

Gazit-Globe (1982) Ltd
Directors' Report to Shareholders
For the Period Ending March 31, 2004

The Board of Directors of Gazit-Globe (1982) Ltd (hereinafter, "the Company") hereby presents the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2004:

1. **A. General**

The Company is a real-estate investment company engaged, directly and through its subsidiaries, in the acquisition, development, and management of income producing properties in the U.S., Canada, and Israel (hereinafter, "the Group"). The Group focuses principally on supermarket-anchored shopping centers. In addition, the Group operates in the senior living sector in the U.S. and Israel. The Group pursues business opportunities in the acquisition of companies engaged in its areas of activities, and/or in synergetic businesses and in other areas.

B. The Group's Properties

As of the date of the financial statements, the Group owned 291 income producing properties with aggregate gross leasable area of approximately 3.1 million square meters. These properties comprise 278 shopping centers, 8 shopping centers under development, 4 senior living facilities which include approximately 900 units in Israel and the USA, an office building in Tel Aviv, and partnership interests in 2 income producing properties. These properties have an aggregate book value of approximately NIS 14.1 billion and generate annual rental income of approximately NIS 1.8 billion (gross annual rental being calculated at the exchange rate on the date of publication of these financial statements). In addition, as of the publication date of these financial statements, the Company owns approximately 36% of Citycon Oyj (hereinafter, Citycon), a Finnish property company, whose shares are traded on the Helsinki Stock Exchange (HEX).

In the U.S., the Group operates mainly through Equity One, Inc. (EQY), a publicly-traded company listed on the NYSE. EQY is a self-administrated, self-managed real estate investment trust (REIT). As of the date of these financial statements, the Company owned, directly and indirectly, approximately 40.2% of the issued share capital of EQY. EQY operates in growing metropolitan areas in southeastern U.S., mainly in Florida, Texas and Georgia, and owns 187 operating shopping centers, with a total gross leasable area of approximately 1.9 million square meters, 4 shopping centers under development, and partnership interests in 2 income producing properties. In addition, the Group operates in the U.S. through Royal Senior Care (RSC) (50% owned), which owns a senior living facility, encompassing approximately 90 units.

Operations in Canada are carried out through First Capital Realty Inc. ("FCR"), a publicly-traded company listed on the Toronto Stock Exchange (TSX). As of the date of these financial statements, the Company owned approximately 54.3% of the share capital of FCR. FCR operates in the Canadian provinces of Ontario, Quebec and Alberta, and owns 91 shopping centers, with an aggregate gross leasable area of approximately 1.1 million square meters, as well as 4 additional shopping centers under development. In addition, FCR owns approximately 17.8% of the share capital of EQY.

In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (hereinafter, Mishkenot Clal), which is engaged in the construction, operation, management and marketing of senior living facilities in Israel and owns 3 senior living facility buildings that accommodate approximately 800 senior living units. In addition, the Company owns an office building in Tel Aviv.

In Finland, the Company owns approximately 36% of Citycon's share capital. As of March 31, 2004, Citycon owned 16 shopping centers and approximately 132 stores that are let primarily to supermarkets and other retail chains with an aggregate gross leasable area of approximately 500 thousand square meters.

C. **The Company's Properties**

The following table summarizes the Company's holdings, as described above, as of March 31, 2004:

Investee Company	Type of security	Quantity (par value in millions)	Share of total outstanding	Book value in NIS millions	Market value as at 31/3/04 (NIS in millions)	Market value as of the date of the financial statements (NIS in millions)
EQY	Shares	15.7	22.4% ¹	921	1,365	1,265
FCR	Shares	22.9	55.6%	1,065	1,262	1,215
FCR	Option Warrants	1.8	54.6%	-	31	25
FCR	Convertible debentures	164.3	45.8%	510	564	572
Citycon	Shares	31.0	30.4%	306	323	304
Investments in other companies (unlisted securities) ²	-	-	-	112	112 ³	112 ³
Total				2,914	3,547	3,493

The Company's net liabilities⁴ (including those of its wholly-owned subsidiaries) amounted to approximately NIS 1,707 million, as of March 31, 2004.

