GAZIT-GLOBE LTD.

Directors' Report to Shareholders
For the year ended December 31, 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 period ended December 31, 2005:

1. A. General

The Company – directly and through subsidiaries and an affiliate – 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 and the medical office buildings sectors in the U.S.A., 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. Growth Strategy in a Stable Business

The main characteristics of the Company's business policy are as follows:

- Investment in economically and politically stable countries.
- Investment in income-producing properties, primarily supermarket-anchored shopping centers, which are considered "recession-resistant" relative to other real estate 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 shopping centers.
- Taking advantage of opportunities to merge and acquire, mainly with companies operating in the Group's asset class and/or in synergetic businesses.

C. Properties of the Company and its Subsidiaries (hereinafter – "the Group")

As of the date of the financial statements, the Group owns 346 properties, as follows:

- 322 operational shopping centers
- 14 shopping centers under development
- 7 senior living communities (encompassing some 860 residential units)
- 1 senior living community under development
- 1 medical office building with a multi-story parking garage
- 1 office building in Tel-Aviv

The above properties have a Gross Leasable Area ("G.L.A.") of approximately 3.5 million square meters. These properties are recorded in the Company's books at a value of NIS 21 billion and generate an annual rental revenue of NIS 2.6 billion. In addition, the Company – through its holdings in an affiliate, Citycon Oyj. – has an interest in 154 income-producing properties in northern Europe that have a G.L.A. of approximately 0.7 million square meters. These properties are recorded in Citycon's book value of NIS 5.6 billion and generate an annual rental revenue of NIS 0.6 billion. (Annual rental revenue data is based on the gross annual rent from the properties currently owned at the exchange rate on the date of the financial statements.)

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – "EQY"), a public company listed on the 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 the subsidiary of 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 Florida, Texas and Georgia) and in the Boston, Massachusetts metropolitan area. EQY owns 189 operating shopping centers, with a G.L.A. of 1.9 million square meters, 6 shopping centers under development, and a joint venture, which includes land for future development.

The Company is also active in the United States through Royal Senior Care, (hereinafter – "RSC") and ProMed Properties Inc. (hereinafter – "ProMed"). RSC, in which the Company holds a 50% interest, is active in the senior living sector in the southeastern United States. RSC owns 7 senior living communities, encompassing approximately 860 residential units, as well as a senior living community under development. ProMed, a wholly (100%) owned subsidiary, is engaged in the medical office buildings sector. ProMed owns a medical office building, with a G.L.A. of 24 thousand square meters, and an adjacent multi-story parking garage.

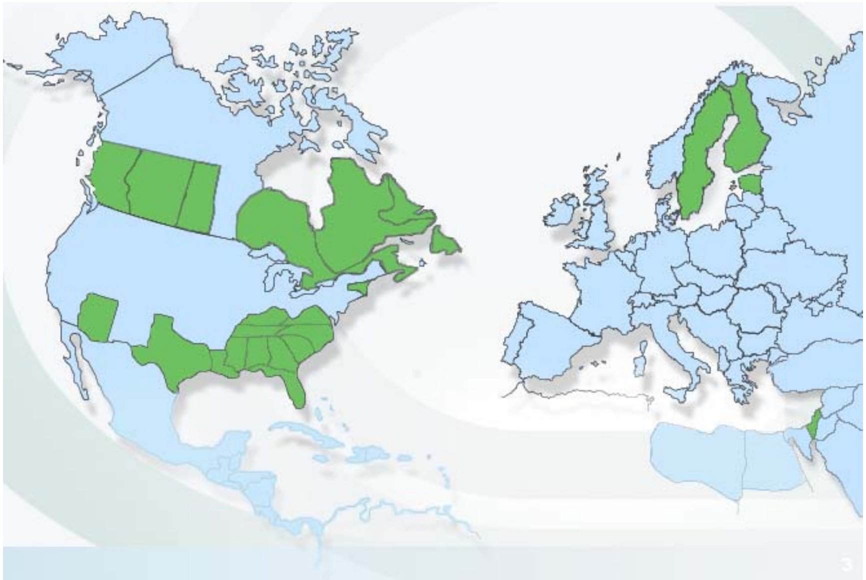
In Canada, the Company operates through First Capital Reality Inc. (“FCR”), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the date of the financial statements, the Company holds 54% of FCR. First Capital Reality Inc. is an owner, developer and operator of neighborhood shopping 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 Columbia in Canada. FCR owns 130 properties in Canada, with a G.L.A. of approximately 1.5 million square meters, and 6 shopping centers under development. In addition FCR owns 13.3 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 3 shopping centers and 2 plots of land for the future development of shopping centers. In addition, the Company owns an office building in Tel-Aviv.

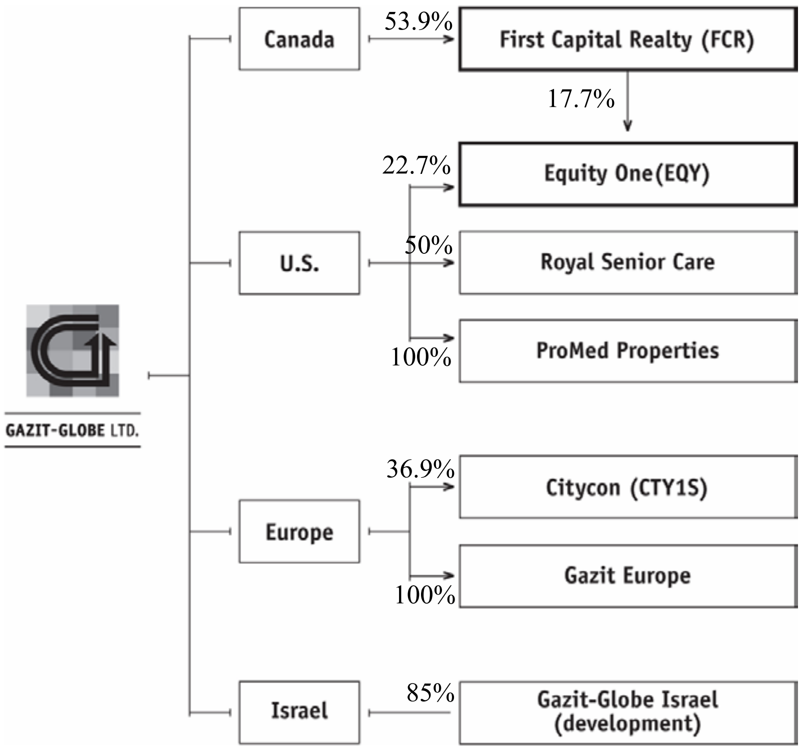
In Finland, the Company operates through Citycon Oyj. (hereinafter – Citycon), a Finnish public company, whose shares are traded on the Helsinki Stock Exchange (HEX). As of the date of the financial statements, the Company owns approximately 37% of Citycon’s share capital. Citycon is active in northern Europe (as of the date of the financial statements, in Finland, Sweden and Estonia) and owns 27 shopping centers and 127 stores, which are let primarily to supermarkets and other retail chains, with a G.L.A. of approximately 0.7 million 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 and the Internet websites of the Group's companies:
www.gazit-globe.com
www.equityone.net
www.firstcapitalrealty.ca
www.citycon.fi

