GAZIT-GLOBE LTD.

Directors' Report to Shareholders
For the year ended March 31, 2006

The Board of Directors of Gazit-Globe Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2006:

1. A. General

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

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

As of the date of the financial statements, the Group owns and manages, by itself and through an affiliate, 516 properties, as follows:

- 485 shopping centers and shops
- 20 shopping centers under development
- 7 senior housing communities (encompassing some 860 units)
- 2 senior housing communities under development
- 1 medical office building with a multi-story parking garage
- 1 office building in Tel-Aviv

The above properties have a Gross Leasable Area ("G.L.A.") of approximately 4.2 million square meters. These properties are recorded in the Company's books at a value of NIS 27 billion and generate annual rental revenue of NIS 3.2 billion. (Annual rental revenue data are based on the gross annual rent from the properties currently owned at the exchange rate).

In the U.S.A., the Company operates mainly through Equity One Inc. (hereinafter – "EQY"), a public company listed on the NYSE (NYSE: EQY). EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and indirectly (including through the subsidiary of First Capital Realty Inc., as described below), 41% of EQY. EQY located primarily in growing metropolitan areas in the southeastern United States (mainly in Florida, Texas and Georgia) and in the Boston, Massachusetts metropolitan area. EQY owns and has interests in 191 operating shopping centers, with a G.L.A. of 1.9 million square meters and 7 shopping centers under development (including 30 properties in unconsolidated joint venture – see section 2J below).

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

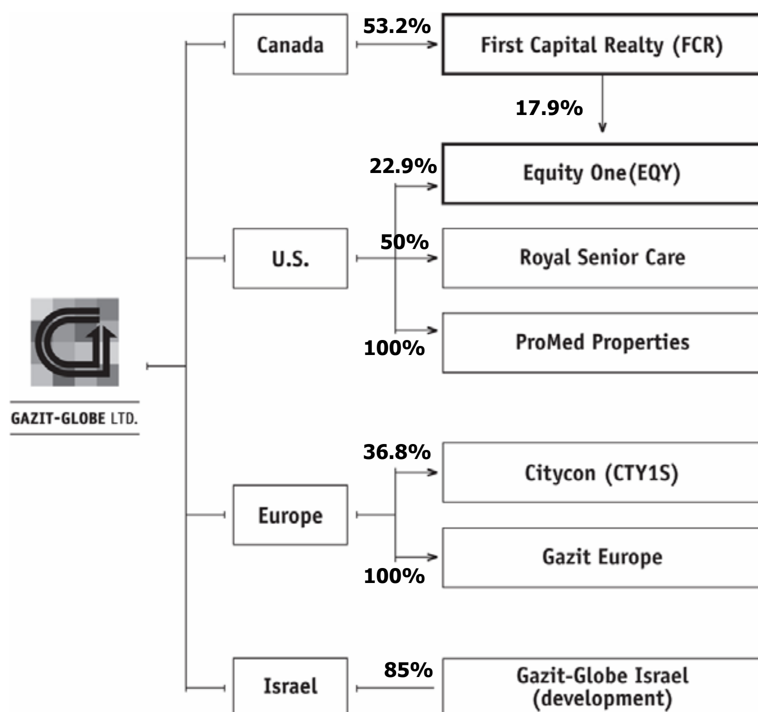
In Canada, the Company operates through First Capital Reality Inc. ("FCR"), a public company listed on the Toronto Stock Exchange (TSX: FCR). As of the date of the financial statements, the Company holds 53% of FCR. First Capital Reality Inc. located primarily in growing metropolitan areas in the provinces of Ontario, Quebec, Alberta and British Columbia in Canada. FCR owns 137 properties in Canada, with a G.L.A. of approximately 1.6 million square meters, and 6 shopping centers under development. In addition FCR owns 13.3 million shares of EQY.

In Israel, the Company owns 85% of the share capital of Gazit-Globe Israel (Development) Ltd. (hereinafter – "Gazit Development"), is an owner, developer and operator of shopping centers in Israel, owns 3 shopping centers and 5 plots of land for the future development of shopping centers. In addition, the Company owns an office building in Tel-Aviv.

