

GAZIT-GLOBE LTD.

Directors' Report to Shareholders **For the periods ended September 30, 2005**

The Board of Directors of Gazit-Globe Ltd. (hereinafter – “the Company”) is honored to present the financial statements of the Company and its consolidated subsidiaries for the periods ended September 30, 2005:

1. A. General

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

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

As of the date of the financial statements, the Group owns 330 properties, as follows:

- 309 operational shopping centers
- 13 shopping centers under development
- 7 senior living facilities (containing some 850 residential units)
- 1 office building in Tel-Aviv

The above properties have a Gross Leasable Area (“G.L.A.”) of some 3.3 million square meters. These properties have a book value of NIS 19 billion and generate annual rental income of NIS 2.4 billion (gross annual rent from the properties currently owned at the exchange rate on the date of the financial statements).

In addition, the Company – through its holdings in an associated company, Citycon Oyj. – has an interest in 145 income producing properties in northern Europe.

In the USA, the Company operates mainly through Equity One, Inc. (hereinafter – “EQY”), a public company listed on the NYSE (NYSE:EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and indirectly (including through First Capital Realty, Inc. 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 Southeastern United States (mainly in the states of Florida, Texas and Georgia) and in the Boston, Massachusetts metropolitan area. EQY owns 185 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 Company - through Royal Senior Care (hereinafter – “RSC”), in which it owns a 50% interest - is active in the senior living sector in the Southeastern United States. RSC owns 7 senior living facilities encompassing approximately 850 residential units.

Operations in Canada are carried out through First Capital Realty, Inc. (hereinafter – “FCR”), a public company listed on the Toronto Stock Exchange (TSX:FCR). As of the date of the financial statements, the Company owns 54% of FCR. FCR 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 Columbia in Canada. FCR owns 123 properties in Canada, with a G.L.A. of approximately 1.4 million square meters, and 6 shopping centers under development. In addition, FCR owns 13.2 million shares of EQY.

In Israel, the Company owns 85% of the share capital of Gazit-Globe Israel (Development) Ltd. (hereinafter – “Gazit-Globe Israel”), which is engaged in the acquisition of shopping centers in Israel and which owns a shopping center and land for the future development of a shopping center. In addition, the Company owns an office building in Tel-Aviv.

In Finland, the Company is the largest shareholder (37%) in Citycon Oyj. Hereinafter – “Citycon”), a Finnish public company, whose shares are traded on the Helsinki Stock Exchange (HEX). As of September 30, 2005, Citycon owns 18 shopping centers and 127 stores, which are let primarily to supermarkets and other retail chains, with a G.L.A. of approximately 500 thousand square meters.

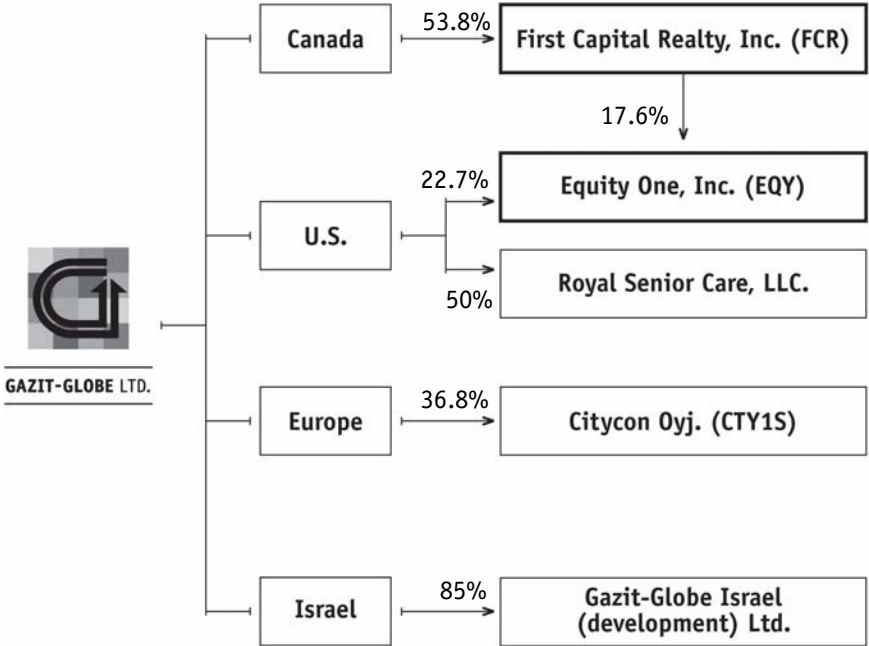
Other publicly-accessible data concerning the Group, including up-to-date presentations, supplemental packages with information regarding assets and liabilities, and other information, can be found on the Group's Internet website – www.gazit-globe.com and the Internet websites of the Group's companies:

www.equityone.net

www.firstcapitalrealty.ca

www.citycon.fi

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



D. The Company's Holdings

The following table presents a summary of the Company's holdings as of September 30, 2005:

Name of company	Type of security	Holding (millions)	Holding percentage (%)	Book value (NIS in millions)	Market value as of September 30, 2005 (NIS in millions)	Market value as of the date of the financial statements (NIS in millions)
EQY ⁽¹⁾	Shares	17.0	22.7	1,081	1,818	1,837
FCR	Shares	37.5	53.6	2,062	3,138	3,112
Citycon	Shares	46.7	37.4	565	901	846
RSC	Partnership	-	50.0	56	56	56
Gazit-Globe Israel	Shares and shareholders' loans	-	85.0	246	246	246
Other assets, net ⁽²⁾		-		12	12	12
Total				4,022	6,171	6,109

The Company's net liabilities⁽³⁾ (including those of its wholly owned subsidiaries) amounted to NIS 2,335 million as of September 30, 2005.

As of September 30, 2005, the Company's issued share capital comprises 93.2 million shares (excluding treasury stock held by the Company).

⁽¹⁾ Represents only the Company's direct holding in EQY. (In addition, FCR holds 13.2 million shares of EQY).

⁽²⁾ Mainly represents the book-value of the Gazit House and other assets, net of provision for deferred taxes.

⁽³⁾ Net of financial assets.

E. Highlights - Third Quarter 2005

- The Group's investments amounted to NIS 0.9 billion, compared to NIS 0.3 billion in the corresponding quarter last year.
- Property rental revenue amounted to NIS 562 million, an increase of 20% compared to the corresponding quarter 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, as well as from the increase in the average rental fees per square meter received on the group's properties.
- N.O.I.⁽¹⁾ amounted to NIS 377 million, compared to NIS 319 million for the corresponding quarter last year, an increase of 18%.
- Gross profit amounted to NIS 288 million, compared to NIS 247 million for the corresponding quarter last year, an increase of 17%.
- Cash flows from operating activities amounted to NIS 183 million, compared to NIS 129 million for the corresponding quarter last year, an increase of 42%.
- F.F.O.⁽²⁾ amounted to NIS 41.4 million, NIS 0.48 per share, compared to NIS 43.7 million, NIS 0.52 per share, for the corresponding quarter last year. The decrease in F.F.O. and F.F.O. per share is due to the erosion of CPI-linked NIS loans, caused by the steep rise in the inflation rate in Israel during the third quarter of the year (which reflects an annualized rate of inflation of 5.7%).
- Net income amounted to NIS 50.1 million, NIS 0.57 per share, compared to NIS 31.2 million, NIS 0.37 per share, for the corresponding quarter last year.
- Capital surpluses (included within the line-item "shareholders' equity") increased by NIS 73 million (NIS 0.78 per share), compared to NIS 34 million (NIS 0.40 per share) in the same period last year. The increase in the capital surpluses is due to the strengthening of the U.S. and Canadian dollars against the shekel (a "devaluation" of the shekel) during the aforesaid period.
- The ratio of debt to total market capitalization stood at 53.6% as of September 30, 2005, compared to 56.2% as of September 30, 2004. As of December 31, 2004, this ratio stood at 53.8%.

⁽¹⁾ N.O.I. – Rental income, net of property operating expenses.

⁽²⁾ See section 3.C below.

F. Highlights – First Nine Months of the Year (hereinafter – “the reporting period”)

- The Group’s investments amounted to NIS 2.3 billion, compared to NIS 2.4 billion in the corresponding period last year.
- Property rental revenue amounted to NIS 1.6 billion, an increase of 18% 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 a higher occupancy rate, as well as from the increase in the average rental fees per square meter received on the group’s properties.
- N.O.I.⁽¹⁾ amounted to NIS 1,078 million, compared to NIS 916 million for the corresponding period last year, an increase of 18%.
- Gross profit amounted to NIS 820 million, compared to NIS 714 million for the corresponding period last year, an increase of 15%.
- Cash flows from operating activities amounted to NIS 509 million, compared to NIS 382 million for the corresponding period last year, an increase of 33%.
- F.F.O.⁽²⁾ amounted to NIS 136.5 million, NIS 1.59 per share, compared to NIS 120.2 million, NIS 1.44 per share, for the corresponding period last year.
- Net income (after neutralizing the non-recurring effect of implementing Israel Accounting Standard No. 19) amounted to NIS 112.8 million, NIS 1.33 per share, compared to NIS 67 million, NIS 0.80 per share, for the corresponding period last year.
- The Company, EQY and FCR raised NIS 476 million, net, of equity capital during the reporting period, compared to NIS 491 million during the corresponding period last year.