D. **First Quarter 2004 - Highlights**

- The Group's investments in acquisitions and development of properties (including proportional consolidation of the Company's holdings in Hatsrot Hadar Ltd.) totaled approximately NIS 1 billion for the reporting period, compared with approximately NIS 200 million in acquisitions and development of properties in the comparable period, and approximately NIS 3.4 billion for the acquisition of IRT's properties, also in the comparable period.
- Rental income totaled approximately NIS 420 million, an increase of approximately 43%, compared with the comparable period, as a result of the acquisition of new properties and rent increases in the existing real-estate portfolio.
- Gross profits totaled approximately NIS 223 million (53.1% of revenues), compared with approximately NIS 155 million (53.1% of revenues) in the comparable period, an increase of approximately 44%.
- Cash flow from current operations totaled approximately NIS 95 million, compared with approximately NIS 31 million in the comparable period, an increase of 206%.
- Net income totaled approximately NIS 21.4 million, approximately NIS 0.27 per share, compared with an adjusted net income of approximately NIS 61.9 million, approximately NIS 0.79 per share, in the comparable period.
- FFO (see Item 3C) totaled approximately NIS 31 million, approximately NIS 0.39 per share, compared with pro forma FFO⁵ of approximately NIS 21.2 million (NIS 0.26 per common share) in the comparable period.

¹ Represents the Company's direct holding in EQY. (In addition, FCR holds approximately 17.9% of EQY.)

² Represents the Company's holdings in Mishkenot Clal, Royal Senior Care, and the office building in Tel Aviv.

³ Represents book value.

⁴ After deducting financial assets

⁵ Assuming implementation of Accounting Standards 12 & 13 as of January 1, 2003.

- During the course of the reporting period, the Company purchased a holding of approximately 31% in the Finnish real estate company, Citycon, for an investment of NIS 306 million. Subsequent to the reporting period, the Company increased its holding to 36%, for an additional investment of approximately NIS 66 million.
- Shareholders' equity and minority interests for the reporting period as at the date of the report totaled approximately NIS 4.4 billion, representing approximately 30.7% of the balance sheet, compared with NIS 3.1 billion in the comparable period representing approximately 28.1% of the balance sheet. Shareholders equity and minority interests increased by approximately 9% between the two periods.

E. **Changes in Accounting Standards**

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

The principal effect of the change in the Accounting Standard as aforesaid is in the manner of presenting the interest expenses item so that according to the new reporting method, there is no adjustment to the Company's loans according to changes in the CPI.

As a result of this change, and despite the fact that there has been no change in the Company's actual interest payments, the reported interest expenses are approximately NIS 95 million higher than they would have been had it not been for the change in accounting standards.

The change in reported interest expenses, after minority interest, resulted in a decline in net income of NIS 39 million, compared with net income that would have been reported pursuant to the accounting, applicable until December 31, 2003.

The Company's management is of the opinion that cessation of the above mentioned adjustment of the financial reports to CPI has no material effect on the Company's operations, revenues, gross profits, operating profits or cash flow.

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

General

During the reporting period, the Company's investment in the acquisition of new properties, the redevelopment, expansion, and construction of other income producing properties (including proportional consolidation of the Company's holding in Hatsrot Hadar Ltd., for the first time), totaled approximately NIS 1 billion. The effect of these investments will be reflected fully later on this year. Additionally, the Company acquired a material holding in Citycon, for a total consideration of NIS 306 million.

A. Real Estate Operations

1. During the course of the reporting period, EQY and FCR acquired 16 income producing properties encompassing approximately 170 thousand square meters, and 4 land plots for future development, for a total investment of approximately NIS 770 million.
2. During the reporting period, EQY and FCR developed new properties and redeveloped existing properties for a total investment of approximately NIS 105 million.
3. During the reporting period, EQY sold an income producing property encompassing approximately nine thousand square meters for a net gain of approximately NIS 30 million. As a result of this sale, the Company recorded a net gain of approximately NIS 2.7 million, as compared with net proceeds from the sale of properties of approximately NIS 1 million during the comparable period.
4. As of March 31, 2004, the Group had properties under development, redevelopment, and land for future use, with a total cost of approximately NIS 412 million. These properties did not yield rental income during the reporting period.
5. As of the end of the first quarter of 2004, EQY's average basic monthly rental income was approximately US\$8.54 dollars per square meter. During the reporting period, EQY renewed leases on 22.8 thousand square meters while increasing the average rental on these leases by 4.5%, to an average monthly rental of US\$11.32 per square meter, as well as signing new rental leases on 50 thousand square meters for an average monthly basic rent of approximately US\$8.85 per square meter. During the reporting period, leases for 35 thousand square meters expired. Net cash flows from existing properties increased by approximately 3.3%, compared with the comparable period.

