

GAZIT-GLOBE LTD.
(Formerly: Gazit-Globe (1982) Ltd.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2004

UNAUDITED

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The Board of Directors
Gazit-Globe Ltd.

Re: Review report of unaudited interim consolidated financial statements
as of and for the nine and three months periods ended September 30, 2004

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe Ltd. as of September 30, 2004, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the nine and three months periods then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 97.4% of total consolidated assets as of September 30, 2004, and whose revenues constitute approximately 97.8% and 97.8% of total consolidated revenues for the nine and three months then ended, respectively. In addition, we have been furnished with reports of other accountants in respect of the review of certain affiliates, the investment in which on the equity basis of accounting as of September 30, 2004 totaled NIS 439,407 thousand and the Company's share in the earnings of the above companies totaled NIS 24,923 thousand and NIS 12,391 thousand for the nine and three months then ended, respectively.

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

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

Tel-Aviv, Israel
November 16, 2004

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

CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
	NIS in thousands		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	57,912	84,914	53,651
Short-term investments	117,269	54,444	67,709
Tenants	93,970	62,926	84,911
Accounts receivable	110,497	126,536	66,194
Loans to partners in property under development	65,506	63,942	57,522
Rental property held for sale	55,250	50,212	63,649
	<u>500,404</u>	<u>442,974</u>	<u>393,636</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	452,868	16,055	15,706
Long-term investments	174,673	48,046	40,353
Long-term loans	82,920	60,285	58,517
	<u>710,461</u>	<u>124,386</u>	<u>114,576</u>
FIXED ASSETS:			
Cost	14,828,583	11,797,507	12,608,688
Less - accumulated depreciation	730,496	478,087	530,276
	<u>14,098,087</u>	<u>11,319,420</u>	<u>12,078,412</u>
OTHER ASSETS AND DEFERRED CHARGES, NET			
	<u>272,925</u>	<u>272,053</u>	<u>228,823</u>
	<u><u>15,581,877</u></u>	<u><u>12,158,833</u></u>	<u><u>12,815,447</u></u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED BALANCE SHEETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
<u>Reported ⁽¹⁾</u>	<u>Adjusted ⁽²⁾</u>	<u>Adjusted ⁽²⁾</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	598,190	258,189	378,944
Trade payables	87,403	61,451	129,921
Other accounts payable	284,429	213,971	187,094
	<u>970,022</u>	<u>533,611</u>	<u>695,959</u>
LONG-TERM LIABILITIES:			
Debentures	2,338,518	1,071,734	1,084,222
Liabilities to financial institutions and others	6,773,154	5,686,801	6,143,093
Tenants' security deposits	272,682	144,719	146,260
Accrued severance pay, net	1,016	930	846
Deferred taxes	-	738	-
	<u>9,385,370</u>	<u>6,904,922</u>	<u>7,374,421</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	<u>471,712</u>	<u>769,627</u>	<u>649,463</u>
MINORITY INTEREST	<u>3,468,471</u>	<u>2,817,905</u>	<u>2,954,392</u>
SHAREHOLDERS' EQUITY	<u>1,286,302</u>	<u>1,132,768</u>	<u>1,141,212</u>
	<u><u>15,581,877</u></u>	<u><u>12,158,833</u></u>	<u><u>12,815,447</u></u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

November 16, 2004

Date of approval of the
financial statements

Chaim Katzmann
Chairman of the Board
of Directors

Dori Segal
CEO and Director

Gil Kotler
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31, 2003
	2004	2003	2004	2003	
	Unaudited				Audited
NIS in thousands (except per share amounts)					
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
Rental income	1,346,431	996,252	469,081	385,502	1,401,186
Rental property operating expenses	430,435	325,823	150,038	123,977	457,790
Rental property depreciation	201,918	140,016	72,125	56,628	197,489
Gross profit	714,078	530,413	246,918	204,897	745,907
General and administrative expenses	111,825	85,911	38,292	33,182	115,805
Operating income	602,253	444,502	208,626	171,715	630,102
Financial expenses, net	390,804	165,823	136,551	60,385	300,163
Other income, net	211,449	278,679	72,075	111,330	329,939
	86,896	47,686	59,770	29,442	56,492
Income before taxes on income	298,345	326,365	131,845	140,772	386,431
Taxes on income	44,279	30,391	19,612	15,056	43,629
Income after taxes on income	254,066	295,974	112,233	125,716	342,802
Equity in earnings of affiliates	24,629	3,652	12,953	6	3,613
Minority interest in earnings of subsidiaries	(211,726)	(174,556)	(93,945)	(76,397)	(209,839)
Net income	66,969	125,070	31,241	49,325	136,576
Net earning per NIS 1 par value of Ordinary shares (in NIS):					
Basic earning	0.80	1.56	0.37	0.69	1.69
Diluted earning	0.73	-	0.34	-	-