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. The Company's Holdings

1. The following table presents a summary of the Company's holdings as of December 31, 2005, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions)	Market value as of December 31, 2005 (NIS in millions)	Market value as of the date of the financial, statements (NIS in millions)
EQY [1]	Shares (NYSE)	17.1	22.7	1,081	1,821	1,917
FCR	Shares (TSX)	38.0	53.7	2,049	3,462	3,718
FCR	Convertible debentures (TSX)	11.7	11.7	45	45	47
Citycon	Shares (HEX)	50.3	36.7	713	851	1,095
RSC	Income-producing property		-	171	171	171
Gazit-Globe Israel [2]	Income-producing property		-	397	397	397
Other assets, net [3]			-	35	35	35
Total				**4,491**	**6,782**	**7,380**

The Company's net liabilities [4] (including those of its wholly owned subsidiaries) amounted to NIS 2,582 million as of December 31, 2005.

2. Beginning with this report, the Company is publishing its share in the income-producing property owned by the Group as of December 31, 2005, based on capitalized net operating income ("N.O.I.") methodology. The presentation of this information is intended to provide investors with a further means of pricing the Company's worth, using a methodology that is generally accepted in the regions in which it operates.

   The sensitivity table below presents the value of the income-producing properties owned by the Group according to the range of different cap rates generally accepted in the regions in which the Group operates, as of the date of publishing the financial statements. It should be noted that this presentation does not take into account existing construction rights in respect of the Company's properties.

   In calculating the N.O.I., the following assumptions were made:

   a. The annual N.O.I. for each of the Group companies based on its quarterly results for the fourth quarter of 2005.

(1) Represents only the Company's direct holding in EQY. (In adddition, FCR holds 13.3 million shares of EQY).
(2) Including the Gazit House.
(3) Mainly represents the book-value of the Gazit House and other assets, net of provision for deferred taxes.
(4) Net of financial assets.

b. The Company's proportionate share in the N.O.I. of the Group companies.

Cap Rate:	6.25%	6.50%	6.75%	7.00%
Value of proportionately consolidated income-producing property (NIS in millions)	13,330	12,818	12,343	11,902

The Group's liabilities, net of monetary assets, new properties and properties under development, which have not yet begun to produce income and which are presented at their carrying values in the Company's books (by the proportionate consolidation method) as of December 31, 2005, amounted to NIS 7,613 million.

3. As of December 31, 2005, the Company's issued share capital comprises 98.3 million shares (excluding treasury stock held by the Company).

F. 2005 - Highlights

- **The Group's investments amounted to NIS 3.1 billion, compared to NIS 3.5 billion in 2004.**

  In addition, Citycon invested NIS 1 billion in the acquisition and development of properties.

- **Property rental revenue amounted to NIS 2.2 billion, an increase of 18% compared to 2004. The increase was due to the acquisition of properties, the coming online of properties whose development had been completed, higher occupancy rates and the increase in the average rent per square meter received on the Group's properties.**

- **N.O.I.[(1)] amounted to NIS 1.5 billion, compared to NIS 1.3 billion in 2004, an increase of 17%.**

- **Gross profit amounted to 1.1 million, compared to NIS 1 billion for 2004, an increase of 14%.**

- **Cash inflows from operating activities amounted to NIS 661 million, compared to NIS 562 million for 2004, an increase of 18%.**

- **F.F.O.[(2)] amounted to NIS 218 million, NIS 2.44 per share, compared to NIS 197 million, NIS 2.18 per share, in 2004.**

- **The Group's consolidated income (the income before the cumulative effect[(3)] and with the addition of the minority interest) for the reporting year amounted to NIS 486 million, compared to NIS 408 million in 2004.**

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(1) N.O.I. – Property rental revenue, net of property operating expenses.

(2) See section 3E.

(3) After neutralizing the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19) in the amount of NIS 56.5 million (see section H below).

- **The Company, EQY and FCR raised NIS 661 million in share capital from the public during 2005, compared to NIS 585 million in 2004.**

- **The income before the cumulative effect [(1)] amounted to NIS 190 million, NIS 2.13 per share, compared to NIS 110 million, NIS 1.17 per share, in 2004.**

- **Capital surpluses [(2)] (included within the line item "shareholders' equity") increased by NIS 132 million (NIS 1.40 per share), compared to a rise of NIS 39 million (NIS 0.45 per share) in 2004. 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).**

- **The ratio of debt to total market capitalization stood at 52.2% as of December 31, 2005, compared to 53.8% as of December 31, 2004.**

G. Fourth Quarter 2005 - Highlights

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

- **Property rental revenue amounted to NIS 603 million, an increase of 18% compared to the same period last year. The increase was due to the acquisition of properties, the coming online of properties whose development had been completed, higher occupancy rates, and the increase in the average rent per square meter received on the Group's properties.**

- **N.O.I. [(3)] amounted to NIS 400 million, compared to NIS 344 million in the same period last year, an increase of 16%.**

- **Gross profit amounted to NIS 297 million, compared to NIS 263 million for the same period last year, an increase of 13%.**

- **Cash inflows from operating activities amounted to NIS 152 million, compared to NIS 180 million for the same period last year.**

- **F.F.O. [(4)] amounted to NIS 60 million, NIS 0.63 per share, compared to NIS 64 million, NIS 0.65 per share, for the same period last year. The decrease in F.F.O. and F.F.O. per share is due to several non-recurring [(5)]**

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(1) After neutralizing the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19) in the amount of NIS 56.5 million (see section H below).