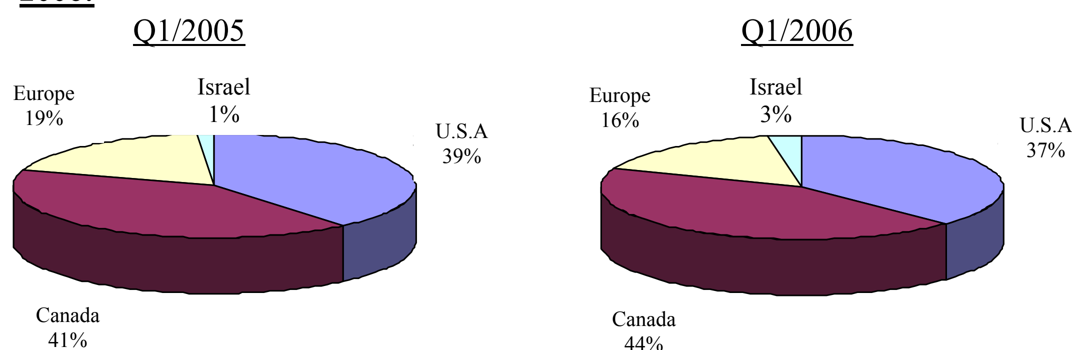
In Europe, the Company operates mainly through Citycon Oyj. (hereinafter – Citycon), a Finnish public company, whose shares are traded on the Helsinki Stock Exchange (HEX). As of the date of the financial statements, the Company owns approximately 36.8% of Citycon's share capital. Citycon is active in northern Europe (as of the date of the financial statements, in Finland, Sweden and Estonia) and owns 28 shopping centers and 127 stores, which are let primarily to supermarkets and other retail chains, with a G.L.A. of approximately 0.7 million square meters. European operations are also conducted through Gazit Europe, a wholly (100%) owned subsidiary, which is engaged in the European shopping centers sector and which owns a shopping center in Germany.

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

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



D. The Following Chart Illustrates the Breakdown of Net Operating Income ("N.O.I.")[1], According to the Company's Operating Regions, to March 31, 2006:



E. The Company's Holdings

1. The following table presents a summary of the Company's holdings as of March 31, 2006, as shown above:

Name of company	Type of security/ property	Holding (millions)	Holding percentage (%)	Book value (NIS in millions)	Market value as of March 31, 2006 (NIS in millions)
EQY [2]	Shares (NYSE)	17.1	22.6	1,097	1,960
FCR	Shares (TSX)	38.5	53.8	2,098	3,948
FCR	Convertible debentures (TSX)	11.7	11.7	45	48
Citycon	Shares (HEX)	50.7	36.9	756	1,179
RSC	Income-producing property	-	-	193	-
Gazit Europe	Income-producing property	-	-	184	-
ProMed	Income-producing property	-	-	409	-
Properties in Israel	Income-producing property	-	-	490	-
Other assets, net [3]		-	-	18	-
Total		**-**	**-**	**5,290**	**-**

The Company's net liabilities [4] (including those of its wholly owned subsidiaries) amounted to NIS 3,191 million as of March 31, 2006.

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

2. Additional information is presented below concerning the Company's share in the income-producing property owned by the Group as of March 31, 2006, based on capitalized net operating income ("N.O.I.") methodology. The presentation of this information is intended to provide investors with a further means of pricing the Company's worth, using a methodology that is generally accepted in the regions in which it operates.

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

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

   a. The annual N.O.I. for each of the Group companies based on its quarterly results for the first quarter of 2006.

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

Cap Rate:	**6.25%**	**6.50%**	**6.75%**	**7.00%**
Value of proportionately consolidated income-producing property (NIS in millions)	**14,998**	**14,421**	**13,887**	**13,391**

   The Group's liabilities, net of monetary assets, new properties and properties under development, which have not yet begun to produce income and which are presented at their carrying values in the Company's books (by the proportionate consolidation method) as of March 31, 2006, amounted to NIS 8,881 million.