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Nine months ended September 30, 2004 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands (1)								
Balance at beginning of period (audited)	137,916	841,647	1,702	86,175	175,171	14,583	(106,604)	(9,378)	1,141,212
Exercise of stock options into shares	6,088	81,155	-	-	-	-	(9,400)	(56)	77,787
Foreign currency translation adjustments for autonomous entities	-	-	-	43,410	-	-	-	-	43,410
Revaluation of derivatives in affiliate to market value (3)	-	-	3,213	-	-	-	-	-	3,213
Revaluation of loans for purchase of shares	-	-	-	-	58	-	-	(58)	-
Net income	-	-	-	-	66,969	-	-	-	66,969
Dividend paid	-	-	-	-	(31,706)	(14,583)	-	-	(46,289)
Dividend declared (4)	-	-	-	-	(16,850)	16,850	-	-	-
Balance at end of period	<u>144,004</u>	<u>922,802</u>	<u>4,915</u>	<u>129,585</u>	<u>193,642</u>	<u>16,850</u>	<u>(116,004)</u>	<u>(9,492)</u>	<u>1,286,302</u>
	Nine months ended September 30, 2003 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands (2)								
Balance at beginning of period (audited)	127,211	710,206	1,702	61,957	93,982	11,374	(106,544)	(10,176)	889,712
Issuance of share capital, net	3,987	59,758	-	-	-	-	-	-	63,745
Exercise of stock options into shares	6,399	68,327	-	-	-	-	-	-	74,726
Repurchase of shares	-	-	-	-	-	-	(63)	63	-
Foreign currency translation adjustments for autonomous entities	-	-	-	17,012	-	-	-	-	17,012
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	475	475
Net income	-	-	-	-	125,070	-	-	-	125,070
Dividend paid	-	-	-	-	(26,598)	(11,374)	-	-	(37,972)
Dividend declared	-	-	-	-	(14,113)	14,113	-	-	-
Balance at end of period	<u>137,597</u>	<u>838,291</u>	<u>1,702</u>	<u>78,969</u>	<u>178,341</u>	<u>14,113</u>	<u>(106,607)</u>	<u>(9,638)</u>	<u>1,132,768</u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3h.

(4) See Note 4a.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended September 30, 2004 (unaudited)									
Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total	
Reported NIS in thousands (1)									
Balance at beginning of period	142,109	893,210	11,223	95,872	179,306	16,007	(116,004)	(9,442)	1,212,281
Exercise of stock options into shares	1,895	29,592	-	-	-	-	-	(56)	31,431
Foreign currency translation adjustments for autonomous entities	-	-	-	33,713	-	-	-	-	33,713
Revaluation of derivatives in affiliate to market value (3)	-	-	(6,308)	-	-	-	-	-	(6,308)
Revaluation of loans for purchase of shares	-	-	-	-	(6)	-	-	6	-
Net income	-	-	-	-	31,241	-	-	-	31,241
Dividend paid	-	-	-	-	(49)	(16,007)	-	-	(16,056)
Dividend declared (4)	-	-	-	-	(16,850)	16,850	-	-	-
Balance at end of period	144,004	922,802	4,915	129,585	193,642	16,850	(116,004)	(9,492)	1,286,302
Three months ended September 30, 2003 (unaudited)									
Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total	
Adjusted NIS in thousands (2)									
Balance at beginning of period	130,127	741,141	1,702	31,672	157,219	-	(106,607)	(9,638)	945,616
Issuance of share capital, net	3,987	59,758	-	-	-	-	-	-	63,745
Exercise of stock options into shares	3,483	37,392	-	-	-	-	-	-	40,875
Foreign currency translation adjustments for autonomous entities	-	-	-	47,297	-	-	-	-	47,297
Net income	-	-	-	-	49,325	-	-	-	49,325
Dividend paid	-	-	-	-	(14,090)	-	-	-	(14,090)
Dividend declared	-	-	-	-	(14,113)	14,113	-	-	-
Balance at end of period	137,597	838,291	1,702	78,969	178,341	14,113	(106,607)	(9,638)	1,132,768

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3h.

