GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2005

UNAUDITED

INDEX

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ERNST & YOUNG

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The Board of Directors
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements for the nine and three months ended September 30, 2005

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of September 30, 2005, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the nine and three months 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 46.8% of total consolidated assets as of September 30, 2005, and whose revenues constitute approximately 45.9% and 48.9% of total consolidated revenues 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, as above, we are not aware of any material modifications that should be made to these 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 22, 2005

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

CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	129,903	57,912	52,807
Short-term investments	91,399	117,269	56,021
Tenants	113,151	93,970	103,123
Accounts receivable	156,403	110,497	70,001
Loans to partners in property under development	62,342	65,506	55,810
Rental property held for sale	1,320,518	55,250	54,888
	1,873,716	500,404	392,650
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	566,049	452,868	533,867
Long-term investments	332,190	174,673	216,105
Long-term loans and receivables	117,300	82,920	88,687
	1,015,539	710,461	838,659
FIXED ASSETS:			
Cost	17,382,820	14,828,583	15,391,857
Less - accumulated depreciation	937,774	730,496	778,122
	16,445,046	14,098,087	14,613,735
OTHER ASSETS AND DEFERRED CHARGES, NET	285,819	272,925	307,451
	19,620,120	15,581,877	16,152,495

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2005	September 30, 2004	December 31, 2004
	Unaudited		Audited
	Reported NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	1,688,934	598,190	755,391
Trade payables	136,264	87,403	152,474
Other accounts payable	375,336	284,429	256,216
	2,200,534	970,022	1,164,081
LONG-TERM LIABILITIES:			
Debentures	4,144,033	2,338,518	2,298,157
Liabilities to financial institutions and others	7,071,861	6,773,154	7,182,308
Tenants' security deposits	65,772	272,682	267,416
Accrued severance pay, net	164	1,016	1,042
Deferred taxes, net	77,787	-	-
	11,359,617	9,385,370	9,748,923
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	-	471,712	479,220
MINORITY INTEREST	4,373,082	3,468,471	3,458,056
SHAREHOLDERS' EQUITY	1,686,887	1,286,302	1,302,215
	19,620,120	15,581,877	16,152,495

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

November 22, 2005			
Date of approval of the financial statements	Chaim Katzman Chairman of the Board	Dori Segal President and Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Three months ended September 30, 2005	Three months ended September 30, 2004	Year ended December 31, 2004
	Unaudited				Audited
	Reported NIS in thousands (except per share amounts)				
Property rental revenue	1,592,711	1,346,431	561,744	469,081	1,858,235
Rental property operating expenses	514,816	430,435	184,701	150,038	598,675
Rental property depreciation	257,672	201,918	89,044	72,125	282,176
Gross profit	820,223	714,078	287,999	246,918	977,384
General and administrative expenses	131,006	111,825	46,377	38,292	159,392
Operating income	689,217	602,253	241,622	208,626	817,992
Financial expenses, net	447,438	390,804	159,431	136,551	519,676
	241,779	211,449	82,191	72,075	298,316
Other income, net	114,946	86,896	55,554	59,770	129,202
Income before taxes on income	356,725	298,345	137,745	131,845	427,518
Taxes on income	68,485	44,279	22,989	19,612	55,029
Income after taxes on income	288,240	254,066	114,756	112,233	372,489
Equity in earnings of affiliates	49,933	24,629	23,020	12,953	36,004
Minority interest in earnings of subsidiaries	(225,422)	(211,726)	(87,695)	(93,945)	(298,383)
Income before cumulative effect	112,751	66,969	50,081	31,241	110,110
Cumulative effect as of the beginning of the period of change in accounting principle (Note 2b)	(56,525)	-	-	-	-
Net income	56,226	66,969	50,081	31,241	110,110
Net earnings per NIS 1 par value of Ordinary shares (in reported NIS):					
Basic earnings:					
Before cumulative effect	1.33	0.80	0.57	0.37	1.17
Cumulative effect as of the beginning of the period of change in accounting principle	(0.61)	-	-	-	-
Net earnings	0.72	0.80	0.57	0.37	1.17
Diluted earnings	-	0.73	-	0.34	-