As of March 31, 2004, the average occupancy of EQY's properties was 90.2% (as at March 31, 2003 – approximately 89.4%).

6. As at the end of the first quarter of 2004, FCR's average monthly minimum rental was approximately C\$10.61 per square meter. During the reporting period, FCR renewed leases for 9 thousand square meters, while increasing the average monthly basic rent on these same leases by approximately 2.7%, to approximately C\$11.03 per square meter, and signed new leases for 8 thousand square meters for an average monthly basic rent of approximately C\$13.83 per square meter. During the reporting period, leases for 5 thousand square meters expired. Net cash flow from existing properties increased by 1.9%, compared with the comparable period.

As of March 31, 2004, the average occupancy for FCR's properties was approximately 93.3% (as at March 31, 2003 – 91.7%).

B. Acquisition of Citycon

1. In February 2004, the Company's Board of Directors authorized the Company Management to investigate opportunities for expanding its shopping center operations into Europe, on the basis of the experience and ability the Group had developed in the North American shopping center sector.
2. During the reporting period, the Company acquired approximately 31 million shares of Citycon, representing a holding of 29.3% in Citycon's share capital (approximately 30.4% of the company's share capital after deducting the shares that are held by Citycon). On March 15, 2004, Citycon's annual general shareholders' meeting appointed a board of directors consisting of 7 members, of whom two were appointed on the Company's recommendation. The Company's total investment in Citycon shares as of March 31, 2004 (after deducting dividends as stated below) was approximately NIS 306 million. The Company's share in the dividend distributed by Citycon in March 2004 (approximately NIS 22 million) reduced the cost of the Company's investment in Citycon as aforesaid.

In the months of April and May 2004, the Company acquired another 6 million Citycon shares for a total consideration of approximately NIS 66 million. As of the reporting date, the Company holds approximately 35% of Citycon's share capital (approximately 36.3% of the share capital after deducting the share held by Citycon).

3. Citycon is a publicly-traded Finnish company that focuses on the income producing real estate sector in Finland. The company's real-estate portfolio, as of March 31, 2004, included approximately 148 properties – some of them supermarket-anchored shopping centers, and the remainder are income producing properties which are leased principally to supermarket chains encompassing a total aggregate gross leasable area of approximately 500 thousand square meters. According to Citycon's financial statements dated March 31, 2004, the book value of its assets is approximately Euro 731 million (approximately NIS 4 billion).
4. During the reporting period, the Company did not recognize its share in Citycon's profits.
The company expects to include its shares of Citycon's profits (according to the Equity method) since the second quarter of 2004.

C. Option Warrant Exercised for Company's Shares

During the reporting period, 1.6 million of the Company's option warrants (Series 4) were exercised for approximately 2 million Company shares for a total consideration of approximately NIS 23.9 million. In addition, the Company exercised approximately 0.6 million options warrants it held, for 0.8 million shares. Some 3 thousand options warrants that had not been exercised until February 20, 2004, the last exercise date, expired.

D. The Public Offering of Shares in Consolidated Subsidiaries

1. In March 2004, FCR issued 3.4 million shares to institutional investors and others (including approximately 0.8 million shares to the Company) in consideration of approximately C\$55 million (approximately NIS 190 million). In addition, the Company and others exercised approximately 2.5 million options warrants for FCR shares (including approximately 2.05 million shares to the Company), for an additional consideration of approximately C\$30 million (approximately NIS 104 million). As a result of these share offerings, and interest payments on convertible debentures by issuing FCR shares, the Company's holding in FCR was diluted from 56.9% to approximately 55.6%, and consequently, the Company recognized a gain of approximately NIS 10.8 million.
2. During the reporting period, EQY issued approximately 0.7 million shares to the public, within the framework of its Dividend Reinvestment Plan (DRIP) and exercise of employee-held options warrants, for a total consideration of approximately U.S.\$12 million (approximately NIS 55 million). Consequently, the Company's holding in EQY

was diluted from 40.5% to approximately 40.3%, and the Company recorded a profit of approximately NIS 4 million.