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

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

⁽¹⁾ N.O.I. – Rental income, net of property operating expenses.

⁽²⁾ See section 3.C below.

The main changes resulting from the provisions of the Standard, compared to the provisions previously applied, are: the recognition of deferred taxes in respect of temporary differences arising when the measurement currency for accounting purposes differs from the measurement currency for tax purposes, and the recognition of deferred taxes in respect of temporary differences relating to land. The Standard is to be applied to financial statements covering periods commencing on, or after, January 1, 2005. The implementation of the Standard has been effected by taking into account its cumulative effect at the beginning of the year.

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

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

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 2.3 billion. The effect of these investments on the operating results will be reflected in full during the remainder of the year and in 2006.

A. Property Transactions

1. During the reporting period, the Group acquired 27 properties, with a total G.L.A. of approximately 245 thousand square meters, and 15 plots of land for future development. The total consideration for these acquisitions amounted to NIS 1.9 billion.
2. During the reporting period, the Group invested a total of NIS 0.4 billion in developing new properties and in the redevelopment of existing properties.
3. During the reporting period, EQY sold 4 properties with a total G.L.A. of approximately 49 thousand square meters for a total consideration of NIS 195 million. The net gain recognized by the Company from the sale of these properties amounted to NIS 11.8 million, compared to a net gain of NIS 12.6 million from the sale of properties in the corresponding period last year.
4. As of September 30, 2005, the Group had properties being developed and being redeveloped, as well as land for future development, at a cost of NIS 726 million. These properties and land did not generate any rental income during the reporting period.

5. As of the end of the third quarter of 2005, EQY's average basic monthly rental income was US\$ 9.34 per square meter. During the third quarter, EQY renewed leases on 15 thousand square meters, while increasing the average basic monthly rent on these leases by 3.8% to an average monthly rent of US\$ 14.53 per square meter, as well as signing new leases on 35 thousand square meters at an average basic monthly rent of US\$ 9.28 per square meter. During the third quarter, leases on 31 thousand square meters expired, on which the average monthly rent was US\$ 9.20 per square meter. The net operating income from same properties increased by 1.6%, compared to the corresponding period last year.

EQY's core properties had an average occupancy rate of 93.7% as of September 30, 2005 (September 30, 2004 – 93.8%).

6. As of the end the third quarter of 2005, FCR's average basic monthly rental income was C\$ 12.17 per square meter. During the third quarter, FCR renewed leases on 9 thousand square meters, while increasing the average basic monthly rental on these leases by 3% to an average monthly rental of C\$ 10.84 per square meter, as well as signing new leases on 7 thousand square meters at an average basic monthly rental of C\$ 16.19 per square meter. During the third quarter, leases on 6.5 thousand square meters expired, on which the average monthly rental was C\$ 15.38 per square meter. The net operating income from same properties increased by 1.7%, compared to the corresponding period last year.

FCR's properties had an average occupancy rate of 94.7% as of September 30, 2005 (September 30, 2004 – 93.7%).

- B.** As to the sale shares of the Company to institutional investors and to Mr. Chaim Katzman, and the issue of shares to the parent company – see note 3A to the financial statements.
- C.** As to the exercise of stock option into shares of the Company and the issue of non-listed stock option – see notes 3B and 3F to the financial statements.
- D.** As to a public offering of shares and the conversion of convertible debentures into shares in subsidiaries - see notes 3C and 3D to the financial statements.
- E.** As to the capital raised by Citycon in July 2005 and the Company's participation in this fund raising – see note 3E to the financial statements.
- F.** As to debt raised by the Company and subsidiaries – see notes 3F, 3G, 3H, 3I and 3J to the financial statements.
- G.** As to Arie Mintkavitch becoming a director and being appointed Deputy Chairman of the Board of Directors, and the conditions of his employment – see note 3K to the financial statements.
- H.** As to the establishment of Gazit-Globe Israel, which is engaged in the Israeli shopping centers sector – see note 3L to the financial statements.

