of its business, the Company purchased 130,000 of EQY shares from its Chairman of the Board and 1,250 of EQY shares from the Company's CEO at the price of U.S.$ 19.08 per share, which was 1% lower compared to the then share market price. The purchase price was identical to the price paid on that day for 137 thousand of EQY shares which were purchased from a third party (who holds a senior position at EQY, however he does not hold a position in the Company and he is not a related party). The Company applied the Securities Regulations (Presentation of Transactions Between a Corporation and a Controlling Shareholder Therein in the Financial Statements), 1996 in accounting for this transaction.

(9) As for the issuance of options to directors, see Note 23c.

d. Balances:

As collateral for loans provided in August 2002 by a banking institution to the Company's CEO for purchase of Company's shares in the amount of approximately NIS 5.9 million, the Company provided a deposit linked to the Israeli CPI and a deposit linked to the U.S. dollar which bear interest at the rate of 1.5%. The outstanding deposit amount is presented in shareholders' equity. The optionee placed a charge on the issued shares in favor of the Company's wholly owned subsidiary.

Likewise, the Company is a guarantor for a loan which was provided in February 2000 by a banking institution to the Company's CEO for purchase of Company's shares in the amount of NIS 2.6 million and which matures in January 2005. In October 2004, the Company's general meeting approved that the Company's CEO may reschedule the repayment of the loan into three annual payments beginning from February 2005.

As for other balances with related parties, see Note 10.

NOTE 33:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In January 2005, FCR issued by a private placement some 2.7 million shares of FCR at the price of C$ 19.25 per share, for the total consideration of approximately C$ 52 million. Gazit Canada acquired about 707 thousand shares in this issuance with an investment of approximately C$ 14 million.

As a result of the issuance, the Company's shareholdings in FCR decreased from 56.8% to 55.2% and the Company will record in the first quarter of 2005, a capital gain of approximately NIS 12.7 million.

NOTE 33:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

b. During February 2005, the Company issued by private placements to institutional investors debentures (series A) of NIS 227 million par value for the consideration of approximately NIS 221 million. The above issuance was by the extension of the series of debentures which was first issued to the public in May 2002.

The terms of the issued debentures are similar to the terms of the series, as described in Note 16c.

c. In February 2005, a wholly owned American subsidiary of the Company issued NIS 100 million par value of a non-marketable debenture to Clal Holdings Insurance Company Ltd. ("Clal Insurance"). The issued debenture is redeemable in February in the years 2010 and 2012. The debenture is linked to the Israeli CPI and bears annual interest at the rate of 5.1%, payable once a year and is fully guaranteed by the Company.

The Company also issued to these optionees 3.2 million non-marketable stock options that are exercisable into the shares of the Company.

The options are exercisable into the shares of the Company on a one-for-one basis until January 31, 2007. If the stock options are exercised by January 31, 2006, the exercise increment shall be NIS 31 per share, linked to the Israeli CPI. If the stock options are exercised subsequent to that date, the exercise increment shall be NIS 33 per share, linked to the Israeli CPI.

Assuming full exercise and if it does not sell shares which it holds, Clal Insurance will become a related party in the Company with holdings of about 7.9% of the share capital (eliminating dormant shares and other issuances that the Company may effect from time to time).

d. In February 2005, FCR announced that on March 31, 2005 it will redeem all of the convertible debentures (series D) in an aggregate of approximately C$ 161.7 million and the accrued interest in 8.6 million shares of FCR, according to its right to enforce conversion on holders of convertible debentures. The Company, which holds 87.9 million par value (54%) of convertible debentures (series D), through its wholly owned subsidiaries, will receive 4.6 million of FCR shares.

e. In March 2005, the Company declared a dividend of NIS 0.20 per share payable on March 31, 2005. The record date for the entitlement to the dividend is March 16, 2005.

NOTE 34:- GEOGRAPHIC INFORMATION

The Company and the Group companies operate in three major geographical areas: the U.S., Canada and Israel.

The Company operates in one business segment - rental property. The Company also operates in the field of protected senior citizen residence centers, however it does not qualify for a segment.