E. Debt Raised by the Company and Consolidated Subsidiaries

1. On January 27, 2004, after "Maalot – The Israeli Rating Company" (Affiliate of S&P) had upgraded the credit rating of the Company's debentures to AA-, the Company issued to institutional investors:
 - a) A series of debentures (that are not registered for trading on the Stock Exchange) at a total par value of NIS 120 million. The issue of the debentures was against payment of their par value. The aforesaid debentures are linked to the CPI, and bear a fixed annual interest of 5.55%. The principal is to be redeemed in a single installment in February 2010.
 - b) Debenture (Series A) with a total value of NIS 90 at a price of NIS 101 for NIS 100 par value of debentures for a total consideration of NIS 91 million. The above issue was done by way of reopening the series of debentures (Series A) that was first offered to the public pursuant to the Company prospectus dated May 2, 2002.
2. On March 26, 2004, EQY completed the issue of a series of debentures for a total of U.S.\$ 200 million. The debentures principal will be repayed in a single installment on April 15, 2009, and bear a fixed annual interest of 3.875%. The debentures were issued at a yield to maturity of 3.902% (a spread of 1.25% above the relevant U.S. Treasury bond at the time of issuance). Additionally, EQY entered a U.S.\$100 million swap transaction with a banking institution in which a fixed rate was swapped with a floating rate, so pursuant to the transaction, the interest rate on the exchanged sum is a 6-month LIBOR rate with an additional spread of 0.4375%.

F. The Acquisition of Hatsrot Hadar Ltd. By Mishkenot Clal

On January 31, 2004, Mishkenot Clal signed an agreement with Polar Investments Ltd. and Nidoran Ltd. to purchase 91.2% of the shares in Hatsrot Hadar Ltd., Mishkenot Clal's partner in the senior housing properties Mediterranean Towers Kfar Saba (50%), and Mediterranean Towers Nordiya (33%), managed by Mishkenot Clal.

The transaction was completed on March 1, 2004, after receiving clearance from the Anti-Trust Commissioner. After completion of the transaction, Mishkenot Clal holds through its subsidiaries, full ownership rights in Mediterranean Towers Kfar Saba and a 66.67% ownership Mediterranean Towers Nordiya.

G. Dividend Distribution Policy

In accordance with the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be distributed from the beginning of the second quarter of 2004 will not be less than NIS 0.19 per share for each quarter (NIS 0.76 per share on an annual basis).

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

3. A. **Results of Operations**

	For the 3 months ending March 31		For the year ending December 31, 2003
	2004	2003	Audited
	Unaudited		
	In NIS thousands (except for net earnings per share)		
	(Reported) ¹	Adjusted ²	
Rental income	420,420	292,991	1,401,186
Rental property operating expenses	135,092	99,123	457,790
Rental property depreciation and amortization	61,986	38,410	197,489
Gross profit	223,342	155,458	745,907
General and administrative expenses	35,521	27,507	115,805
Operating income	187,821	127,951	630,102
Financial income (expenses), net	(121,535)	16,715	(300,163)
Other income (expenses), net	66,286 25,760	144,666 (5,344)	329,939 56,492
Income before taxes on income	92,046	139,322	386,431
Taxes on income	11,073	6,648	43,629
Income after taxes on income	80,973	132,674	342,802
Equity in earnings (losses) of affiliates	(4)	2,287	3,613
Minority interest in earnings of subsidiaries	(59,617)	(73,022)	(209,839)
Net income	21,352	61,939	136,576
Net income per share	0.27	0.79	1.69

¹ In accordance with Accounting Standards 12 and 13

² Adjusted to the Shekel of December 2003.

B. Analysis of Results of Operations for the First Quarter, 2004

Rental Income

The 43% increase compared with the comparable period resulted from the acquisition of 16 new properties during the reporting period, the coming online of properties of which development had been completed, the acquisition of properties during 2003, and the consolidation of IRT's properties acquired in February 2003 throughout the quarter, and from an increase in rental income from the existing real-estate portfolio.