- I.** As to the sale of the Company's holding in Mishkenot Clal (1982) Ltd. to Azorim Properties Ltd. – see note 3N to the financial statements.
- J.** During June 2005, EQY announced that it had engaged a U.S. investment bank to assess strategic alternatives with regard to its property portfolio in Texas and Louisiana, including the possibility of selling the portfolio or entering into a joint venture with third parties with regard to the portfolio. EQY owns 32 properties with a G.L.A. of 280 thousand square meters in Texas and 15 properties with a G.L.A. of 150 thousand square meters in Louisiana. Additionally, EQY announced that it had signed a conditional agreement for the sale of a further 15 properties; these properties, located in various states, have a G.L.A. of 120 thousand square meters. In September 2005, EQY announced the cancellation of the aforesaid conditional agreement and the consequent restoration of these properties to being classified in the accounts under "fixed assets. In September 2005, EQY also announced that, because of the impact of hurricane Katrina on the property market in Louisiana, EQY's management had decided to cease its marketing efforts with regard to its property portfolio in that state. The Texas properties referred to above, which have a carrying value of NIS 1.3 billion as of September 30, 2005, have been classified as "assets held for sale" and are presented among current assets.
- K.** As to the issue of VAT assessments for the 2003 and 2004 tax years and for part of the 2002 and 2005 tax years – see note 3P to the financial statements.
- L.** As to the issue of best-judgment income tax assessments for the tax years 2001 through 2003 – see note 3Q to the financial statements.
- M.** In July 2005, the Company adopted an incentive plan for the Company's employees and officers, in conformance with Section 102 of the Income Tax Ordinance, under the capital gains track and with a trustee.

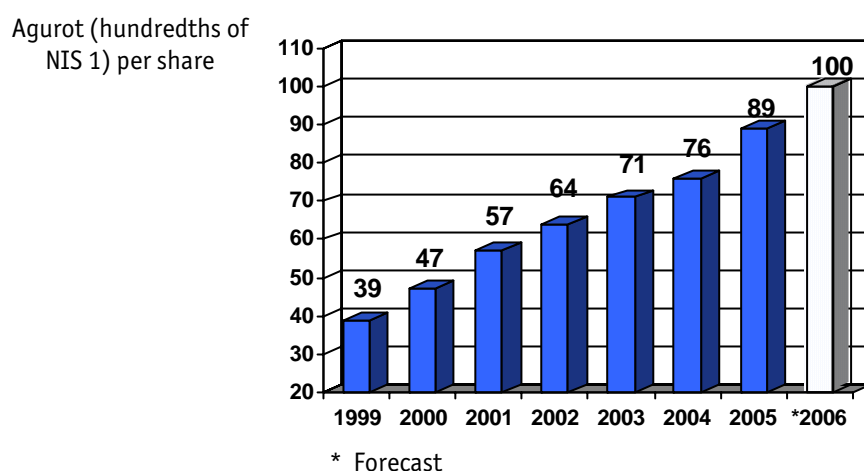
In August 2005, within the framework of the above plan, the Company issued to Mr. Arie Mintkavitch, Deputy Chairman of the Board of Directors, 400,000 stock option, which are convertible into Company shares at an exercise price of NIS 29.65 per share, subject to adjustments.

N. Dividend Distribution Policy

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

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

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



3. A. Results of Operations

	For the 9 months which ended September 30		For the 3 months which ended September 30		For the year which ended December 31,
	2005	2004	2005	2004	2004
	Unaudited				Audited
	NIS in thousands (other than earnings per share data)				
Property rental revenue	1,592,711	1,346,431	561,744	469,081	1,858,235
Rental property operating expenses	514,816	430,435	184,701	150,038	598,675
Rental property depreciation	257,672	201,918	89,044	72,125	282,176
Gross profit	820,223	714,078	287,999	246,918	977,384
General and administrative expenses	131,006	111,825	46,377	38,292	159,392
Operating income	689,217	602,253	241,622	208,626	817,992
Financing expenses, net	447,438	390,804	159,431	136,551	519,676
	241,779	211,449	82,191	72,075	298,316
Other income, net	114,946	86,896	55,554	59,770	129,202
Income before taxes on income	356,725	298,345	137,745	131,845	427,518
Taxes on income	68,485	44,279	22,989	19,612	55,029
Income after taxes on income	288,240	254,066	114,756	112,233	372,489
Equity in earnings of affiliates	49,933	24,629	23,020	12,953	36,004
Minority interest in earnings of subsidiaries	(225,422)	(211,726)	(87,695)	(93,945)	(298,383)
Income before cumulative effect	112,751	66,969	50,081	31,241	110,110
Cumulative effect as of the beginning of the period of change in accounting principle (see section 1G above)	(56,525)	-	-	-	-
Net income	56,226	66,969	50,081	31,241	110,110
<u>Net earnings of NIS 1 par value (in reported NIS)</u>					
Before cumulative effect	1.33	0.80	0.57	0.37	1.17
Cumulative effect at beginning of period of change in accounting, principle	(0.61)	-	-	-	-
Net earnings	0.72	0.80	0.57	0.37	1.17
Number of shares used in computing net earnings per share	92,454	82,655	93,071	84,250	86,219