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Nine months ended September 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period (audited)	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	11,772	266,057	-	-	-	-	(196,782)	-	81,047
Sale of shares held by the Company	-	71,930	-	-	-	-	107,618	(1,948)	177,600
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	131,777	-	-	-	-	131,777
Revaluation of derivatives in affiliate to market value	-	-	(5,279)	-	-	-	-	-	(5,279)
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	589	589
Net income	-	-	-	-	56,226	-	-	-	56,226
Dividend paid	-	-	-	-	(40,088)	(17,200)	-	-	(57,288)
Dividend declared (1)	-	-	-	-	(21,563)	21,563	-	-	-
Balance at end of period	155,786	1,260,887	(6,303)	256,751	214,148	21,563	(205,168)	(10,777)	1,686,887

	Nine months ended September 30, 2004 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
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 foreign autonomous entities, net	-	-	-	43,410	-	-	-	-	43,410
Revaluation of derivatives in affiliate to market value	-	-	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	-	-	-	-	(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

(1) See Note 4e.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended September 30, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of period	146,394	973,079	(10,770)	183,838	184,315	21,499	(116,004)	(9,189)	1,373,162
Exercise of stock options into shares	9,392	215,878	-	-	-	-	(196,782)	-	28,488
Sale of shares held by the Company	-	71,930	-	-	-	-	107,618	(1,775)	177,773
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	72,913	-	-	-	-	72,913
Revaluation of derivatives in affiliate to market value	-	-	4,467	-	-	-	-	-	4,467
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	248	248
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(61)	(61)
Net income	-	-	-	-	50,081	-	-	-	50,081
Dividend paid	-	-	-	-	1,315	(21,499)	-	-	(20,184)
Dividend declared (1)	-	-	-	-	(21,563)	21,563	-	-	-
Balance at end of period	155,786	1,260,887	(6,303)	256,751	214,148	21,563	(205,168)	(10,777)	1,686,887

	Three months ended September 30, 2004 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
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 foreign autonomous entities, net	-	-	-	33,713	-	-	-	-	33,713
Revaluation of derivatives in affiliate to market value	-	-	(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	-	-	-	-	(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