Operating Rental Property

The increase in property operating expenses this year, compared with the comparable period, stems from the increased number of properties, as aforesaid. Property operating expenses as a percentage of total rental income decreased from approximately 33.8% in the comparable period to approximately 32.1% in the reporting period.

Depreciation of Rental Properties

The Company's share in the depreciation of properties (depreciation on properties after deducting the minority interest therein) was approximately NIS 27.2 million in the reporting period, representing approximately NIS 0.34 per share, compared with approximately NIS 20.3 million in the comparable period, representing approximately NIS 0.30 per share.

Gross Profit

Gross profit for the reporting period was approximately NIS 223 million (approximately 53.1% of rental revenues), compared with approximately NIS 155 million (approximately 53.1% of rental revenues) during the comparable period, an increase of 44%.

General and Administrative Expenses

General and administrative expenses as a percentage of total rental revenues were approximately 8.4% during the reporting period, compared with approximately 9.4% in the comparable period. This decrease is primarily attributable to the significant increase in operations of EQY (including the full consolidation of the IRT acquisition) and FCR, that was accompanied by a moderate increase in administrative expenses, as a result of the economies of scale enjoyed by both companies.

Financing Expenses(Income), net

The increase in financial expenses in the reporting period was a consequence of the following:

- 1) The financial statements are no longer adjusted to purchasing power in countries in which the Company operates, in accordance with Accounting Standards No. 12 and No. 13, which affected the reported interest expenses item by approximately NIS 95 million.
- 2) An increase in the Group's loans from an average of approximately NIS 5.9 billion in the first quarter of 2003 to approximately NIS 8.2 billion in the reporting period. Interest expenses for the quarter reflect an average nominal interest rate of approximately 5.5% on the Group's obligations.
- 3) The appreciation of the U.S. dollar against the New Israeli Shekel (NIS) by 3.4% during the reporting period created a financial expense, due to the erosion Mishkenot Clal's tenants' securities deposits, of approximately NIS 6 million, compared with a devaluation of the U.S. dollar against the NIS in the comparable period of approximately 1.8%, which generated approximately NIS 2 million in financial revenues from the erosion in tenants' securities deposits.

- 4) The following table presents the changes in the CPI and exchange rates of the U.S. and Canadian dollars versus the NIS:

	Consumer Price Index			Exchange rates	
	Israel	U.S.	Canada	U.S. dollar	Canadian dollar
	Percentage change			Percentage change	
1-3/2004	(0.1%)	1.7%	0.7%	3.4%	1.7%
1-3/2003	0.8%	1.8%	2.0%	(1.1%)	1.7%
1-12/2003	(1.9%)	1.9%	2.0%	(7.6%)	13.5%

Other Income , Net

This item consists mainly of profits and losses in respect of capital transactions such as dilution of holdings in consolidated subsidiaries and the sale of land.

In the reporting period, the Group recorded a net gain of NIS 15.3 million (the Company's share being approximately NIS 14.8 million), as a result of a dilution in its holdings of consolidated subsidiaries, compared with a loss of approximately NIS 4.8 million (the Company's share being approximately NIS 4.4 million) in the comparable period.

During the reporting period, EQY sold a property that produced a net profit of approximately NIS 8.4 million to the Group (the Company's portion being approximately NIS 2.7 million), compared with a net gain from the sale of properties of approximately NIS 2.3 million (the Company's share being approximately NIS 0.9 million) in the comparable period. Moreover, in the first quarter of last year, EQY recorded a loss as a result of the early redemption of property mortgages, totaling approximately NIS 2.9 million (the Company's net share being approximately NIS 1.2 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 one-time income and expenditure plus the Company's share of depreciation and amortization), and FFO per share, as is accepted practice in those countries in which the Company operates, and in accordance with the position paper issued by the U.S.-based National Association of Real Estate Investment Trusts (NAREIT).

In view of Accounting Standards No. 12 and No. 13 that came into effect on January 1, 2004, the Company's financial statements are no longer adjusted to purchasing power in Israel, similar to the accepted practice in the U.S. and Canada. The Company is of the opinion that FFO and FFO per share are more accurate reflections of the Company's operations, providing a more appropriate basis for comparison of the Company's results of operations in a given period, to a comparable period, and to the Company's results from operations to those of other income producing real estate companies.