(2) Capital surpluses deriving from translation of the financial statements of overseas investee companies operating independently.

(3) N.O.I. – Property rental revenue, net of property operating expenses.

(4) See section 3E.

(5) See section 3D.

factors and does not reflect a change in the annual rate of F.F.O. and F.F.O. per share.

- **Net income amounted to NIS 77 million, NIS 0.80 per share, compared to NIS 43.1 million, NIS 0.42 per share, for the same period last year.**

H. <u>Change in Accounting Income Due to Changes in Accounting Standards</u>

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.

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 Year

General

During the reporting year, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 3 billion. The effect of these investments on the operating results will be reflected in full in 2006.

A. Property Transactions

1. During the reporting year, the Group acquired 35 income-producing properties, with a total G.L.A. of approximately 287 thousand square meters, and 19 plots of land for future development. The total consideration for these acquisitions amounted to NIS 2.3 billion.

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

3. During the reporting year, EQY sold 4 income-producing 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 14 million, compared to a net gain of NIS 20 million from the sale of properties last year.

4. As of December 31, 2005, EQY has properties being developed that include land for the development of 6 properties on an area of approximately 908 thousand square meters. In addition, EQY is engaged in the redevelopment of 3 properties and in making additions of approximately 7 thousand square meters adjacent to 6 existing centers.

   As of December 31, 2005, FCR has properties being developed that include land for the development of 10 properties on an area of approximately 612 thousand square meters. In addition, FCR is engaged in the development and redevelopment of 13 properties and in making additions of approximately 62 thousand square meters adjacent to 22 existing centers.

   As of December 31, 2005, Gazit-Globe Israel has a plot of land for the development of a neighborhood shopping center.

   The total cost of the properties and land as described above, which are being developed, amount to approximately NIS 1 billion and did not generate any property rental revenue during the reporting year.

5. As of the end of 2005, EQY's average basic monthly rental revenue was US$ 9.35 per square meter. During the year, EQY renewed leases on 68 thousand square meters, while increasing the average basic monthly rent on these

leases by 4.2% to an average monthly rent of US$ 13.6 per square meter, as well as signing new leases on 132 thousand square meters at an average basic monthly rent of US$ 9.14 per square meter. During the year, leases on 149 thousand square meters expired, on which the average monthly rent was US$ 7.99 per square meter. The net operating income from the same properties increased by 2.9%, compared to 2004.

EQY's core properties had an occupancy rate of 93.4% as of December 31, 2005 (The rate was 94.9% as of December 31, 2004).

6. As of the end of 2005, FCR's average basic monthly rental revenue was C$ 12.21 per square meter. During the year, FCR renewed leases on 55 thousand square meters, while increasing the average basic monthly rent on these leases by 4.9% to an average monthly rent of C$ 13.08 per square meter, as well as signing new leases on 38 thousand square meters at an average basic monthly rent of C$ 14.53 per square meter. During the year, leases on 23 thousand square meters expired, on which the average monthly rent was C$ 14.16 per square meter. The net operating income from same properties increased by 2.6%, compared to 2004.

   FCR's properties had an occupancy rate of 95% as of December 31, 2005 (The rate was 94.1% as of December 31, 2004).

7. As of December 31, 2005, RSC's properties had an occupancy rate of 93.3% (The rate was 92.7% as of December 31, 2004).

   During 2005, RSC acquired 3 senior living communities, encompassing 445 residential units, in Florida and Georgia in the United States. The units acquired were in addition to the 415 residential units that RSC owned in 2004.

   In addition, RSC has begun the process of refinancing two of its mortgages for the properties in South Carolina, on which were repaid at the beginning of 2006. RSC has taken a new, non-recourse mortgage on these properties from a leading institutional provider of mortgages to the senior living communities sector. The new loan, which is for a 5-year period, is in an amount of US$ 13.5 million. This is close to the amount paid by the Company for the acquisition of these two properties in 2004 and is at the same level of leverage.

8. During the reporting year, for the first time, Citycon began entering markets outside Finland and acquired income-producing properties in Sweden and Estonia. This was in addition to the acquisition of further income-producing properties in Finland and to increasing its stake in existing shopping centers.

   In the reporting year, Citycon invested € 178 million (approximately NIS 1 billion) in the acquisition of 5 income-producing properties, in increasing its stake in 3 existing shopping centers, and in the redevelopment of income-producing properties.

   As of the end of 2005, Citycon's average monthly rent was € 14.8 per square meter.

   During the reporting year, Citycon signed and renewed leases on 51 thousand square meters at an average monthly rent of € 14.6 per square meter. During the reporting year, leases on 47 thousand square meters expired, on which the average monthly rent was € 13.9 per square meter.

   Citycon's properties had an occupancy rate of 97.2% as of December 31, 2005 (The rate was 95.7% as of December 31, 2004).

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 22 to the financial statements.

C. As to the exercise of stock options into shares of the Company and the issue of non-listed stock options – see note 22 to the financial statements.

D. As to a public offering of shares and the conversion of convertible debentures into shares in subsidiaries - see note 1 to the financial statements.

E. As to the capital raised by Citycon in July and October 2005 and the Company's participation in this fund raising – see note 1 to the financial statements.

F. As to the debt raised by the Company and the debt and convertible debt raised by subsidiaries – see notes 15, 16 and 20 to the financial statements.

G. As to the appointment of Mr. Arie Mientkavich as a director and as Deputy Chairman of the Board of Directors, and the conditions of his employment – see note 31 to the financial statements.

H. As to the establishment of Gazit-Globe Israel, which is engaged in the Israeli shopping centers sector – see note 1 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 1 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 portfolio of properties 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 income-producing properties with a G.L.A. of 280 thousand square meters in Texas and 14 income-producing properties with a G.L.A. of 150 thousand square meters in Louisiana. In September 2005, EQY announced that, because of hurricane Katrina's impact 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 December 31, 2005, have been classified as "assets held for disposal" and are presented among current assets. In its annual reports published in March 2006, EQY announced that it is considering the possibility of entering into a joint venture with a strategic partner with regard to the portfolio of properties in Texas.

K. 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 whose shares are traded on the Euronext Amsterdam Stock Exchange. DIM owns 18 shopping centers in the southeastern United States with a G.L.A. of 240 thousand square meters .