(1) See Note 4e.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2004 (audited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Reported NIS in thousands								
Balance at beginning of year	137,916	841,647	1,702	86,175	175,171	14,583	(106,604)	(9,378)	1,141,212
Exercise of stock options into shares	6,098	81,253	-	-	-	-	(9,400)	(56)	77,895
Revaluation of loans for purchase of shares	-	-	-	-	(16)	-	-	16	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	38,799	-	-	-	-	38,799
Revaluation of derivatives in affiliate to market value	-	-	(2,726)	-	-	-	-	-	(2,726)
Net income	-	-	-	-	110,110	-	-	-	110,110
Dividend paid	-	-	-	-	(48,492)	(14,583)	-	-	(63,075)
Dividend declared	-	-	-	-	(17,200)	17,200	-	-	-
Balance at end of year	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Three months ended September 30, 2005	Three months ended September 30, 2004	Year ended December 31, 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	Reported NIS in thousands				
Cash flows from operating activities:					
Net income	56,226	66,969	50,081	31,241	110,110
Adjustments to reconcile net income to net cash provided by operating activities (a)	452,890	315,175	133,238	97,614	451,850
Net cash provided by operating activities	509,116	382,144	183,319	128,855	561,960
Cash flows from investing activities:					
Investment in newly consolidated companies (b)	58	(8,861)	304	-	(8,861)
Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method (c)	87,454	-	87,454	-	-
Investment in subsidiary and in jointly controlled entity	-	(42,884)	-	(32,060)	(29,220)
Investments in fixed assets	(2,253,595)	(2,006,947)	(831,119)	(301,942)	(2,937,886)
Repayment (grant) of loans to partners in property under development, net	(1,467)	(5,825)	(10,550)	(3,880)	4,928
Proceeds from sale of fixed assets	195,420	320,200	75,577	249,617	410,105
Long-term loans granted	(19,419)	(42,355)	(19,419)	(21,600)	(53,529)
Repayment of long-term loans granted	1,175	23,231	1,075	-	27,097
Short-term investments, net	(8,858)	6,121	12,334	2,512	37,313
Purchase of marketable securities and long-term investments	(362,526)	(178,062)	(158,625)	(57,685)	(238,791)
Investment in affiliate	(42,850)	(411,282)	(42,850)	(36,534)	(467,143)
Proceeds from realization of long-term investments	285,852	29,757	238,512	19,348	60,406
Net cash used in investing activities	(2,118,756)	(2,316,907)	(647,307)	(182,224)	(3,195,581)
Cash flows from financing activities:					
Repayment of loans for the purchase of Company's shares	589	13,476	248	-	15,681
Exercise of stock options into shares	81,047	77,787	28,488	31,431	77,895
Sale of shares held by the Company	177,600	-	177,600	-	-
Issuance of shares to minorities in subsidiaries, net	217,509	413,145	42,725	91,872	506,976
Deferred charges in respect of raising loans and debentures	(55,258)	(24,777)	(32,944)	(9,782)	(28,102)
Dividend paid	(57,288)	(46,289)	(20,184)	(16,056)	(63,075)
Dividend paid to minorities in subsidiary	(279,128)	(236,343)	(93,443)	(97,887)	(291,193)
Receipt of long-term loans	1,811,714	1,585,373	943,941	406,102	1,545,586
Repayment of long-term loans	(1,467,404)	*) (551,678)	(484,098)	*) (107,785)	(379,451)
Withdrawal (repayment) of long-term credit lines from banks, net	(573,162)	*) (441,852)	(759,686)	*) (74,513)	54,509
Redemption and early redemption of debentures and convertible debentures	(18,436)	(151,103)	(3,647)	(131,517)	(170,618)
Sale of Company's debentures by subsidiaries	137,672	45,514	126,636	42,742	107,937
Issuance of debentures	1,743,815	1,206,974	573,681	-	1,211,311
Short-term bank credit, net	(42,892)	39,363	(4,118)	(44,570)	42,320
Increase (decrease) in tenants' security deposits, net	(634)	14,870	151	2,534	9,358
Net cash provided by financing activities	1,675,744	1,944,460	495,350	92,571	2,639,134
Effect of exchange rate differences from cash balances of foreign autonomous entities	10,992	(5,436)	(1,114)	(1,880)	(6,357)
Increase (decrease) in cash and cash equivalents	77,096	4,261	30,248	37,322	(844)
Cash and cash equivalents at beginning of period	52,807	53,651	99,655	20,590	53,651
Cash and cash equivalents at end of period	129,903	57,912	129,903	57,912	52,807

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Three months ended September 30, 2005	Three months ended September 30, 2004	Year ended December 31, 2004
	Unaudited				Audited
	Reported NIS in thousands				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Gain from realization and revaluation of marketable securities, net	(50,426)	(6,243)	(25,903)	(1,507)	(11,015)
Minority interest in earnings of subsidiaries	225,422	211,726	87,695	93,945	298,383
Gain from realization of investment in jointly controlled entity	(1,198)	-	(1,198)	-	-
Equity in earnings of affiliates, net of dividend received	(15,067)	(24,629)	(23,020)	(12,953)	(36,004)
Depreciation	247,868	204,499	83,026	74,596	284,824
Deferred taxes, net	88,044	23,218	8,997	12,321	28,295
Loss from early redemption of debentures and convertible debentures	-	30	-	-	15
Adjustment differences on monetary assets and long-term monetary liabilities, net	23,319	20,019	8,415	1,015	14,209
Amortization of other assets and deferred charges	13,388	13,497	4,438	3,828	22,775
Gain from sale of real estate	(45,485)	(51,334)	(23,376)	(45,012)	(81,396)
Increase (decrease) in accrued severance pay, net	119	(1)	-	(27)	25
Gain from issuance of shares to minorities in investees	(67,256)	(23,524)	(31,528)	(8,000)	(32,583)
Changes in asset and liability items:					
Increase in tenants and accounts receivable	(88,757)	(100,054)	(29,439)	(33,875)	(107,719)
Increase in trade payables and other accounts payable	112,360	43,412	69,252	13,295	57,322
Increase (decrease) in tenants' security deposits, net	10,559	4,559	5,879	(12)	14,719
	452,890	315,175	133,238	97,614	451,850