(4) See Note 4a.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2003 (audited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands (1)								
Balance at the beginning of the year	127,211	710,206	1,702	61,957	93,982	11,374	(106,544)	(10,176)	889,712
Issuance of share capital, net	3,987	59,758	-	-	-	-	-	-	63,745
Exercise of stock options into shares	6,718	71,683	-	-	-	-	-	-	78,401
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	738	738
Repurchase of shares	-	-	-	-	-	-	(60)	60	-
Foreign currency translation adjustments for autonomous entities	-	-	-	24,218	-	-	-	-	24,218
Net income	-	-	-	-	136,576	-	-	-	136,576
Dividend paid	-	-	-	-	(40,804)	(11,374)	-	-	(52,178)
Dividend declared	-	-	-	-	(14,583)	14,583	-	-	-
Balance at the end of the year	<u>137,916</u>	<u>841,647</u>	<u>1,702</u>	<u>86,175</u>	<u>175,171</u>	<u>14,583</u>	<u>(106,604)</u>	<u>(9,378)</u>	<u>1,141,212</u>

(1) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
Cash flows from operating activities:					
Net income	66,969	125,070	31,241	49,325	136,576
Adjustments to reconcile net income to net cash provided by operating activities (a)	315,175	105,788	97,614	53,348	225,208
Net cash provided by operating activities	382,144	230,858	128,855	102,673	361,784
Cash flows from investing activities:					
Investment in newly consolidated companies (b)	(8,861)	(839,884)	-	-	(827,451)
Investment in subsidiary and jointly controlled entity	(42,884)	(47,539)	(32,060)	(32,512)	(57,988)
Investments in fixed assets	(2,006,947)	(1,520,559)	(301,942)	(1,125,565)	(2,310,376)
Grant of loans to partners in property under development, net	(5,825)	(20,079)	(3,880)	(5,516)	(3,744)
Proceeds from sale of real estate	320,200	68,966	249,617	2,328	145,523
Long-term loans granted	(42,355)	(1,963)	(21,600)	-	(214)
Repayment of long-term loans granted	23,231	37,849	-	4,390	17,452
Short-term investments, net	6,121	105,340	2,512	31,775	108,964
Purchase of marketable securities and long-term investments	(178,062)	(72,591)	(57,685)	(27,234)	(76,269)
Investment in affiliate	(411,282)	-	(36,534)	-	-
Proceeds from realization of long-term investments	29,757	66,240	19,348	31,749	74,938
Net cash used in investing activities	(2,316,907)	(2,224,220)	(182,224)	(1,120,585)	(2,929,165)
Cash flows from financing activities:					
Repayment of loans for the purchase of Company and subsidiary's shares	13,476	475	-	-	16,058
Issuance of share capital, net	-	63,745	-	63,745	63,745
Exercise of stock options into shares	77,787	74,726	31,431	40,875	78,401
Issuance of shares to minorities in subsidiary, net	413,145	921,526	91,872	406,104	1,002,175
Deferred charges in respect of raising loans and debentures	(24,777)	(20,120)	(9,782)	(9,535)	(19,672)
Dividend paid	(46,289)	(37,972)	(16,056)	(14,090)	(52,178)
Dividend paid to minorities in subsidiaries	(236,343)	(163,965)	(97,887)	(73,439)	(211,918)
Receipt of long-term loans	1,585,373	1,512,078	406,102	441,379	2,245,899
Repayment of long-term loans	(993,530)	(607,306)	(182,298)	(8,730)	(788,186)
Redemption and early redemption of debentures and convertible debentures	(151,103)	(35,353)	(131,517)	(12,438)	(123,379)
Issuance of debentures	1,206,974	-	-	-	-
Sale of Company's debentures by subsidiaries	45,514	78,809	42,742	77,042	117,632
Short-term bank credit, net	39,363	(417)	(44,570)	(563)	313
Increase in tenants' security deposits, net	14,870	2,098	2,534	1,253	1,111
Net cash provided by financing activities	1,944,460	1,788,324	92,571	911,603	2,330,001
Effect of exchange rate differences from cash balances of foreign autonomous entities	(5,436)	6,256	(1,880)	23,548	7,335
Increase (decrease) in cash and cash equivalents	4,261	(198,782)	37,322	(82,761)	(230,045)
Cash and cash equivalents at beginning of period	53,651	283,696	20,590	167,675	283,696
Cash and cash equivalents at end of period	57,912	84,914	57,912	84,914	53,651