As of December 31, 2005, EQY held – directly and indirectly – 2.4 million shares in DIM, representing 33% of its share capital. On February 28, 2006, EQY announced that it holds – directly and indirectly – 3.6 million shares in DIM, representing 48.5% of its share capital. Additionally, EQY has undertaken a purchase of 45,000 additional shares of DIM in September 2007 for a consideration of US$ 941,000. As of December 31, 2005, the investment in DIM is presented in the line item "long-term investments" (see also note 8 to the financial statements).

L. As to the issue of VAT assessments for 2003 and 2004 and for a part of both 2002 and 2005 – see note 19 to the financial statements.

M. As to the issue of best-judgment income tax assessments for the tax years 2001 through 2003 – see note 19 to the financial statements.

N. 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 400,000 stock options to Mr. Arie Mientkavich, Deputy Chairman of the Board of Directors. The stock options, are convertible into Company shares at an exercise price of NIS 29.65 per share, subject to adjustments. Subsequent to balance sheet date, the Company issued 620,000 additional stock options to two officers and to an employee of the Company and to an employee of one of its subsidiaries, who are not interested parties of the Company, at an exercise price of NIS 38.45 per share , subject to adjustments.

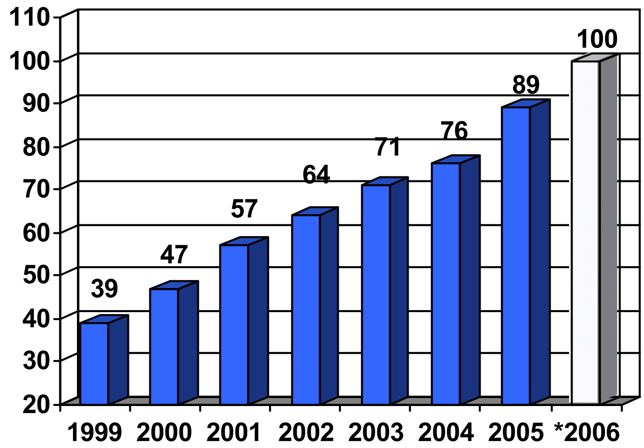
O. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. In November 2005, the Company 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:

Agurot (hundredths of a shekel) per share



* Forecast

3. A. Results of Operations

	For the year ended December 31		
	2005	2004	2003
	NIS in thousands (other than earnings per share data)		
	Reported [(1)]		Adjusted [(2)]
Property rental revenue	2,195,821	1,858,235	1,401,186
Rental property operating expenses	717,762	598,675	457,790
Rental property depreciation	360,800	282,176	197,489
Gross profit	**1,117,259**	**977,384**	**745,907**
General and administrative expenses	186,723	159,392	115,805
Operating income	**930,536**	**817,992**	**630,102**
Financing expenses, net	622,058	519,676	300,163
	308,478	**298,316**	**329,939**
Other income, net	122,353	129,202	56,492
Income before taxes on income	**430,831**	**427,518**	**386,431**
Taxes on income	74,545	55,029	43,629
Income after taxes on income	**356,286**	**372,489**	**342,802**
Equity in earning of affiliates	129,960	36,004	3,613
Minority interest in earnings of subsidiaries	(296,717)	(298,383)	(209,839)
Net income before cumulative effect	**189,529**	**110,110**	**136,576**
Cumulative effect as of the beginning of the year of change in accounting principle [(3)]	(56,525)	-	-
Net income	**133,004**	**110,110**	**136,576**
Net earnings of NIS 1 par value (in NIS)			
Before cumulative effect	**2.13**	**1.17**	**1.69**
Cumulative effect as of the beginning of the year of change in accounting principle [(3)]	**(0.60)**	**-**	**-**
Net earnings	**1.53**	**1.17**	**1.69**

(1) In accordance with Israel Accounting Standards No. 12 and No. 13, see note 2 to the financial statements.
(2) Adjusted to December 2003 shekels.
(3) See section 1H above.

B. Analysis of Results of Operations for 2005

Property rental revenue

The 18% increase compared to 2004 results from the acquisition of new properties, the coming online of properties whose development had been completed, higher occupancy rates, and from the higher average rent per square meter for the Group's properties.

Rental property operating expenses

The increase in rental property operating expenses compared to the previous year stems from the increased number of the Group's properties, as well as expenses amounting to NIS 15 million for the repair of damage in the United States caused by hurricane Katrina. Rental property operating expenses as a percentage of property rental revenue rose from 32.2% in 2004 to 32.7%, mainly 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 revenue than EQY's.

Rental property depreciation

The increase in rental property depreciation expenses compared to the previous 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 property rental revenue rose from 15.2% in 2004 to 16.4%.

Gross profit

Gross profit amounted to NIS 1,117 million (50.9% of property rental revenue); this compares to NIS 977 million (51.3% of property rental revenue) in 2004 – an increase of 14%. The reduction in gross profit as a percentage of property rental revenue is attributable to the increase in depreciation expenses as a percentage of property rental revenue, as explained above.

General and administrative expenses

The increase in general and administrative expenses compared to the previous 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 property rental revenue amount to 8.5%, the same as the percentage for the previous 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 9.4 billion in 2004 to an average balance of NIS 12 billion in 2005. Interest expenses reflect an average nominal interest rate of approximately 5.9% on the Group's indebtedness.

2. The 2.7% increase in the "known" Israeli consumer price index (C.P.I.) caused financing expenses to increase by NIS 21.3 million (NIS 0.23 per share), following the revaluation of loans that are linked to the Israeli C.P.I., compared to an increase of NIS 2.3 million (NIS 0.03 per share) in 2004.

Other income, net

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

The Company recorded a gain from the dilution of its holding in FCR and in the affiliate, Citycon, as well as from the sale of its holding in Mishkenot Clal (1982) Ltd., in the total amount of NIS 72.5 million, compared to a gain of NIS 32.6 million in the previous year.

Additionally, the sale of four shopping centers by EQY produced a net gain for the Group of NIS 46 million (the Company's share being NIS 13.8 million), compared to the gain of NIS 81.4 million (the Company's share being NIS 19.7 million) from the sale of properties in the previous year.

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon in the amount of NIS 130 million, compared to NIS 36 million in the previous year.