3. As of March 31, 2006, the Company's issued share capital comprises 101.7 million shares (excluding treasury stock held by the Company).

F. Highlights - First Quarter 2006 (hereinafter – "the reporting period")

- **The Group's investments amounted to NIS 2 billion, compared to NIS 0.5 billion in the same quarter last year.**

  In addition, during the reporting period Citycon invested NIS 475 million in acquiring and developing properties, compared to NIS 6 million in the same quarter last year.

- **Property rental revenue amounted to NIS 661 million, an increase of 31% compared to the same quarter last year. The increase was due to the acquisition of properties, the coming online of properties whose development had been completed and the increase in the average rent per square meter received on the Group's properties.**

- **N.O.I.[1] amounted to NIS 435 million, compared to NIS 340 million in the same quarter last year, an increase of 28%.**

- **Gross profit amounted to NIS 322 million, compared to NIS 259 million for the same quarter last year, an increase of 24%.**

- **Cash inflows from operating activities amounted to NIS 155 million, compared to NIS 140 million for the same quarter last year, an increase of 10%.**

- **F.F.O.[2] amounted to NIS 70 million, NIS 0.70 per share on a fully diluted basis, compared to NIS 54 million, NIS 0.64 per share on a fully diluted basis, for the same quarter last year, an increase of 29%.**

- **The Company, EQY and FCR raised NIS 184 million in share capital from the public in the reporting period, compared to NIS 210 million in the same quarter last year.**

- **The income amounted to NIS 40 million, NIS 0.38 per share on a fully diluted basis, compared to NIS 45 million (which included unusually large capital gains), NIS 0.51 per share on a fully diluted basis, in the same quarter last year[3].**

- **Capital surpluses[4] (included within the line item "shareholders' equity") increased by NIS 44 million (NIS 0.44 per share), compared to a rise of NIS 5 million (NIS 0.06 per share) in the same quarter last year. The increase in the capital surpluses is due to the strengthening of the Canadian dollar, the euro and the U.S. dollar against the shekel (a "devaluation" of the shekel) in the aforesaid periods.**

- **The ratio of debt to total market capitalization stood at 52% as of March 31, 2006, compared to 54.4% as of March 31, 2005.**

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(1) N.O.I. – Property rental revenue, net of property operating expenses.
(2) See section 3E.
(3) After neutralizing the cumulative effect at the beginning of the year of a change in accounting principle, net (Israel Accounting Standard No. 19) in the amount of NIS 56.5 million (see section G below).
(4) Capital surpluses deriving from translation of the financial statements of overseas investee companies operating independently.

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

Israel Accounting Standard No. 19 – "Taxes on Income", published by the Israel Accounting Standards Board (hereinafter – "the Standard"), was approved in July 2004. The Standard prescribes criteria for the recognition, measurement, presentation and disclosure for taxes on income in financial statements. In the first quarter of 2005, the Company included in its statement of income (by means of a non-recurring charge) an expense of NIS 56.5 million in respect of the cumulative effect at the beginning of the year of adopting this Standard. Other than as stated above, the Company does not expect the application of the new Standard to have any further effect on its operating results, its financial position and/or its cash flows.

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

General

During the reporting period, the Group's investments in the acquisition and development of new properties and in the redevelopment, expansion and construction of various other properties totaled NIS 2 billion. The effect of these investments on the operating results will be reflected in full during the remainder of the year.

A. Property Transactions

1. During the reporting period, the Group acquired 11 income-producing properties, with a total G.L.A. of approximately 141 thousand square meters, and 7 plots of land for future development. The total consideration for these acquisitions amounted to 1.8 billion.

2. During the reporting period, the Group invested a total of NIS 0.2 billion in developing new properties and in the redevelopment of existing properties.

3. As of March 31, 2006, EQY has properties being developed that include land for the development of 6 properties on an area of approximately 904 thousand square meters. In addition, EQY is engaged in the redevelopment of 9 properties.