Consolidated:

	Year ended December 31, 2004			
	U.S.	Canada	Israel	Total
	Reported NIS in thousands			
Total rental income	1,085,522	742,308	30,405	1,858,235
Segment results	620,285	355,957	1,142	977,384
General and administrative expenses				159,392
Operating income				817,992
Financial expenses, net				519,676
Other income, net				129,202
Income before taxes on income				427,518
Taxes on income				55,029
Income after taxes on income				372,489
Equity in earnings of affiliates				36,004
Minority interest in earnings of subsidiaries				(298,383)
Net income				110,110

NOTE 34:- GEOGRAPHIC INFORMATION (Cont.)

	Year ended December 31, 2003			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total rental income	854,484	529,069	17,633	1,401,186
Segment results	482,063	262,415	1,429	745,907
General and administrative expenses				115,805
Operating income				630,102
Financial expenses, net				300,163
Other income, net				56,492
Income before taxes on income				386,431
Taxes on income				43,629
Income after taxes on income				342,802
Equity in earnings of affiliates				3,613
Minority interest in earnings of subsidiaries				(209,839)
Net income				136,576

	Year ended December 31, 2002			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total rental income	486,438	381,538	17,455	885,431
Segment results	273,522	194,649	297	468,468
General and administrative expenses				80,964
Operating income				387,504
Financial expenses, net				147,203
Other income, net				3,148
Income before taxes on income				243,449
Taxes on income				17,909
Income after taxes on income				225,540
Equity in earnings of affiliates				3,252
Minority interest in earnings of subsidiaries				(124,639)
Net income				104,153

NOTE 34:- GEOGRAPHIC INFORMATION (Cont.)

Additional information:

	December 31, 2004			
	U.S.	Canada	Israel	Total
	Reported NIS in thousands			
Segment assets	8,489,422	6,059,278	329,229	14,877,929
Joint assets - unallocated				1,274,566
Total consolidated assets				16,152,495
Segment liabilities	168,038	188,228	52,424	408,690
Joint liabilities - unallocated				10,983,534
Total consolidated liabilities				11,392,224
Investments in fixed assets	1,676,135	1,257,097	144,062	3,077,294
Rental property depreciation	170,818	102,529	8,829	282,176

	December 31, 2003			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	7,480,343	4,646,412	210,984	12,337,739
Joint assets - unallocated				478,509
Total consolidated assets				12,816,248
Segment liabilities	136,212	150,571	30,232	317,015
Joint liabilities - unallocated				8,403,629
Total consolidated liabilities				8,720,644
Investments in fixed assets	4,403,985	1,196,666	3,417	5,604,068
Rental property depreciation	126,870	65,512	5,107	197,489

NOTE 35:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES

a. The Company provides nominal historical data for income tax purposes only.

b. The financial statements have been prepared in accordance with generally accepted accounting principles based on the historical cost convention, without taking into consideration the changes in the general purchasing power of the Israeli currency.

c. Balance sheets - the Company:

	December 31,	
	2004	2003
	NIS in thousands	
ASSETS		
CURRENT ASSETS	13,861	22,930
LONG-TERM INVESTMENTS AND LOANS	2,115,453	1,230,241
FIXED ASSETS, NET	2,276	1,933
OTHER ASSETS AND DEFERRED CHARGES, NET	10,170	5,997
	2,141,760	1,261,101
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES	60,172	42,611
LONG-TERM LIABILITIES	1,506,066	606,008
SHAREHOLDERS' EQUITY	575,522	612,482
	2,141,760	1,261,101

NOTE 35:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

d. Statements of operations - the Company:

	Year ended December 31,		
	2004	**2003**	**2002**
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	*) -	*) -	*) -
Other income	2,975	3,655	5,378
Financial, net	-	14,907	-
	2,975	18,562	5,378
Costs and expenses:			
General and administrative	11,858	8,222	7,809
Financial, net	38,725	-	8,313
	50,583	8,222	16,122
Income (loss) before taxes on income	(47,608)	10,340	(10,744)
Taxes on income	4,172	3,832	3,906
Net income (loss)	*) (51,780)	*) 6,508	*) (14,650)

*) The investments in investees are presented in the financial statements in nominal values according to the cost method. Accordingly, earnings of the subsidiaries are not included in these financial statements.