In 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 € 46 million (approximately NIS 250 million) (the Company's share, net of related taxes, being approximately NIS 80 million). This was partly offset by the recording of non-recurring expenses in a gross amount of € 5.7 million (approximately NIS 32 million) in respect of the refinancing of a loan (the Company's share, net of related taxes, being approximately NIS 9 million).

C. Analysis of Principal Operating Results for 2005, by Quarter:

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Total 2005
	Reported NIS in thousands (other than earnings per share data)				
Revenues -					
Property rental revenue	503,601	527,366	561,744	603,110	2,195,821
Rental property operating expenses	163,792	166,323	184,701	202,946	717,762
Rental property depreciation	80,689	87,939	89,044	103,128	360,800
Gross profit	**259,120**	**273,104**	**287,999**	**297,036**	**1,117,259**
General and administrative expenses	42,147	42,482	46,377	55,717	186,723
Operating income	**216,973**	**230,622**	**241,622**	**241,319**	**930,536**
Financing expenses, net	(142,951)	(145,056)	(159,431)	(174,620)	(622,058)
	74,022	85,566	82,191	66,699	308,478
Other income, net	43,342	16,050	55,554	7,407	122,353
Income before taxes on income	**117,364**	**101,616**	**137,745**	**74,106**	**430,831**
Taxes on income	22,373	23,123	22,989	6,060	74,545
Income after taxes on income	**94,991**	**78,493**	**114,756**	**68,046**	**356,286**
Equity in earnings of affiliates	11,419	15,494	23,020	80,027	129,960
Minority interest in earnings of subsidiaries	(61,576)	(76,151)	(87,695)	(71,295)	(296,717)
Net income before cumulative effect	**44,834**	**17,836**	**50,081**	**76,778**	**189,529**
Cumulative effect as of the beginning of the year of change in accounting principle	(56,525)	-	-	-	(56,525)
Net income (loss) for the period	**(11,691)**	**17,836**	**50,081**	**76,778**	**133,004**
<u>Net earnings of NIS 1 par value (in NIS)</u>					
Before cumulative effect	**0.52**	**0.24**	**0.57**	**0.80**	**2.13**
Cumulative effect as of the beginning of the year of change in accounting principle	**(0.63)**				**(0.60)**
Net earnings	**(0.11)**	**0.24**	**0.57**	**0.80**	**1.53**

D. Analysis of Results of Operations for the Fourth Quarter of 2005

Property rental revenue

The 18% increase compared with the same period last year resulted from the acquisition of new properties, the coming online of properties whose development had been completed, higher occupancy rates, and from the higher average rent per square meter for the Group's properties. In the fourth quarter of 2005, the Group recorded revenues of NIS 4.4 million from the early termination of leases with tenants, compared to NIS 15.6 million in the same period last year.

Rental property operating expenses

The increase in rental operating expenses, compared to the same period last year, stems from the increased number of properties. Rental property operating expenses, as a percentage of property rental revenue rose from 32.9% to 33.6% for the same period last year. This is due to the relatively greater share in these items that now relates to FCR and RSC, whose operating expenses represent a higher percentage of revenue than EQY's, as well as to the lower revenues from the termination of leases with tenants, as explained above.

Rental property depreciation

The increase in rental property depreciation expenses compared to the same 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 property rental revenue rose from 15.7% to 17.1% for the same period last year.

Gross profit

Gross profit amounted to NIS 297 million (49.3% of property rental revenue); this compares to NIS 263 million (51.4% of property rental revenue) for the same period last year – an increase of 13%. The reduction in gross profit as a percentage of property rental revenue is attributable to the increase in rental property depreciation as a percentage of property rental revenue, as well as to the lower revenues from the termination of leases with tenants, as explained above.

General and administrative expenses

General and administrative expenses as a percentage of property rental revenue amounted to 9.2%, the same as the same 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 10.2 billion in the fourth quarter of 2004 to an average balance of NIS 13.1 billion in the fourth quarter of 2005. Interest expenses for the quarter reflect an average nominal interest rate of approximately 6.2% per annum on the Group's indebtedness.

2. The 0.8% increase in the "known" Israeli C.P.I. (which reflects an annualized rate of inflation of 3.2%) caused financing expenses to increase by NIS 7.9 million (NIS 0.08 per share), following the revaluation of loans that are linked to the Israeli C.P.I., compared to a decrease in the "known" C.P.I. of 0.3% in the same period last year, which caused financing expenses to fall, as referred to above, by NIS 0.7 million (NIS 0.01 per share).

Other income, net

The Group recorded a gain from the dilution of its holding in Citycon, totaling NIS 5.6 million, compared to a gain of NIS 6.9 million as a result of the dilution of its holdings in consolidated subsidiaries in the same period last year.

Equity in earnings of affiliates

The Company's equity in the earnings of Citycon amounted to NIS 80 million, compared to NIS 13 million in the same period last year. In the fourth 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 € 30 million (approximately NIS 165 million) (the Company's share, net of related taxes, being approximately NIS 56 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.

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

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

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(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.

The tables below present the computation of the Company's F.F.O. and F.F.O. per share:

1. **For the years stated:**

	2005	2004	2003
	NIS in thousands (other than F.F.O. per share data)		
Net income	[(1)] **189,529**	**110,110**	[(2)] **70,311**
Adjustments to net income:			
Depreciation and amortization	153,409	115,697	91,762
Gains from dilution in holdings of consolidated subsidiaries	(75,264)	(30,039)	(37,450)
Gains from the sale of properties	(13,782)	(19,710)	(4,205)
Losses (profits) of Mishkenot Clal [(3)]	12,059	(1,056)	(7,122)
Deferred tax expenses	22,279	15,414	14,707
Equity in earnings of affiliates	[(4)] (129,960)	(36,004)	(1,004)
Equity in F.F.O. of affiliates	50,758	39,509	1,296
Other adjustments [(5)]	9,075	2,748	2,817
Total adjustments to net income	**28,574**	**86,559**	**60,801**
F.F.O.	**218,103**	**196,669**	**131,112**
F.F.O. per share	**2.44**	**2.18**	**1.62**

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

(2) After neutralizing inflationary erosion, in accordance with Israel Accounting Standards No. 12 and No. 13 (see note 2 to the financial statements).