   As of March 31, 2006, FCR has properties being developed that include land for the development of 11 properties on an area of approximately 619 thousand square meters. In addition, FCR is engaged in the development and redevelopment of 9 properties.

   As of March 31, 2006, Gazit Development has 3 plots of land for the development of shopping centers.

The total cost of the properties and land as described above, which are being developed, amounts to approximately NIS 1.1 billion. These properties and land did not generate any property rental revenue during the reporting period.

4. As of the end of the first quarter of 2006, EQY's average basic monthly rental revenue was US$ 9.56 per square meter. During the reporting period, EQY renewed leases on 38 thousand square meters, while increasing the average basic monthly rent on these leases by 5.2% to an average monthly rent of US$ 10.07 per square meter, as well as signing new leases on 25 thousand square meters at an average basic monthly rent of US$ 10.51 per square meter. During the reporting period, leases on 20 thousand square meters expired, on which the average monthly rent was US$ 9.93 per square meter. The net operating income from the same properties increased by 2.3%, compared to the same period last year.

   EQY's core properties had an occupancy rate of 94.4% as of March 31, 2006 (the rate was 94.8% as of March 31, 2005).

5. As of the end of the first quarter of 2006, FCR's average basic monthly rental revenue was C$ 12.30 per square meter. During the reporting period, FCR renewed leases on 26 thousand square meters, while increasing the average basic monthly rent on these leases by 5.5% to an average monthly rent of C$ 11.58 per square meter, as well as signing new leases on 6 thousand square meters at an average basic monthly rent of C$ 16.03 per square meter. During the reporting period, leases on 5 thousand square meters expired, on which the average monthly rent was C$ 13.49 per square meter. Net operating income from same properties increased by 2.3%, compared to the same period last year.

   FCR's properties had an occupancy rate of 94.7% as of March 31, 2006 (the rate was 93.9% as of March 31, 2005).

6. As of March 31, 2006, RSC's properties had an occupancy rate of 93.2% (the rate was 92.9% as of March 31, 2005).

   During the reporting period, RSC acquired 2 plots of land for the construction of additional senior housing communities for a total investment of US$ 8 million.

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

7. In the reporting period, Citycon invested € 85 million (approximately NIS 475 million) in the acquisition of income-producing properties, in increasing its stake in existing shopping centers, and in the redevelopment of income-producing properties.

   As of March 31, 2006, Citycon's properties had an occupancy rate of 96.7% (the rate was 96.4% as of March 31, 2005).

B. As to the closing of ProMed's acquisition of a medical office building, with a multi-story parking garage, located in the state of New Jersey in the United States – see note 3A to the financial statements.

C. As to the exercise of stock options into shares of the Company by Clal Insurance – see note 3B to the financial statements.

D. As to the agreement with Clal Finance Underwriting Ltd. for the receipt of services in relation to raising capital, marketing securities, banking and other areas, in consideration for the grant of non-listed stock options – see note 3C to the financial statements.

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

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

F. As to the replacement of EQY's credit facility – see note 3D to the financial statements.

G. As to the raising of debt and the sale of treasury stock by the Company – see note 3E to the financial statements.

H. As to the issue of debentures by EQY – see note 3F to the financial statements.

I. As to the issue of debentures by FCR – see note 3G to the financial statements.

J. As to the agreement that EQY entered into to establish a joint venture with Investcorp, with regard to 29 properties in Texas – see note 3H to the financial statements.