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Three months ended September 30, 2005	Three months ended September 30, 2004	Year ended December 31, 2004
	Unaudited				Audited
	Reported NIS in thousands				
(b) Investment in newly consolidated companies *):					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(8,746)	(1,381)	(8,567)	-	(1,381)
Current liabilities	35,566	5,932	4,067	-	5,932
	26,820	4,551	(4,500)	-	4,551
Fixed assets, long-term investments and loans (mainly real estate)	(223,888)	(123,804)	(177,639)	-	(123,804)
Other assets	(1,237)	(3,653)	-	-	(3,653)
Long-term liabilities	198,782	115,512	182,443	-	115,512
Minority interest	(419)	(1,467)	-	-	(1,467)
	(26,762)	(13,412)	4,804	-	(13,412)
	58	(8,861)	304	-	(8,861)
(c) Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method (see Note 3n):					
The jointly controlled entity's assets and liabilities at date of realization:					
Current assets	1,926	-	1,926	-	-
Current liabilities	(38,868)	-	(38,868)	-	-
	(36,942)	-	(36,942)	-	-
Fixed assets, long-term investments and loans (mainly real estate)	348,274	-	348,274	-	-
Other assets	22,500	-	22,500	-	-
Long-term liabilities	(251,536)	-	(251,536)	-	-
Minority interest	3,960	-	3,960	-	-
	123,198	-	123,198	-	-
Capital gain from realization of investment in jointly controlled entity	1,198	-	1,198	-	-
	87,454	-	87,454	-	-
(d) Significant non-cash operations:					
Conversion of convertible debentures into subsidiary's shares	492,782	69,687	232,182	69,687	69,687
Purchase of fixed assets in consideration for subsidiary's shares	-	13,000	-	13,000	13,000

*) Includes a company consolidated for the first time by Mishkenot Clal since the second quarter of 2005 (Mishkenot Clal was sold at the beginning of the third quarter, see (c)) and also a company consolidated for the first time by the Company which owns a shopping center in Rishon Le'zion, see Note 3l.

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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of September 30, 2005, and for the nine and three months 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, 2004 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 and in accordance with the Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

   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 in b below.

b. Initial adoption of Accounting Standard No. 19 with respect to taxes on income:

   On January 1, 2005, the Company adopted Accounting Standard No. 19, "Taxes on Income" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for recognition, measurement, presentation and disclosure of taxes on income and deferred taxes in the financial statements. Pursuant to the Standard, the effect of the initial adoption of the Standard was recognized by recording the cumulative effect as of the beginning of the period in which the Standard is adopted.

   The major changes promulgated by the Standard in relation to the accounting principles which were in effect up to January 1, 2005 are: recognition of deferred taxes for temporary differences resulting from using a currency for financial reporting purposes that is different than the currency used for tax purposes and recognition of deferred taxes for temporary differences relating to land.

   As a result of the initial adoption of the provisions of the Standard, the Company recorded a deferred tax liability in the amount of approximately NIS 56.5 million which was reported as an expense and presented as a separate line item in the statement of income, "Cumulative effect as of the beginning of the period of change in accounting principle, net."

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Effect of new Accounting Standards in the period prior to their initial adoption:

1. Accounting Standard No. 22:

In July 2005, the Israel Accounting Standards Board issued Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation".

This Standard prescribes principles regarding the presentation of financial instruments and details the proper disclosure required in their respect in the financial statements. The presentation principles apply to the classification of financial instruments or their component parts, on initial recognition as a financial liability, financial asset or equity instrument; the classification of related interest, dividends, losses and gains; and the circumstances in which a financial asset and a financial liability should be offset. This Standard shall apply to financial statements for periods commencing on or after January 1, 2006.

According to the new Standard, compound financial instruments, that include both a liability and an equity component (e.g., convertible debentures), should be bifurcated between the equity and liability component and each component should be classified separately in accordance with the Standard's guidance. That is in contrast to current accounting principles, according to which the aforementioned financial instrument is classified in its entirety as a financial liability or as a single mezzanine item (depending on the probability of conversion). Transaction costs (net of any related income tax benefit) of an equity transaction are accounted for as a deduction from equity, while transaction costs of a financial liability are deducted from the liability and are taken into account, when calculating the effective interest rate.