B. Analysis of Results of Operations for the Third Quarter of 2005

Property rental revenue

The 20% 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, and higher occupancy rates, as well as from the increase in the average rental fees per square meter for the Group's properties.

Rental Operating cost

The increase in rental operating cost, compared to the corresponding period last year, stems from the increased number of properties, as referred to above. Rental operating cost, as a percentage of rental income, rose from 32% for the corresponding period last year to 32.8%; as a result of the relatively greater share in these items that now relates to FCR and RSC, whose operating expenses represent a higher percentage of income than EQY's.

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 property costs to the term of the tenants' leases, which is shorter than the lifespan of the properties. Depreciation expenses as a percentage of rental revenue rose from 15.4% for the corresponding period last year to 15.9%.

Gross Profit

Gross profit amounted to NIS 288 million (51.3% of rental income); this compares to NIS 247 million (52.6% of rental income) for the corresponding period last year – an increase of 17%. The reduction in gross profit as a percentage of rental revenue is attributable to the increase in depreciation and rental operating expenses as a percentage of rental income, as explained above.

General and Administrative Expenses

The increase in general and administrative expenses compared to the corresponding period last year stems from the growth in the Company's and the Group's activities, as referred to above. General and administrative expenses as a percentage of rental revenue amount to 8.3%, the same as for the corresponding period last year.

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 9.8 billion in the third quarter of 2004 to an average balance of NIS 12.5 billion in the third quarter of 2005. Interest expenses reflect an average nominal interest rate of approximately 6.1% per annum on the Group's indebtedness.
2. The 1.4% increase in the "known" Israeli consumer price index (C.P.I) (which reflects an annualized rate of inflation of 5.7%) caused financing expenses to increase by NIS 11.5 million (NIS 0.12 per share), following the revaluation of loans that are linked to the Israeli consumer price index. In the corresponding period last year, the amount was negligible.

Other Income, Net

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

The Company recorded gains from the dilution of its holding in FCR (see section 2D above) and in the associated company, Citycon (see section 2E above), as well as from the sale of its holding in Mishkenot Clal (1982) Ltd. to Azorim Properties Ltd. (see section 2I above) totaling NIS 31.5 million, compared to gains of NIS 9 million in the corresponding period last year.

Additionally, the sale of two shopping centers by EQY produced a net gain for the Group of NIS 23.4 million (the Company's share being NIS 5.7 million), as compared to the gain of NIS 45.7 million (the Company's share being NIS 10.6 million) from the sale of properties in the corresponding period last year.

The Company's Share in the Profits of Associated Companies

The increase in this item is attributable to the Company's gross share in the profits of Citycon in the amount of NIS 23 million, compared to NIS 13 million in the corresponding period last year.

In the third quarter of 2005, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation in their gross value of € 8.3 million (NIS 46 million) (the Company's share, net of related taxes, being NIS 12.7 million).

C. F.F.O.⁽¹⁾ and F.F.O. per Share

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

The Company is of the opinion that F.F.O. and F.F.O. per share are more accurate reflections of the aspect of the Company's operating results, providing a more appropriate basis for comparing the Company's operating results for a given period to those for previous periods, and for comparing the Company's operating results to those of other property companies.