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>					
Income and expenses not involving cash flows:					
Loss (gain) from realization and revaluation of marketable securities, net	(6,243)	(5,247)	(1,507)	(6,488)	(11,334)
Minority interest in earnings of subsidiaries	211,726	174,556	93,945	76,397	209,839
Equity in earnings of affiliates, net of dividend received	(24,629)	(1,468)	(12,953)	869	(1,232)
Depreciation	204,499	138,370	74,596	54,779	199,406
Deferred taxes, net	23,218	7,190	12,321	6,355	17,081
Loss from early redemption of debentures and convertible debentures	30	258	-	99	288
Adjustment differences on monetary assets and long-term monetary liabilities, net	20,019	(160,654)	1,015	(61,190)	(159,356)
Write-down of long-term investments	-	-	-	-	250
Amortization of other assets and deferred charges	13,497	20,415	3,828	9,682	23,848
Gain from sale of real estate	(51,334)	(11,974)	(45,012)	(5,054)	(11,070)
Increase in accrued severance pay, net	(1)	91	(27)	26	6
Gain from issuance to third party	(23,524)	(38,224)	(8,000)	(24,605)	(44,627)
Changes in asset and liability items:					
Increase in other accounts receivable	(100,054)	(38,959)	(33,875)	(12,464)	(35,225)
Increase in trade payables and other accounts payable	43,412	18,531	13,295	13,209	29,259
Increase (decrease) in tenants' security deposits, net	4,559	2,903	(12)	1,733	8,075
	<u>315,175</u>	<u>105,788</u>	<u>97,614</u>	<u>53,348</u>	<u>225,208</u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
(b) <u>Investment in newly consolidated companies:</u> (3)					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(1,381)	(53,609)	-	-	(52,815)
Current liabilities	5,932	59,867	-	-	58,979
	4,551	6,258	-	-	6,164
Fixed assets, long-term investments and loans (mainly real estate)	(123,804)	(3,269,813)	-	-	(3,221,407)
Other assets (including goodwill)	(3,653)	(91,681)	-	-	(90,323)
Long-term liabilities	115,512	1,423,818	-	-	1,402,741
Minority interest	(1,467)	54,196	-	-	53,394
	(13,412)	(1,883,480)	-	-	(1,855,595)
Increase in minority interest in respect of consideration paid in subsidiary's shares	-	1,037,338	-	-	1,021,980
	(8,861)	(839,884)	-	-	(827,451)
(c) <u>Significant non-cash operations:</u>					
Conversion of convertible debentures into subsidiary's shares	69,687	-	69,687	-	127,934
Purchase of fixed assets against liabilities	-	-	-	-	11,788
Purchase of fixed assets in consideration for subsidiary's shares	13,000	25,374	13,000	17,249	8,432
Conversion of debentures into convertible debentures	-	591	-	-	593
Realization of investment in affiliate	-	19,617	-	19,617	-

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) As for investments in companies consolidated for the first time during the reported period, see Note 3l.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2004, and for the nine and three months periods then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2003 and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board.

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

- b. Discontinuance of the adjustment of financial statements and financial reporting in reported amounts:

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

1. Starting point for the preparation of financial statements:

- a) In the past, the Company prepared its financial statements on the basis of the historical cost convention, adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the Israeli Consumer Price Index ("Israeli CPI"). These adjusted amounts, as included in the financial statements as of December 31, 2003 (the transition date), served as a starting point for nominal financial reporting beginning January 1, 2004. Additions made after the transition date are included at nominal values.
- b) The amounts for non-monetary assets do not necessarily represent realizable value or current economic value, but only the reported amounts for those assets.
- c) In the financial statements "cost" represents cost in the reported amount (see 2 below).
- d) All comparative data for previous periods are presented after adjustment for the Israeli CPI as of the transition date (the Israeli CPI for December 2003).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. Financial statements in reported amounts:

a) Definitions:

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

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

b) Balance sheet:

- 1) Non-monetary items are presented in reported amounts.
- 2) Monetary items are presented in nominal values as of the balance sheet date.
- 3) The carrying value of investments in investees is determined based on the financial statements of these companies in reported amounts.

c) Statement of income:

- 1) Income and expenses relating to non-monetary items are derived from the change in the reported amount between the opening balance and the closing balance.
- 2) Other items in the statement of income are presented in nominal values.
- 3) Equity in the results of operations of investees is determined based on the financial statements of these companies in reported amounts.

d) Statement of changes in shareholders' equity:

Dividends declared in the reported period are presented in nominal values.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