The new Standard also broadens the definition of a financial liability, thus causing certain financial instruments, which are considered under current accounting guidance to be equity instruments, to be considered as financial liabilities. In addition, the new Standard supersedes Standards No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which an investor should record a provision for a probable loss resulting from a decrease in its interest in the investee, following the conversion of the investee's convertible instruments ("loss provision").

The Standard shall be applied prospectively. Comparative data presented in financial statements for periods beginning on the Standard's effective date will not be restated. Financial instruments that were issued prior to the Standard's effective date will be classified and presented in accordance with the provisions of the Standard beginning on the Standard's effective date. Compound financial instruments, which were issued in prior periods and were not yet converted or redeemed as of the Standard's effective date, will be bifurcated to their components and presented accordingly, beginning on the Standard's effective date. A loss provision included in the financial statements of an investor at the Standard's effective date should be reversed at such date as a cumulative effect in the current period.

In the Company's opinion, the effect of the new Standard on its financial position, results of operations and cash flows is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Accounting Standard No. 24:

In September 2005, the Israel Accounting Standards Board issued Accounting Standard No. 24, "Share- Based Payment" ("the Standard"). The Standard shall apply to financial statements for periods commencing on or after January 1, 2006 (effective date).

This Standard requires the Company to recognize share-based payment transactions in its financial statements in respect to, for example, the purchase of goods or services. Such transactions include transactions with employees or other parties that must be settled in the Company's equity instruments or in cash, as well as transactions that provide the Company or the supplier of the service or goods with a choice of settling in cash or in equity instruments. Concurrently with the recognition of the goods or services received, it is necessary to recognize in the financial statements an increase in shareholders' equity when the share-based payment transaction will be settled in equity instruments and the incurrence of a liability when this transaction will be settled in cash. This contrasts with the current situation in which certain types of the above mentioned transactions are not reflected in the financial statements.

The Standard prescribes the principles for the recognition, measurement and disclosure of the fair value of the goods or services provided in exchange for the equity instrument granted. In particular, measurement principles are prescribed with respect to transactions with employees and others providing similar services, transactions with parties who are not employees and transactions that are measured by reference to the fair value of the equity instruments granted. In addition, requirements are prescribed for situations in which modifications are made to the conditions on which the equity instrument were granted.

For equity-settled share-based payment transactions, the Standard applies to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006 (the effective date). The Standard shall also apply to modifications (not just to grants) that were made to the conditions of equity-settled transactions subsequent to March 15, 2005, even if the grants to which the modifications were made are not subject to the Standard. In the financial statements for 2006, comparative data in the financial statements for 2005 shall be restated in order to reflect the expense relating to the aforementioned grants.

For liabilities arising from share-based payment transactions existing as of the effective date, it will be necessary to apply the provisions of the Standard retrospectively. The Company should restate the comparative data, including adjusting the opening balance of retained earnings for the earliest period in which comparative data are presented. The Standard encourages retrospective application regarding other liabilities arising from share-based payment transactions (such as, transactions that were settled in 2005 and in respect of which comparative information is presented).

In the Company's opinion, the effect of the new Standard on its financial position, results of operations and cash flows is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. The following are details of exchange rates of the U.S. dollar, the Euro, the Canadian dollar and of the Israeli CPI:

	Representative exchange rate of US$	Representative exchange rate of €	Representative exchange rate of C$	Israeli CPI
		N I S		Points *)
As of:				
September 30, 2005	4.598	5.5275	3.9377	184.1
September 30, 2004	4.482	5.5247	3.5264	180.7
December 31, 2004	4.308	5.8768	3.5787	180.7
		%		
Change during the period:				
September 2005 (9 months)	6.7	(5.9)	10.0	1.9
September 2005 (3 months)	0.5	-	6.1	1.4
September 2004 (9 months)	2.4	(0.2)	3.5	1.2
September 2004 (3 months)	(0.3)	1.1	5.4	(0.2)
December 2004 (12 months)	(1.6)	6.2	5.0	1.2

*) The index on an average basis of 1993 = 100.