The table below presents the Company's FFO and FFO per share for the periods noted:

	1-3/2004	1-3/2003	1-12/2003
In NIS thousands (excluding net income data)			
Reported net income	21,352	61,939	136,576
Adjustments:			
Loss (profit) from a decline in the holdings of consolidated subsidiaries	(14,822)	4,401	(37,450)
Profits from the sale of properties	(2,716)	(941)	(4,205)
Total adjustments	(17,538)	3,460	(41,655)
Company's share in depreciation and amortization	27,201	20,282	97,095
Reported FFO	31,015	85,681	192,016
FFO (pro forma)	31,015	21,234²	⁽²⁾125,751
Reported FFO per share	0.39	1.09	2.39
Reported FFO per share (pro forma)	0.39	⁽²⁾0.26	⁽²⁾1.55
FFO per share (pro forma) (without the effect of convertible securities, presented at their basic computation)	0.39	⁽²⁾0.31	⁽²⁾1.65

¹ According to the NAREIT white paper, the F.F.O does not represent cash flow from current operations according to accepted accounting principles; does not reflect the cash held by a company, or its ability to distribute that cash, does not substitute the reported net income and is not a figure audited by the Company's accountants.

² Pro forma (on application of Accounting Standards No. 12 and No. 13, in effect since January 1, 2003)

4. **Financial Status**

Liquidity

As a matter of policy, the Company maintains an appropriate level of liquidity, enabling it to exploit business opportunities in its field of activities.

As of March 31, 2004, the liquid assets available to the Group, including short-term investments, totaled approximately NIS 132.1 million, compared with NIS 121.4 million on December 31, 2003. Moreover, as of March 31, 2003, the Company has maintained unutilized lines of credit for immediate access of approximately NIS 1,578 million, compared with approximately NIS 1.196 billion as of December 31, 2003.

The increase in cash and unutilized lines of credit derive from the Company's issuance of shares and debentures during the reporting period, after deducting cash employed in the acquisition of income producing properties.

The Company's net cash and unutilized lines of credit for immediate access total approximately NIS 1.7 billion.

Investments in Affiliated Companies

Investments in affiliated companies as of December 31, 2004, totaled approximately NIS 322 million, compared with approximately NIS 15.7 million on December 31, 2003. The increase in this item derives from the acquisition of 31 million shares in Citycon, after deducting the dividend received from the company, as described in Item 2B, for a total consideration of approximately NIS 306 million.

Fixed Assets, Net

Net fixed assets as of March 31, 2004, amounted to approximately NIS 13.4 billion, compared with NIS 12.1 billion at the end of 2003.

In the reporting period, the Group acquired income producing properties, developed new properties, redeveloped existing properties, and for the first time consolidated the properties of Hatsrot Hadar Ltd., all together amounts to the sum of approximately NIS 1 billion. Additionally, the devaluation of both the U.S. and Canadian dollars contributed to an increase of approximately NIS 0.3 billion in the aforementioned item.

Long-Term Liabilities

Long-term liabilities as of March 31, 2004 totaled approximately NIS 8.6 billion, compared with NIS 7.4 billion in 2003.

The increase in this item is derives principally from the receipt of new loans and issuance of debentures, designated principally for financing investments in fixed-asset investments and the purchase of shares in Citycon.

Shareholders' Equity

As of March 31, 2004, shareholders' equity together with minority interests totaled approximately NIS 4.4 billion, financing approximately 30.7% of the balance sheet, compared with NIS 3.1 billion, which financed approximately 28.1% of the balance sheet as of March 31, 2003. In taking FCR's convertible debentures into account which are convertible to FCR shares (at the sole discretion of FCR), the shareholders' equity ratio, minority interests, and convertible debentures totaled approximately 35.3%, compared with approximately 34.8%, respectively.

The increase in shareholders' equity from NIS 1,141 million on December 31, 2003, to approximately NIS 1,207 million on March 31, 2004, derives principally from a profit of NIS 21.4 million during the reporting period, the conversion of options warrants to shares, totaling approximately NIS 23.9 million, and an increase in the adjustments item resulting from the translation of the EQY and FCR financial statements, totaling approximately NIS 34.9 million, after deducting the dividends declared by the Company in the amount of approximately NIS 14.6 million.