The table below presents the computation of the Company's F.F.O. and F.F.O. per share for the periods stated, after neutralizing the Company's share in the results of Mishkenot Clal, this operation having been sold⁽⁴⁾:

	For the 9 months which ended September 30		For the 3 months which ended September 30		For the year which ended December 31,
	2005	2004	2005	2004	2004
	Reported NIS in thousands (other than F.F.O. data)				
Reported net income⁽²⁾	<u>112,751</u>	<u>66,969</u>	<u>50,081</u>	<u>31,241</u>	<u>110,110</u>
Adjustments:					
Gains from dilution in holdings of consolidated subsidiaries and other capital gains	(61,411)	(21,853)	(29,573)	(7,692)	(28,315)
Gains from the sale and appreciation of properties	⁽³⁾ (35,001)	(11,916)	⁽³⁾ (17,325)	(10,019)	(18,579)
Neutralization of Company's share in losses (profits) of Mishkenot Clal ⁽⁴⁾	12,059	5,002	-	5	(1,056)
Total adjustments	<u>(84,353)</u>	<u>(28,767)</u>	<u>(46,898)</u>	<u>(17,706)</u>	<u>(47,950)</u>
Company's share in depreciation and amortization	111,833	87,483	38,209	32,209	123,812
Neutralization of Company's share in depreciation and amortization of Mishkenot Clal ⁽⁴⁾	(3,764)	(5,475)	-	(2,050)	(8,115)
Total depreciation and amortization	<u>108,069</u>	<u>82,008</u>	<u>38,209</u>	<u>30,159</u>	<u>115,697</u>
F.F.O.	<u>136,467</u>	<u>120,210</u>	<u>41,392</u>	<u>43,694</u>	<u>177,857</u>
F.F.O. per share	<u>1.59</u>	<u>1.44</u>	<u>0.48</u>	<u>0.52</u>	<u>1.96</u>
F.F.O. per share (without the effect of convertible securities, which are included in the primary EPS computation)	<u>1.57</u>	<u>1.45</u>	<u>0.47</u>	<u>0.52</u>	<u>2.14</u>

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

⁽²⁾ After neutralizing the cumulative effect at the beginning of the year of a change in accounting treatment, net (Israel Accounting Standard No. 19) (see section 1G above).

⁽³⁾ Includes the Company's share in the revaluation of Citycon's investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, in the net amount of NIS 25.3 million and NIS 12.7 million for the nine and three months ended September 30, 2005, respectively.

⁽⁴⁾ After neutralizing the Company's share in the results of Mishkenot Clal (1982) Ltd., this operation having been sold at the end of the second quarter of 2005 – see section 2I above.

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 September 30, 2005, the liquid assets available to the Group, including short-term investments, totaled NIS 221 million, compared to NIS 109 million as of December 31, 2004. In addition, as of September 30, 2005, the Group had unutilized credit facilities available for immediate drawdown of NIS 2.4 billion, compared to NIS 1.2 billion as of December 31, 2004.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 2.6 billion.

Investments in Associated Companies

Investments in associated companies, amounting to NIS 566 million as of September 30, 2005, relate primarily to the investment in 46.7 million shares of Citycon. During the reporting period, the Company acquired 2.6 million Citycon shares at a cost of NIS 43 million.

Long-Term Investments

Long-term investments, as of September 30, 2005, totaled NIS 332 million, compared to NIS 216 million as of December 31, 2004.

The increase in this item is derived primarily from the acquisition of marketable shares and debentures in companies active in the Group's areas of activity or in synergetic businesses, in regions where it is already active.

Fixed Assets, Net

Net fixed assets (that include rental properties held for sale, which are presented among current assets – see section 2J above), as of September 30, 2005, totaled NIS 17.8 billion, compared to NIS 14.7 billion at the end of 2004.

In the reporting period, the Group acquired properties, developed new properties and redeveloped existing properties at a total cost of NIS 2.3 billion. In addition, the strengthening of the U.S. dollar and the Canadian dollar against the shekel contributed NIS 1.2 billion to the increase in this item. Depreciation expenses for the reporting period amounted to NIS 258 million.

Long-Term Liabilities, Including Current Maturities

Long-term liabilities, including current maturities, as of September 30, 2005, totaled NIS 13 billion, compared to NIS 10.5 billion at the end of 2004.

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

The long-term loans referred to above include current maturities in the amount of NIS 1.7 billion, compared to NIS 0.7 billion at the end of 2004.

The current maturities include the final settlement of loans (mortgages on properties), in the amount of NIS 0.4 billion, which are secured by a charge on the properties, and the repayment of an unsecured credit facility, in the amount of NIS 0.2 billion, that was granted to EQY by a consortium of banks and that EQY is entitled to extend for a further year. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans (at the end of 2004, the final settlement of loans included in current maturities (mortgages on properties) amounted to NIS 0.5 billion).