NOTE 3:- ADDITIONAL INFORMATION

a. In September 2005, the Company sold to institutional investors approximately NIS 5.3 million shares which it held in consideration for approximately NIS 178 million.

Further, on September 18, 2005, the Company's Board approved an issuance of 2.5 million shares by private placement to Gazit Inc. (or its wholly owned company) and the sale of 100 thousand shares to the Company's chairman of the Board at the price of NIS 34 per share.

The issuance of shares to Gazit Inc. and the sale of shares to the chairman of the board was approved by the general meeting on October 11, 2005 and effected on October 16, 2005.

b. During the reported period, approximately 3,509 thousand stock options (series 8) and approximately 82 thousand directors' stock options were exercised into approximately 3,591 thousand shares in consideration for approximately NIS 81 million. Also, a wholly owned subsidiary of the Company exercised approximately 8,181 thousand stock options (series 8) into approximately 8,181 thousand shares which were sold to the Company.

As for the final exercise of stock options (series 8) subsequent to the balance sheet date, see Note 4a.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

As a result of the issuance and the exercise of stock options into shares of FCR during the first quarter of 2005, the Company's shareholdings in FCR were diluted and the Company recorded in the first quarter of 2005 a capital gain of approximately NIS 14.3 million.

d. On March 31, 2005, FCR redeemed all of the convertible debentures (series D) in an aggregate of approximately C$ 161.7 million and the accrued interest into approximately 8.6 million shares of FCR, according to its right to enforce conversion on holders of convertible debentures. The Company held approximately 87.9 million par value (54%) of convertible debentures (series D), through its wholly owned subsidiaries, and received approximately 4.6 million of FCR shares. As a result of this conversion, the Company's shareholdings in FCR were diluted and the Company recorded in the first quarter of 2005 a capital gain of approximately NIS 16.6 million, net of taxes.

On September 30, 2005, FCR redeemed all of the convertible debentures (series C) in an aggregate of approximately C$ 100 million and the accrued interest into approximately 5 million shares of FCR, according to its right to enforce conversion on holders of convertible debentures. The Company held approximately 39.2 million par value (39%) of convertible debentures (series C), through its wholly owned subsidiaries, and received approximately 2 million of FCR shares.

As a result of this conversion, the Company's shareholdings in FCR were diluted and the Company recorded in the third quarter of 2005 a capital gain of approximately NIS 19.3 million. As of September 30, 2005, the Company's shareholdings in FCR are approximately 54%.

e. In July 2005, Citycon issued 12 million shares at a price of € 3.01 per share, for a total consideration of approximately € 36 million (approximately NIS 197 million). The Company acquired approximately 2.6 million shares in this issuance with an investment of € 7.7 million (approximately NIS 42.4 million).

As a result of this issuance, the Company's shareholdings in Citycon were diluted from 39.08% to 37.39% and the Company recorded a capital gain of approximately NIS 10 million.

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

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

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

As for partial exercise of the stock options into the shares of the Company subsequent to the balance sheet date, see Note 4b.

g. During February and August 2005, the Company issued by private placements to institutional investors approximately NIS 227 million and NIS 9.7 million par value of debentures (series A), respectively, in consideration for approximately NIS 221 million and NIS 9.6 million, respectively. The above issuance was executed by the enlargement of the series of debentures which was first issued to the public in May 2002. Subsequent to these issuances, the total par value of debentures (series A) is approximately 673 million.

h. In April 2005, the Company issued, at par value, NIS 425 million debentures (series C) by a private placement to institutional entities . The Company listed these debentures for trade on May 10, 2005 pursuant to a prospectus. The aforesaid debentures are linked to the increase in the Israeli CPI, bear fixed annual interest at the rate of 4.95%, payable twice a year. The principal of the debentures is payable in 8 annual payments from 2011 through 2018 (each of the first seven payments will be 10% of the amount and the final eighth payment will be 30% of the amount). Similarly, pursuant to the Company's said prospectus, it offered to the public an additional NIS 75 million par value of debentures (series C) at same terms, along with options that are exercisable into an additional 450 million debentures (series C). Said debentures were rated (Aa3) by Midroog Ltd. (in November 2005, Midroog Ltd. raised the rating to Aa2) and (AA) by Maalot - The Israel Securities Rating Company Ltd.