Current Ratio

The current ratio of assets to current liabilities was approximately 0.53 as of March 31, 2004, compared with 0.57 as December, 2003. The decline in this ratio results from utilization of short-term reserves in the acquisition of properties and long-term investments, and the redemption of a long-term lines of credit. Correspondingly, these operations significantly increased the Company's unutilized lines of credit with immediate access (approximately NIS 1.7 billion).

Cash Flow

Cash flow from operating activities in the reporting period totaled approximately NIS 95 million, compared with approximately NIS 31 million for the comparable period. The increase in cash flow from operations in the reporting period resulted from an improvement in operating profits, after deducting interest costs in respect of the Company's loan obligations.

In addition, the Company completed the funding of its operations by raising capital by the Company and its consolidated subsidiaries in a total amount of approximately NIS 252 million, as well as the receipt of loans, and sale of long-term debentures totaling approximately NIS 927 million. These cash flows were principally utilized for investment activity in fixed assets in the reporting period, totaling approximately NIS 875 million, and the purchase of shares in Citycon, totaling approximately NIS 306 million.

5. Donations

The Company makes donations to charities and community welfare projects, in particular to the foundation "Larger than Life," a volunteer humanitarian association aiding youths afflicted with cancer and other severe chronic diseases.

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

The Company's donations in the reported period totaled approximately NIS 337 thousand.

Of the above sum, the Company donated NIS 38 thousand to the "Larger than Life" association, and approximately NIS 176 thousand to various bodies in the United States and Canada (through the Company's subsidiaries, such sums being designated for the regions in which they operate).

6. Additional Information and Post-Balance Sheet Date Events

- A. In the months of March and April of this year, FCR's remuneration committee allocated 120,000 restricted shares to FCR's CEO (who also serves as CEO of the Company). Eighty thousand of these shares were allocated in May this year (half being attributed to 2003, the other half to 2004), and the remainder will be allocated in 2005. The restricted shares have a vesting period of three years, from the fifteenth of December of the year in which they were granted.
- B. On May 24, 2004, pursuant to a prospectus, the Company issued a new series of debentures (Series B), linked to the Euro and bearing interest rate of Euribor plus 2%, for a total amount of NIS 347.5 million, of which approximately NIS 66.5 million were issued to the public and institutional investors, and approximately NIS 281 million were sold to companies wholly owned by the Company.

In the framework of this offering, the Company re-opened the debenture series (Series A) for a total amount of approximately NIS 155 million, of which approximately NIS 25 million were sold to the public and approximately NIS 130 million were sold to companies wholly owned by the Company.

Additionally, pursuant to the prospectus, the Company issued option warrants (Series B) to purchasers of the above debentures, exercisable to the Company's shares until October 13, 2005, in consideration of an exercise price of NIS 24 per warrant option. The Company also issued by way of rights to its shareholders 2 series of options warrants: option warrants (Series 7) exercisable to shares until July 22, 2004, in consideration of an exercise price of NIS 17 per warrant option, and option warrants (Series 8) (the exercise price is linked to the exchange rate of the U.S. dollar).

7. Exposure to Market Risks and their Management

A. The individuals responsible for reporting on and managing the Company's exposure to market risks are Mr. Dori Segal, Chief Executive Officer, and Mr. Gil Kotler, CFO. Since publication of the Company's annual report for 2003 on March 22, 2004, no material changes have taken place in the Company's market risks or in the means employed to manage them.

B. **Currency Linkage**

Material changes in the report on currency linkage are as follows:

During the reporting period, the Company invested a total of approximately NIS 306 million in the purchase of shares of the publicly-traded Finnish income producing real estate company, Citycon. The purchase was carried out in Euros, the currency in which Citycon's operations are transacted, and in which its shares are traded. To finance part of this purchase, the Company took Euro loans and/or Euro-linked loans, so that as of the date of this report, the Company has no currency exposure as a consequence of the aforementioned investment.

Chaim Katzman, Chairman of the Board

Dori Segal, President and director