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

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

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

2. For the four quarters of 2005:

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Total 2005
	NIS in thousands (other than F.F.O. per share data)				
Net income	**(1) 44,834**	**17,836**	**50,081**	**76,778**	**189,529**
Adjustments to net income:					
Depreciation and amortization (2)	33,202	36,658	38,209	45,340	153,409
Gains from dilution in holdings of consolidated subsidiaries	(38,798)	-	(30,824)	(5,642)	(75,264)
Gains from the sale of properties	(2,154)	(4,976)	(6,218)	(434)	(13,782)
Losses of Mishkenot Clal (2)	2,866	9,193	-	-	12,059
Deferred tax expenses	10,269	6,479	3,890	1,641	22,279
Equity in earnings of affiliates	(11,419)	(3) (15,494)	(3) (23,020)	(3) (80,027)	(129,960)
Equity in F.F.O. of affiliates	13,439	6,701	12,110	18,508	50,758
Other adjustments (4)	2,096	266	2,786	3,927	9,075
Total adjustments to net income	**9,501**	**38,827**	**(3,067)**	**(16,687)**	**28,574**
F.F.O.	**54,335**	**56,663**	**47,014**	**60,091**	**218,103**
F.F.O. per share	**0.63**	**0.67**	**0.54**	**0.63**	**2.44**

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

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

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

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

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, 2005, the liquid assets available to the Group, including short-term investments, totaled NIS 351 million, compared to NIS 109 million as of December 31, 2004. In addition, as of December 31, 2005, the Group had unutilized credit facilities available for immediate drawdown of NIS 2.1 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 2.4 billion.

Current Assets

The increase in current assets stems mainly from the increase in the rental properties held for disposal (see section 2J above), as well as from the increase in cash and cash equivalents – mainly as a result of raising debt, which was used to settle the current maturities of long-term liabilities at the beginning of 2006.

Investments in Affiliates

Investments in affiliates, amounting to NIS 722 million as of December 31, 2005, relate primarily to the investment in 50.3 million shares of Citycon. During the year, the Company acquired 6.2 million Citycon shares at a cost of NIS 105 million (€ 3.07 per share).

Long-Term Investments

Long-term investments, as of December 31, 2005, totaled NIS 650 million, compared to NIS 216 million as of December 31, 2004.

The increase in this item is derived primarily from the acquisition of listed shares and debentures in companies active in the Group's areas of activity or in synergetic businesses, in regions where it is already active. Among the investments included in the balance as of December 31, 2005 are an investment in 2.4 million shares of DIM (see section 2K above) and also an investment in the debentures and shares of Winn-Dixie Stores Inc., which is currently subject to a court-ordered stay of proceedings notice within the framework of Chapter 11 proceedings (see note 8 to the financial statements).

Fixed Assets, Net

Net fixed assets (that include rental properties held for disposal, which are presented among current assets – see section 2J above), as of December 31, 2005, totaled NIS 18.3 billion, compared to NIS 14.7 billion at the end of 2004.

In the reporting year, the Group acquired income–producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 3 billion. In addition, the strengthening of the U.S. dollar and the Canadian dollar against the shekel contributed NIS 1.3 billion to the increase in this item. Depreciation expenses for the reporting period amounted to NIS 361 million.

Current Liabilities

The increase in current liabilities stems mainly from the increase in the line item "credit from banks and other credit granting institutions", which mainly consist of the current maturities of long-term liabilities in the amount of NIS 1.2 billion, compared to NIS 0.7 billion at the end of 2004.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.5 billion (at the end of 2004 - NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, including current maturities, as of December 31, 2005 totaled NIS 12.4 billion, compared to NIS 9.7 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.

Shareholders' Equity

The change in shareholders' equity from NIS 1,302 million as of December 31, 2004 to NIS 1,909 million as of December 31, 2005 stems mainly from the sale of shares to institutional and other investors amounting to NIS 181 million, from the issue of shares to the parent company amounting to NIS 85 million, from the exercise of stock options into shares amounting to NIS 149 million, from the income before cumulative effect for the reporting year amounting to NIS 190 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 138 million. These were partly offset by the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19), amounting to NIS 56.5 million, and the dividends of NIS 80 million paid by the Company.

Shareholders' equity per share as of December 31, 2005 amounted to NIS 19.4 per share, compared to NIS 15.4 per share as of December 31, 2004, this being after dividend distributions of NIS 0.89 per share during the reporting year.

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 61.5% as of December 31, 2005, compared to 62% as of December 31, 2004.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 52.2% as of December 31, 2005, compared to 53.8% at the end of 2004.

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 year totaled NIS 661 million, compared to NIS 562 million in 2004. The growth in cash inflows from operating activities for the aforesaid year was due to the continuing improvement in operating income.

In addition, in order to fund the Group's activities during the reporting year, the Company and its consolidated subsidiaries raised capital totaling NIS 661 million, issued convertible debentures (convertible on redemption into FCR shares) totaling NIS 352 million and took long-term loans and issued debentures in a net amount of NIS 2,039 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, totaling NIS 2,838 million in the reporting year, and for further investments in affiliates, totaling NIS 105 million.

5. Donations

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

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

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

In addition, this year, the Company also sponsored Ilan's "March of Dimes".

During the reporting year, the Group's donations amounted to NIS 2.5 million.

Of the above sum, the Company donated NIS 637,000 to the Tel-Aviv University, NIS 218,000 to the Ilan charity, NIS 100,000 to the College for All charity, NIS 477,000 to various bodies engaged in charitable, welfare and educational work with the community in Israel, and also NIS 1,053,000 to various bodies in the United States, Canada and Europe (through the Company's subsidiaries, such sums being designated for the regions in which they operate).

6. Additional Information and Subsequent Events

A. In February 2006, ProMed closed 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 in the United States.

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

The hospital, where the property is 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 cost of the acquisition amounts to US$ 88 million (NIS 415 million), 30% of which is being financed by the Company from its own resources. The balance is being funded through the assignment of the existing loan on the building from the sellers to the Company.

Furthermore, in November 2005, at the time that it entered into the agreement for the acquisition of the aforesaid property, the Company announced that its Board of Directors had approved, in addition to the acquisition of the aforementioned medical office building, an initial budget of US$ 300 million for further investments in this sector, and that the Company intends to assess the acquisition and/or construction of additional, similar properties in the United States.

B. Subsequent to balance sheet date and through to the date of the financial statements, the Group's investments in the acquisition of income-producing properties totaled NIS 1.3 billion (including the property referred to in section A above).