Shareholders' Equity

The change in shareholders' equity from NIS 1,302 million as of December 31, 2004 to NIS 1,687 million as of September 30, 2005 stems mainly from the sale of shares to institutional investors amounting to NIS 178 million, from the exercise of stock option into shares amounting to NIS 81 million, from the income before cumulative effect for the reporting period amounting to NIS 112.8 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 amounting to NIS 126.5 million. These were partly offset by the cumulative effect at the beginning of the year of a change in accounting treatment, net (Israel Accounting Standard No. 19), amounting to NIS 56.5 million, and the dividends of NIS 57.3 million paid by the Company.

Shareholders' equity per share as of September 30, 2005 amounted to NIS 18.10 per share, compared to NIS 15.45 per share as of December 31, 2004, this being after dividend distributions of NIS 0.66 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 62.8% as of September 30, 2005, compared to 61.2% as of September 30, 2004 and to 62% as of December 31, 2004.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 53.6% as of September 30, 2005, compared to 56.2% as of September 30, 2004. As of December 31, 2004, the ratio stood at 53.8%.

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

Cash Flows

Cash inflows from operating activities for the reporting period and for the third quarter of 2005 totaled NIS 509 million and NIS 183 million, respectively, compared to NIS 382 million and NIS 129 million for the corresponding periods last year, respectively. The growth in cash inflows from operating activities for the aforesaid periods was due to the continuing improvement in operating profit.

In addition, in order to fund the Group's activities during the reporting period and the third quarter of 2005, the Company and its consolidated subsidiaries raised capital totaling NIS 476 million and NIS 249 million, respectively, and took long-term loans and issued debentures in a net amount of NIS 1,634 million and NIS 397 million, respectively. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which, net of proceeds from the disposal of fixed assets, totaled NIS 2,058 million and NIS 756 million in the reporting period and in the third quarter of 2005, respectively.

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, which has established and operates an institute focusing on research and studies of all manner of real estate related topics (The Chaim Katzman – Gazit-Globe Real Estate Institute).

During the reporting period, the Group's donations amounted to NIS thousand 1,578.

6. Additional Information and Subsequent Events

- A. As to the capital raised by Citycon in October 2005 and the Company's participation in this fund raising - see note 4C to the financial statements.
- B. As to the final exercise of stock option (Series 8) into shares of the Company - see note 4A to the financial statements.
- C. During October 2005, EQY submitted a purchase offer for the acquisition - at a price of US\$ 20.5 per share - of the shares of DIM Vastgoed N.V. ("DIM"), a public company incorporated in the Netherlands and whose shares are traded on the Euronext Amsterdam Stock Exchange. DIM owns 17 shopping centers in the Southeastern United States with a G.L.A. of 240 thousand square meters. EQY's offer to DIM's shareholders was limited to November 14, 2005. On November 15, 2005, EQY announced that its offer had been partially accepted.

Following stock exchange purchases of shares through November 14, 2005 and the partial acceptance of the purchase offer referred to above, EQY holds 26.8% of DIM's share capital as of November 15, 2005. EQY also announced that its offer to DIM's shareholders would remain open - at the present price - until November 30, 2005.

- D. In November 2005, institutional investors under the control of Clal Insurance Enterprises Holdings Ltd. exercised 952 thousand non-marketable stock option into 952 thousand Company shares, for a consideration of NIS 30 million - see note 4B to the financial statements.
- E. In November 2005, a wholly owned subsidiary of the Company entered into a conditional agreement for the acquisition of a medical office building, with a multi-story parking garage, located on the campus of a regional hospital in the State of New Jersey, U.S.A.

The buildings have a G.L.A. of 24,000 square meters and include 1,700 parking spaces; they are leased in their entirety to the hospital. The acquisition is by means of acquiring the property leasehold rights through the year 2041.

The hospital, where the properties are located and which leases the buildings, is rated by the international rating agencies Moody's and Fitch as having an investment grade rating of A2 and A, respectively.

The total cost of the acquisition is US\$ 88 million (NIS 412 million), 30% of which will be financed by the Company from its own resources. The balance will be funded through the assignment of the existing loan on the building from the sellers to the Company. Closure of the agreement is conditioned on the lenders consenting to the assignment of the aforesaid loan.

Moreover, the Company has announced that its Board of Directors has approved, in addition to the acquisition of the aforementioned medical office building, an initial budget of US\$ 300 million for further investments in this asset class. The Company is planning to assess future acquisitions and/or development of similar properties in the U.S.A.