3. The following are details of the changes in the index in Israel, U.S. and Canada and in the exchange rates of the U.S. dollar, the Canadian dollar and the Euro:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	%				
Index in Israel	1.2	(1.5)	(0.2)	(1.0)	(1.9)
Index in U.S.	3.0	2.4	0.1	0.8	1.9
Index in Canada	1.7	1.9	(0.2)	0.5	2.0
Exchange rate of one U.S. dollar	2.4	(6.2)	(0.3)	3.0	(7.6)
Exchange rate of one Canadian dollar	3.5	9.8	5.4	3.8	13.5
Exchange rate of one Euro	(0.2)	4.3	1.1	5.2	11.3

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

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

- b) Foreign operation that is classified as a foreign autonomous entity ("the entity"):

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Change in the amortization period of goodwill:

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

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

1. Markets which are characterized by long-term engagements and tenants' loyalty.
2. Leading companies in their business segments.

The change in the amortization period resulted in a decrease of approximately NIS 3 million in the amortization of goodwill in the consolidated financial statements for the nine months period ended September 30, 2004 (the effect on the Company's net income is approximately NIS 1.5 million).

d. The effect of a new accounting standard prior to its adoption:

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

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

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

The Company is examining the new Standard however, at this time, it is unable to predict the effect of the Standard on the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION

- a. On January 27, 2004, the Company made the following securities offerings to institutional investors:
1. A series of debentures (not to be listed) at the total par value of NIS 120 million in consideration of their par value. Said debentures are linked to the increase in the Israeli CPI and bear fixed annual interest at the rate of 5.55%, payable annually. The principal of the debentures is payable in one sum in February 2010.
 2. Debentures (series A) of NIS 90 million par value at a price of NIS 101 per NIS 100 par value of debentures and for the total consideration of approximately NIS 91 million. The above issuance was by the extension of the series of debentures (series A) which was first issued to the public according to the Company's prospectus from May 2, 2002.
- b. On May 24, 2004, the Company issued pursuant to a prospectus a new series of debentures (series B) that are linked to the Euro and bear interest of Eurobor plus a margin of 2% amounting to approximately NIS 347.5 million, of which NIS 66.5 million were issued to institutional holders and to the public and approximately NIS 281 million were issued to the Company's wholly owned subsidiaries.

In the context of the issuance, the Company extended the marketable series of debentures (series A) by approximately NIS 155 million, of which NIS 25 million were issued to the public and NIS 130 million were issued to the Company's wholly owned subsidiaries.

In addition, in the context of the prospectus, the Company distributed to the buyers of these debentures stock options (series 8) that are exercisable into the Company's shares until October 13, 2005 for the exercise increment of NIS 24 per stock option and distributed to its shareholders, by way of rights, without consideration, 2 series of stock options; stock options (series 7) that are exercisable into the Company's shares until July 22, 2004 for the exercise increment of NIS 17 per stock options and stock option (series 8) (the exercise increment for both series is linked to the change in the exchange rate of the U.S. dollar).

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

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

- d. In March 2004, FCR issued to institutional investors and others about 3.4 million shares (including 0.8 million shares to the Company) for the total consideration of approximately C\$ 54 million (NIS 190 million). Further, about 7 million stock options were exercised into FCR shares with an additional investment of approximately C\$ 86 million (NIS 303 million), of which 3.9 million stock options were exercised by the Company with an investment of C\$ 46 million (NIS 162 million).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (cont.)

- e. In March and April 2004, FCR's compensation committee approved the issuance of 120,000 restricted shares to FCR's CEO (who acts also as the Company's CEO) without consideration. Of the above, 80,000 shares were issued in May 2004 (half of the amount in respect of 2003 and the other half in respect of 2004) and the remainder amount will be issued until May 2005. The restricted shares have a vesting period of 3 years beginning December 15 of the year in respect of which the shares are granted.
- f. At the end of August 2004, FCR completed an early redemption of the remainder of the series of convertible debentures (7.875%) (series B) for the total consideration of approximately C\$ 35 million, in cash. Prior to the early redemption, convertible debentures of C\$ 42 million and of C\$ 20 million, which were held by the Company's wholly owned subsidiary and by others, respectively, were converted into 3.8 million of FCR shares.

In the context of FCR preparation to finance the redemption of above debentures, FCR initiated a private placement of 2 million shares to the Company (through its wholly owned subsidiary) (1.56 million shares) and to another related party in FCR at the price of C\$ 16 per share, for the total consideration of approximately C\$ 32 million.