C. In January 2006, investors under the control of Clal Insurance Enterprises Holdings Ltd. (hereinafter: "Clal Insurance") exercised the balance of the stock options (non-listed), which had been granted to them in February 2005, into approximately 2.3 million Company shares, for a consideration of NIS 72 million. Also, at the same time, Clal Insurance announced that it had become an interest party of the Company with a holding of 6%.

D. In January 2006, the Company entered into a one-year agreement with Clal Finance Underwriting Ltd., a company controlled by Clal Insurance, for the receipt of services in relation to raising capital, marketing securities, banking and other areas. In consideration, the Company is granting Clal Finance Underwriting Ltd. 300,000 stock options (non-listed), which are convertible into Company shares.

E. In January 2006, based on the capabilities and the experience accumulated by the Company in North America and Europe, the Company's Board of Directors authorized the Company's management to broaden the scope of operations in Europe and to examine the possibility of extending operations into Asia. To this end, the Board of Directors approved an investment budget of US$ 1.5 billion over the next two years. The investments will be made while maintaining the proper ratios of financial strength that have characterized the Group over the years and will be financed from the Company's own resources, as well as by raising capital and debt on the Israeli and overseas financial markets.

Pursuant to the Board of Directors' decision, the broadening of the scope of operations in Europe and the examination of the possibility of extending operations into Asia will include the Company's existing areas of activity, viz.: mainly shopping centers, as well as sheltered living communities and medical office buildings. Within this framework, the Company is currently assessing – in several geographical regions of Europe and Asia – various types of arrangements, including: the acquisition, development and construction of individual buildings, the acquisition of property portfolios and the acquisition of property companies – either by itself or through alliances and joint ventures with appropriate partners.

F. In January 2006, EQY signed an agreement for a new, unsecured credit facility of US$ 275 million. The facility, which is a revolving line of credit, is for a period of three years. The facility is being provided by a consortium of banks and financial institutions, headed by Wells Fargo Bank. This facility replaces EQY's previous credit facility, which was for US$ 340 million.

G. In the months of January through March 2006, one of the Company's wholly owned subsidiaries sold debentures (Series B), with a par value of NIS 106 million, for NIS 113 million and also debentures (Series C), with a par value of NIS 2.3 million, for NIS 2.5 million. Furthermore, in March 2006, the Company sold 1.1 million shares from its treasury stock, to institutional investors, for a consideration of NIS 49 million.

H. In March 2006, EQY issued a series of debentures with a total par value of US$ 125 million (NIS 588 million). The debentures, which are unsecured, are redeemable in a single payment in September 2016 and bear interest at a fixed rate of 6%. The debentures have received an investment rating of Baa3 (positive outlook) from Moody's and an investment rating of BBB (positive outlook) from Standard & Poor's.

7. Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities.

Management bases its estimates and assessments on past experience and other factors that, in its opinion, are relevant for taking the particular circumstances into account. Actual results could differ from these assessments under different assumptions or conditions. The Company has identified the estimates and assessments detailed below as being critical estimates, since any change in such estimates and assumptions has the potential of having a material effect on the financial statements.

Estimate of the lifespan of intangible assets (including goodwill):
Intangible assets are methodically amortized over the their useful life. The amortization period reflects the best estimate of the period during which the Company will derive economic benefits from the asset. Use of other assumptions could result in a different assessment of the estimate of the period during which economic benefits are expected to be received, as stated above. The Company performs a methodical assessment as to the possible impairment of its assets in conformity with Israel Accounting standard No. 15.

Allocation of excess cost on acquisition of acquired companies to the various asset items:
Pursuant to Opinion No. 57 of the Institute of Certified Public Accountants in Israel, the Company is required to allocate the excess cost arising on the acquisition of companies to the various asset items acquired. Excess cost that cannot be allocated is attributed to goodwill and is amortized appropriately (see above). The excess cost allocated to the various asset items is depreciated/amortized at the same rate as the asset to which it has been allocated. The allocation of the excess cost to the various asset items could result in a different depreciation/amortization period.

8. Participation in Peer Review

The Company's Board of Directors has given its consent to the performance of a peer review, the objective of which is to assure - through the creation of supervisory mechanisms – that the audit of the financial statements is performed properly and thoroughly. The Board of Directors deems it appropriate to cooperate with the review's implementation and its furtherance.

The above consent is based on an undertaking received by the Company, whereby it is promised that the reviewing accountant (hereinafter – "the reviewer") shall have no conflict of interest vis-à-vis the Company and that the confidentiality of Company information, which is not in the public domain but which has been exposed to the reviewer, shall be maintained. Said undertaking has been received by way of a commitment made by the reviewer to the Company to maintain confidentiality and to avoid conflicts of interest, and, in the event that the reviewer is asked to transmit information to the Peer Review Board to that which he has been exposed during the course of his review, he shall only do so after an assurance of the confidentiality of the information and an undertaking to avoid conflicts of interest have been received from the Peer Review Board. It should also be noted that, with regard to the foreign Group's companies listed on the various overseas stock exchanges, the transmission of information relating to such companies by the Company or by its independent auditors to the reviewer 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's company and also (so long as the aforesaid foreign law does not prohibit this) to the specific consent of the Group company concerned.

9. Directors Possessing Accounting and Financial Expertise

A. The Company's Board of Directors has decided that the minimum requirement for the number of directors possessing accounting and financial expertise is three.

B. The Board of Directors has determined that the following directors possess accounting and financial expertise:

1. Mr. Chaim Katzman
2. Mr. Arie Mientkavich
3. Mr. Dori Segal
4. Mr. Chaim Ben-Dor
5. Mr. Eliahu Shahar
6. Mr. Ovadia Hason

C. Regarding the education and business experience of the above directors, see Article 26 of the Periodic Report for 2005.

10. Compensation of Senior Employees

A. In 2005, the Company's Board of Directors did not set any policy regarding the compensation of senior employees.

B. With regard to the issue of non-listed stock options to the Deputy Chairman of the Board of Directors, to officers and to an employee of the Company and to an employee of one of its subsidiaries, see section 2N above.

C. Regarding the compensation of the Company's senior employees, who are interested parties in the Company, by consolidated subsidiaries, see section 2N above.