7. Participation in Peer Review

Pursuant to the directive of the Israel Securities Authority issued on July 28, 2005 dealing with “disclosure concerning the giving of consent for the performance of a peer review”, the Company’s Board of Directors has resolved that the Company takes a positive view of the performance of a peer review and the underlying objective for such a review – the assurance of a proper accounting audit being performed thoroughly, through the creation of supervisory mechanisms – and deems it correct to cooperate in the review’s implementation and its furtherance. However, in the opinion of the Company, the peer review in its proposed format raises various legal and other issues, the principal of which relate to: the obligation of the reviewing accountant to maintain confidentiality with regard to the information he receives relating to the Company; the obligation of the reviewing accountant to avoid having a conflict of interests; the lack of any direct legal connection between the reviewing accountant and the Company; and the question of the liability to the Company in the event of it being caused harm or damage. The mechanisms set forth in the peer review to resolve these issues do not provide the Company with sufficient protection. Should mechanisms be put in place that would satisfactorily resolve the Company’s apprehensions, it would favorably consider cooperating with the peer review. It should also be noted that, with regard to foreign group companies listed on an overseas stock exchange, the transmission of information relating to such companies by the Company or by its independent auditors to the reviewers in a peer review (as is the case with respect to any third party) would be subject both to the provisions of the law applicable to that group company and also (so long as the aforesaid foreign law does not prohibit this) to the specific consent of the Group company concerned.

The Company has concluded that its financial statements have been audited in accordance with the law by its independent auditors. It formed this opinion based – inter alia – on the fact that the accountants that audit the financial statements belong to an accounting firm, which is part of one of the four leading international firms and, as such, they are subject to defined work procedures; additionally, the fact that the Company has furnished its independent auditors with all the relevant information for the preparation of the financial statements further reinforces the Company’s opinion.

Among the reasons why this matter has not been discussed at the general meeting of the Company’s shareholders, at which the independent auditors are appointed, is that the proper forum for discussing issues of confidentiality, conflict of interests and liability is the meeting of the Company’s Board of Directors.

8. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's president, and Mr. Gil Kotler, the Company's Chief Financial Officer. Since the publication of the Company's annual report for 2004 on March 28, 2005, there have been no significant changes in the market risks or the way in which they are managed.

Attached as Appendix I is the Company's primary linkage balance sheet as of September 30, 2005

November 22, 2005

**Date of approval of
the Directors' Report**

**Chaim Katzman
Chairman of the Board of
Directors**

**Dori Segal
President and Director**

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

**Primary Linkage Balance Sheet
as of September 30, 2005**

	Linked to the consumer price index	In unlinked NIS	In US\$ or linked thereto	In C\$ or linked thereto	In euros	Unlinked	Total
	R e p o r t e d N I S i n t h o u s a n d s						
Monetary assets							
Cash and cash equivalents	5,586	86,538	18,895	18,734	150	-	129,903
Short-term investments	-	33,023	49,291	2,485	-	6,600	91,399
Tenants, accounts receivable and other debit balances	12,977	6,074	106,855	90,024	-	53,624	269,554
Loans to partners in properties under development	-	-	-	62,342	-	-	62,342
Long-term investments	7,051	-	428	10,222	-	314,489	332,190
Long-term loans and debit balances	-	-	85,546	31,754	-	-	117,300
	25,614	125,635	261,015	215,561	150	374,713	1,002,688
Non-monetary assets⁽¹⁾	-	277,509	9,191,278	8,298,083	564,743	285,819	18,617,432
	25,614	403,144	9,452,293	8,513,644	564,893	660,532	19,620,120
Liabilities							
Short-term credit from banks and other credit granting institutions	-	355	181,571	4,946	-	-	186,872
Trade and other payables and other credit balances	477	36,946	226,559	229,393	710	17,515	511,600
Debentures	855,121	-	2,948,863	523,959	67,358	-	4,395,301
Liabilities to financial institutions and others	5,831	13,945	2,928,644	5,251,524	122,711	-	8,322,655
Deposits from tenants	-	970	44,905	19,895	-	-	65,772
Liabilities for employee rights upon retirement	-	164	-	-	-	-	164
Deferred taxes	-	-	-	-	-	77,787	77,787
	861,429	52,380	6,330,542	6,029,719	190,779	95,302	13,560,151
Minority interests	-	-	-	-	-	4,373,082	4,373,082
Shareholders' equity						1,686,887	1,686,887
	861,429	52,380	6,330,542	6,029,719	190,779	6,155,271	19,620,120

⁽¹⁾ Mainly fixed assets, net.