- g. As of September 30, 2004, the Company holds 56.9% of the share capital of FCR. As a result of the change in its holding rate in FCR, the Company recorded in the reported period a gain amounting to approximately NIS 11.3.
- h. 1. During the reported period, the Company acquired 40.1 million shares of Citycon Oyj ("Citycon") in consideration of approximately NIS 411 million. The cost of the reported investment is net of the Company's share in the dividend which Citycon distributed during March 2004 in the amount of approximately NIS 22 million.

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

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

2. Citycon is a Finnish public company which focuses on income producing properties in Finland. Its properties portfolio as of September 30, 2004 consisted of about 146 properties, some of which are supermarket-anchored shopping centers and some are commercial buildings with a total area of approximately 500 thousand sq. which are principally leased to supermarket and retail chains.
3. In September 2004, Citycon issued 10 million shares to institutional investors in and out of Finland in consideration of approximately Euro 20.3 million. As a result of this issuance, the Company recorded a gain amounting to approximately NIS 1 million from decrease in its holding in Citycon. As of September 30, 2004, the Company holds 34.7% of the issued share capital of Citycon (about 35.9% of the share capital net of shares held by Citycon).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (cont.)

- i. During the reported period, in the context of its dividend reinvestment plan ("DRIP") and exercise of stock options into EQY shares by employees and others, EQY issued to the public 3.1 million shares for the total consideration of approximately U.S.\$ 55 million (NIS 248 million) (of which about 0.6 shares were issued to the Company and its subsidiaries in consideration of approximately U.S.\$ 10 million). As a result of the issuance of these shares, the Company's holding in EQY decreased from 40.5% to 40.0% and the Company recorded a gain amounting to approximately NIS 10.9 million.
- j. On March 26, 2004, EQY completed an issuance of debentures in the scope of \$ 200 million. The debentures are redeemable in one sum on April 15, 2009 and bear fixed interest of 3.875%. The debentures were issued with yield to maturity of 3.902% (at the time of issuance, 1.25% margin above the return on U.S. Government bonds for same period). Additionally, EQY entered into an interest swap transaction with a bank in order to exchange fixed interest for variable interest in the amount of \$ 100 million, so that after the swap transaction, the interest on the exchanged amount is 6-month Libor plus a margin of 0.4375%.
- k. In August 2004, in the context of purchase of EQY shares which the Company performs from time to time in the ordinary course of its business, the Company purchased 130,000 of EQY shares from its chairman of the Board and 1,250 of EQY shares from the Company's CEO at the price of \$ 19.08 per share, which was 1% lower compared to the then share market price. The purchase price was identical to the price paid on that day for 137 thousand of EQY shares which were purchased from a third party (who holds senior position at EQY, however he does not hold a position in the Company and he is not a related party). The Company applied the Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements), 1996 in accounting for this transaction.
- l. On January 31, 2004, Mishkenot Clal signed an agreement with Polar Investments Ltd. and Niduran Ltd. for the acquisition of 91.2% of Hazerot Hadar Ltd., which jointly holds with Mishkenot Clal in Mediterranean Towers Kfar Saba (50%) and Mediterranean Towers Nordia (33%) which are managed by Mishkenot Clal.

On March 1, 2004, after receiving the approval of the Anti Trust Commissioner, the transaction was closed. Subsequent to the closing, Mishkenot Clal holds, through its subsidiaries, full ownership of Mediterranean Towers Kfar Saba and 66.7% of Mediterranean Towers Nordia.

NOTE 4:- SUBSEQUENT EVENTS

- a. In November 2004, the Company declared a dividend of NIS 0.20 per share payable in December 2004. The record date for the dividend is December 14, 2004.
- b. On October 31, 2004, the Company changed its name from Gazit-Globe (1982) Ltd. to Gazit-Globe Ltd.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
NOTE 5:- GEOGRAPHIC INFORMATION

	Nine months ended September 30, 2004 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	795,924	527,533	22,974	1,346,431
Segment results	455,681	257,398	999	714,078
	Nine months ended September 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	618,149	365,209	12,894	996,252
Segment results	350,150	179,697	566	530,413
	Three months ended September 30, 2004 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	273,938	187,355	7,788	469,081
Segment results	152,167	94,576	175	246,918
	Three months ended September 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	245,354	135,808	4,340	385,502
Segment results	134,950	69,907	40	204,897
	Year ended December 31, 2003 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	854,484	529,069	17,633	1,401,186
Segment results	482,063	262,415	1,429	745,907