NOTE 35:- CONDENSED FINANCIAL DATA IN NOMINAL HISTORICAL VALUES FOR TAX PURPOSES (Cont.)

e. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous entities	Accumulated deficit	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares	Total
	NIS in thousands							
Balance at January 1, 2002	52,847	385,405	36,172	(25,202)	-	(3,476)	-	445,746
Issuance of share capital, net	6,130	79,436	-	-	-	-	(8,362)	77,204
Exercise of stock options into shares	9,535	135,413	-	-	-	(108,203)	-	36,745
Issuance of stock dividend	6,254	-	-	(6,254)	-	-	-	-
Sale of shares by the Company	-	387	-	-	-	2,914	(2,009)	1,292
Net loss	-	-	-	(14,650)	-	-	-	(14,650)
Dividend paid	-	-	-	(31,681)	-	-	-	(31,681)
Dividend declared	-	-	-	(11,591)	11,591	-	-	-
Balance as of December 31, 2002	74,766	600,641	36,172	(89,378)	11,591	(108,765)	(10,371)	514,656
Issuance of share capital, net	4,000	60,000	-	-	-	-	-	64,000
Exercise of stock options into shares	6,783	72,322	-	-	-	-	-	79,105
Repurchase of shares	-	-	-	-	-	(63)	63	-
Repayment of loans for purchase of shares	-	-	-	-	-	-	930	930
Net income	-	-	-	6,508	-	-	-	6,508
Dividend paid	-	-	-	(41,126)	(11,591)	-	-	(52,717)
Dividend declared	-	-	-	(14,583)	14,583	-	-	-
Balance as of December 31, 2003	85,549	732,963	36,172	(138,579)	14,583	(108,828)	(9,378)	612,482
Exercise of stock options into shares	6,098	81,253	-	-	-	(9,400)	(56)	77,895
Revaluation of loans for purchase of shares	-	-	-	(16)	-	-	16	-
Net loss	-	-	-	(51,780)	-	-	-	(51,780)
Dividend paid	-	-	-	(48,492)	(14,583)	-	-	(63,075)
Dividend declared	-	-	-	(17,200)	17,200	-	-	-
Balance as of December 31, 2004	91,647	814,216	36,172	(256,067)	17,200	(118,228)	(9,418)	575,522

LIST OF GROUP COMPANIES AS OF DECEMBER 31, 2004 (1)

	Percentage of ownership as of December 31, 2004			Country of registration
	%			
Equity One Inc.	39.6	***)	(2)	U.S.
First Capital Realty Inc.	56.8	**)	(3)	Canada
M.G.N USA Inc.	100	***)		U.S.
Gazit (1995) Inc.	100	**)		U.S.
Gazit Group USA Inc.	100	**)		U.S.
M.G.N America Inc.	100	**)		U.S.
Gazit Senior Care Inc.	100	**)	(5)	U.S.
Gazit 2003 Inc.	100	*)		Canada
Gazit Canada Inc.	100	***)		Canada
Golden Oak Inc.	100	*)		Cayman Islands
Hollywood Properties Ltd.	100	*)		Cayman Islands
Citycon Oyj	39.3	*)	(6)	Finland
Mishkenot Clal (1982) Ltd.	50	*)	(4)	Israel
Hashalom Boulevard House Ltd.	100	**)		Israel
Gazit Globe Israel (1992) Ltd.	100	*)		Israel

*) Held directly by the Company.

**) Held through subsidiaries.

***) Held directly and through subsidiaries.

(1) The list does not include companies held by EQY, FCR, Mishkenot Clal and Gazit Senior Care Inc.

(2) See Notes 1b(2) and 8b.

(3) See Notes 1b(3) and 8.

(4) See Notes 1b(5) and 8e.

(5) See Notes 1b(6) and 8e.

(6) See Notes 1b(4) and 8d.

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