During the reported period, a wholly owned subsidiary of the Company acquired approximately 4.3 million options (series C) which it converted into approximately NIS 431 million par value of debentures (series C) of which it sold approximately NIS 121 million par value of debentures (series C) for a total consideration of approximately NIS 127 million. Also, approximately 0.2 million options (series C) were exercised by others into approximately NIS 17 million par value of debentures (series C) in consideration for approximately NIS 19.2 million.

As for the sale of debentures (series C) subsequent to the balance sheet date, see Note 4d.

i. During September 2005, EQY issued a series of debentures with a total par value of $ 120 million (approximately NIS 545 million). The debentures are unsecured, redeemable in one payment in October 2015 and bear fixed interest at the rate of 5.375%. Said debentures were rated at investment grade rating of (-BBB) by Standard & Poor's and (Baa3) by Moody's.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

j. During June 2005, FCR issued a series of debentures with a total par value of C$ 100 million. The debentures are unsecured, redeemable in one payment in June 2012 and bear fixed interest at the rate of 5.08%. Said debentures were rated at investment grade rating of (-BBB) by the Canadian Rating Agency ("DBRS").

k. In May 2005, the Company's Board approved an employment contract with the deputy chairman of the Board. According to the above agreement, the deputy chairman of the Company's Board (whose employment will be at 50% of a full time position) is entitled to an annual salary of approximately NIS 780 thousand, with the addition of related expenses.

Further, according to the employment contract, on August 21, 2005, the Company issued to the deputy chairman of the Company's Board 400,000 stock options exercisable into the shares of the Company with an exercise price of NIS 29.65 per share, subject to adjustments.

According to the Black-Scholes model, the fair value of the stock options is approximately NIS 3 million.

The above engagement was approved by the Company's meeting of shareholders in June 2005.

l. In May 2005, the Company's Board approved that the Company expand its activities into the field of shopping center operations in Israel, based on the experience and capabilities that the Group has gained through its activity in the field of shopping centers in North America. In this context, the Board approved an agreement with a local entity to establish a joint company that shall operate in said field in Israel ("subsidiary"). The Company's share in the subsidiary is 85% and the partner's share - 15% (the partner was granted an option to increase its stake up to 25%). Said partner also acts as the general manager of the subsidiary. The subsidiary (Gazit Globe Israel (Development) Ltd.) invested in a company (100%) that owns a shopping center in Rishon Le'zion and since the third quarter of 2005, the subsidiary consolidates the activity of the shopping center. The subsidiary also entered into an agreement to purchase land in Tel Aviv for future development of a shopping center. Further, the subsidiary entered into purchase agreements for two additional shopping centers and these transactions are expected to be closed by the end of 2005.

m. In June 2005, EQY announced that it has entered into an agreement with an American investment bank to examine strategic alternatives as to its property portfolio in Texas and Louisiana, among which the possibility of selling the portfolio or a joint venture with third parties in connection with the portfolio. EQY owns 32 income producing properties with an area of about 280 thousand sq.m. in Texas and 15 income producing properties with an area of about 150 thousand sq.m. in Louisiana. EQY also announced that it has entered into a contingent agreement for the sale of other 15 income producing properties in various states in the U.S. with an area of about 120 thousand sq.m., however, in September 2005, it announced that said contingent agreement had been cancelled and, accordingly, that their classification in the books was reversed to fixed assets.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

Further, in September 2005, EQY announced that in view of the repercussion of Katrina hurricane on the market in Louisiana, EQY management decided to discontinue the marketing efforts in connection with its property portfolio there. Its property portfolio in Texas, as stated above, the depreciated cost of which at September 30, 2005 totaled approximately NIS 1.3 billion, was classified as rental property held for sale and presented among current assets.

n. In July 2005, the Company entered into an agreement with Azorim Properties Ltd. and its wholly owned subsidiary ("Azorim Properties group"), whereby the Company sold its entire holding in Mishkenot Clal, meaning 50% of the share capital of Mishkenot Clal.