11. Disclosure Concerning the Company's Internal Auditor

The Company's internal auditor:
Haguel, Shem-Tov (who was appointed as the Company's internal auditor in 1999) is a C.P.A. 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 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., C.P.A.s.

Extent of the internal auditor's engagement:
The extent varies in accordance with the multi-year audit program; in 2005, approximately 120 hours were spent on audit work activities, which also included examining matters pertaining to 2004.

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 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:
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 made preparations to examine the activities of the Company's wholly owned foreign companies in the U.S.A. The audit itself will be performed in 2006.

Identity of the person to whom the internal auditor reports 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:

a. In May 2005, the internal auditor submitted to the Audit Committee a report concerning transactions conducted between interested parties and the Company in 2004.

b. In July 2005, the internal auditor submitted to the Audit Committee a report on the subject of officers' insurance.

c. In August 2005, the internal auditor submitted to the Audit Committee a report on the subject of the Company's budget.

d. In September 2005, the internal auditor submitted to the Audit Committee a report on the subject of monitoring the execution of the Board of Directors' decisions.

e. In December 2005, the internal auditor submitted to the Audit Committee a draft report on the subject of the management of accounting information.

f. The Audit Committee discussed the reports submitted by the internal auditor in May 2005, with regard to the matter referred to in sub-section a. above, and in November 2005, with regard to the matters referred to in sub-sections b. c. and d. above.

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 Company believes that 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.

12. Professional Fees of the Independent Auditors

Independent auditors of the Company: Kost Forer Gabbay & Kasierer & Co.

The professional fees of the independent auditors that audit the financial statements of the Company and the Company's consolidated subsidiaries, other than consolidated subsidiaries and affiliates whose shares are listed for trade on an overseas stock exchange, are as follows:

A. Kost Forer Gabbay & Kasierer & Co.

	2005	**2004**
	Reported NIS in thousands	
Fees for audit and related services	1,150	1,146
Fees for consulting and tax services	637	2,176
Other fees	560	39
Total	**2,347**	**3,361**

B. Deloitte Touche, Canada – A total of NIS 919,000 for 2005 and NIS 631,000 for 2004.

C. Ernst & Young, U.S.A. – A total of NIS 738,000 for 2005 in respect of tax services.

13. 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 a 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 above foreign currencies will increase the Company's shareholders' equity, while a decrease in their exchange rate 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 a 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 U.S.A., 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. The Company's Policies for Risk Management are as Follows:

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 Europe. 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 exchange rate 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 income-producing 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 2005, 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, 2005						
	Reported [(1)] NIS in thousands						
Monetary assets							
Cash and cash equivalents	1,164	47,214	21,682	209,381	2,771	-	282,212
Short-term investments	-	46,182	1,447	-	-	21,062	68,691
Tenants, accounts receivable and other debit balances	20,628	101,638	129,068	662	-	40,797	292,793
Long-term investments	5,531	1,772	18,140	-	-	624,613	650,056
Long-term loans and debit balances	58	89,561	33,775	-	-	-	123,394
	27,381	286,367	204,112	210,043	2,771	686,472	1,417,146
Non-monetary assets [(2)]	-	9,165,360	8,783,715	396,456	720,501	318,546	19,384,578
	27,381	**9,451,727**	**8,987,827**	**606,499**	**723,272**	**1,005,018**	**20,801,724**
Liabilities							
Short-term credit from banks and other credit granting institutions	-	89,045	678	3,530	-	-	93,253
Trade and other payables and other credit balances	1,070	206,401	271,359	68,526	1,376	26,903	575,635
Debentures	987,042	2,953,689	526,893	-	66,378	-	4,534,002
Liabilities to financial institutions and others	5,596	3,376,688	5,212,559	13,211	183,046	-	8,791,100
Deposits from tenants	1,230	45,781	18,057	-	-	-	65,068
Liabilities for employee rights upon retirement	-	-	-	164	-	-	164
Deferred taxes	-	-	-	-	-	85,981	85,981
Convertible debentures redeemable for subsidiary's shares	-	-	351,827	-	-	-	351,827
	994,938	6,671,604	6,381,373	85,431	250,800	112,884	14,497,030
Minority interests	-	-	-	-	-	4,395,906	4,395,906
Shareholders' equity	-	-	-	-	-	1,908,788	1,908,788
	994,938	**6,671,604**	**6,381,373**	**85,431**	**250,800**	**6,417,578**	**20,801,724**

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

(2) Mainly fixed assets, net.

	As of December 31, 2004						
	Linked to the consumer price index	In US$ or linked thereto	In C$ or linked thereto	In unlinked NIS	In euros	Unlinked	Total
	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	113,846	1,148	-	24,370	228,934
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	-	42,565	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.

2. <u>Derivatives</u>

a) In June 2005, the Company entered into a transaction (which has an average term of 8 years and which terminates in 2018) with the Bank of Israel in the amount of C$ 30 million. The transaction relates to the linkage basis on a portion of the Company's linked debentures, which were issued in the same month, and which is to be changed from being linked to the C.P.I. to being linked to the Canadian dollar. Included in the Company's books as of December 31, 2005 is a liability in the amount of NIS 12.5 million in respect of this transaction. The fair value of the transaction as of December 31, 2005 is a liability of NIS 4.8 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) A wholly owned subsidiary of the Company has entered into an IRS transaction in a total amount of US$ 15 million, which terminates in April 2006, whereby it pays fixed interest at a rate of 4.75% and receive interest at the 3-month LIBOR rate (4.5%). The fair value of this IRS transaction as of December 31, 2005 is a liability of NIS 0.2 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 (3.5%). The fair value of these IRS transactions as of December 31, 2005 is a liability of NIS 0.5 million.

   3) One of the Company's consolidated subsidiaries has entered into IRS transactions in a total amount of US$ 55 million, which terminate during 2015, whereby it pays fixed interest at an average rate of 4.4% and receives interest at the 3-month LIBOR rate (4.5%). The fair value of these IRS transactions as of December 31, 2005 is an asset of NIS 5.9 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 variable 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, 2005 is an asset of NIS 21.2 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, reside permanently in the countries in which the Company's subsidiaries operate.

12. Meetings of the Board of Directors

In 2005, 21 meetings of the Board of Directors were held.

March 20, 2006	______________________	______________________
Date of Approval	**Chaim Katzman**	**Dori Segal**
Of Directors' Report	Chairman of the Board of Directors	President and Director