Azorim Properties group paid the Company NIS 59 million in consideration for the shares acquired and Azorim Properties group assumed all of the Company's liabilities with regard to Mishkenot Clal, including a monetary debt in the amount of approximately NIS 31 million.

As a result of the sale, the Company recorded a capital gain of approximately NIS 1.2 million.

o. As of September 30, 2005, the balance of long-term investments includes an investment of NIS 2.8 million in the shares of Winn Dixie Stores Inc., which is in Court bankruptcy under Chapter 11. The above amount is presented net of an impairment loss of approximately NIS 12 million, which was recorded in the second and third quarters of 2005.

p. In June 2005, the Company was issued VAT assessments for the years 2003 and 2004 and part of the years 2002 and 2005, according to which the VAT authorities limited the deduction of input taxes for the relevant period to approximately NIS 4 million. The Company filed an objection to this assessment and rejected all the VAT authorities' claims.

The Company believes that the assessment, its way of computation and rationale are not consistent with the nature of the Company's activity and, therefore, limiting the Company as to deduction of input taxes is groundless and, accordingly, no provision has been made in the financial statements. At this stage, the chances of the objection being accepted cannot be assessed.

q. In September 2005, the Company was issued assessments for 2001 through 2003 , according to the best judgment, whose principles are: financial expenses paid by the Company are non-deductible; thereby reducing the carryforward loss by approximately NIS 9.5 million, capital gain derived outside Israel from the activity of a foreign related company is liable to tax in the amount of approximately NIS 13.8 million, including interest, investment recovery is classified as dividends and certain taxes paid abroad are not recognized; thereby reducing the tax credit carried to future years by approximately NIS 1.8 million as well as the Company is liable to tax in the amount of approximately NIS 0.4 million on alleged benefits granted to employees, including interest.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

The Company submitted objections in the context of which it rejects all of the items in the assessments. The Company's management, based on the advise of its legal counsel, believes that it has good legal arguments and, accordingly, no provision has been made in the financial statements.

r. On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: in 2006 - 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26% and in 2010 and thereafter - 25%.

The effect of the amendment, as above, on the interim financial statements is immaterial.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In October 2005, approximately 1,543 thousand stock options (series 8) were exercised into approximately 1,543 thousand shares for the total consideration of approximately NIS 37 million. Approximately 7 thousand stock options (series 8) which had not been exercised by October 16, 2005, the last exercise day, expired.

b. On November 14, 2005, Clal Insurance exercised approximately 952 thousand stock options, out of approximately 3.2 million stock options which it had been issued in February 2005, into approximately 952 thousand shares of the Company for the total consideration of approximately NIS 30 million.

c. In October 2005, Citycon issued 11.2 million shares at a price of € 3.08 per share for a total consideration of approximately € 34.5 million (approximately NIS 191 million). The Company acquired approximately 2.5 million shares in this issuance with an investment of € 7.6 million (approximately NIS 42.1 million).

As a result of this issuance, the Company's shareholdings in Citycon were diluted from 37.41% to 36.15% and the Company will record in the fourth quarter of 2005 a capital gain of approximately NIS 7 million.

d. In November 2005, a wholly owned subsidiary of the Company sold 100 million par value of debentures (series C) for the total consideration of approximately NIS 108 million.

e. In November 2005, the Company declared a dividend of NIS 0.23 per share payable in December 2005. The record date for the entitlement to the dividend is December 11, 2005.

f. In November 2005, the Company's Board approved that the Company enters into a contingent agreement for the purchase of a medical center and parking space in a hospital campus in New Jersey, U.S. in consideration for approximately $ 88 million. The Board also approved an initial frame of approximately $ 300 million for additional investments in this field.

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Nine months ended September 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	867,831	703,838	21,042	1,592,711
Segment results	486,917	330,694	2,612	820,223

	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

	Three months ended September 30, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	291,095	264,925	5,724	561,744
Segment results	158,793	126,935	2,271	287,999

	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

	Year ended December 31, 2004 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	1,085,522	742,308	30,405	1,858,235
Segment results	620,285	355,957	1,142	977,384

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