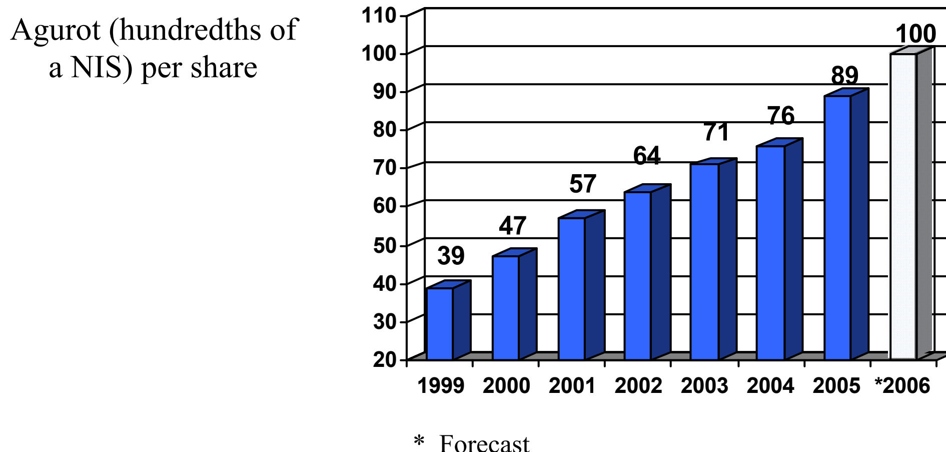
K. As to the closing of an acquisition of a shopping center in Hamburg, Germany – see note 3I to the financial statements.

L. <u>Dividend Distribution Policy</u>

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. In November 2005, the Company decided that the dividend to be declared in 2006 will not be less than NIS 0.25 per share per quarter (NIS 1.00 per share on an annualized basis).

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

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



* Forecast

3. A. Results of Operations

	For the 3 months ended March 31		For the year ended December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands (other than net earnings (loss) per share data)		
Property rental revenue	661,285	503,601	2,195,821
Rental property operating expenses	226,025	163,792	717,762
Rental property depreciation	112,931	80,689	360,800
Gross profit	**322,329**	**259,120**	**1,117,259**
General and administrative expenses	54,820	42,147	(*)189,102
Operating income	**267,509**	**216,973**	**928,157**
Financing expenses, net	171,087	142,951	622,058
	96,422	74,022	306,099
Other income, net	7,726	43,342	122,353
Income before taxes on income	**104,148**	**117,364**	**428,452**
Taxes on income	24,274	22,373	74,545
Income after taxes on income	**79,874**	**94,991**	**353,907**
Equity in earnings of affiliates	37,672	11,419	129,960
Minority interest in earnings of subsidiaries	(77,258)	(61,576)	(*)(295,965)
Net income before cumulative effect	**40,288**	**44,834**	**187,902**
Cumulative effect as of the beginning of the period of change in accounting principle (see section 1G above)	-	(56,525)	(56,525)
Net income	**40,288**	**(11,691)**	**131,377**
Net earnings (loss) per share of NIS 1 par value (in reported NIS)(**)			
Fully diluted earnings per share			
Before cumulative effect	0.38	0.51	2.05
Cumulative effect as of the beginning of the period of change in accounting principle	-	(0.66)	(0.63)
Net earnings (loss)	**0.38**	**(0.15)**	**1.42**
Number of shares on a fully diluted basis used in computing fully diluted earnings per share	**100,722**	**85,479**	**89,791**

(*) Reclassified in accordance with Israel Accounting Standard No. 24 – see note 2D(4) to the financial statements.

(**) Reclassified in accordance with Israel Accounting Standard No. 21 – see note 2D(2) to the financial statements.

B. Analysis of Results of Operations for the First Quarter of 2006

Property rental revenue

The 31% increase compared with the same period last year resulted from the acquisition of new properties, the coming online of properties whose development had been completed, and from the higher average rent per square meter for the Group's properties.

Rental property operating expenses

The increase in rental operating expenses, compared to the same period last year, stems from the increased number of properties, as referred to above. Rental property operating expenses as a percentage of property rental revenue rose to 34.2% from 32.5% for the same period last year. This is mainly due to the relatively greater share in these items that now relates to FCR and RSC, whose operating expenses represent a higher percentage of revenue than EQY's.

Rental property depreciation

The increase in rental property depreciation expenses compared to the same period last year stems from the increased number of properties, as referred to above, as well as from the allocation of certain property costs to the term of the tenants' leases, which is shorter than the lifespan of the properties. Depreciation expenses as a percentage of property rental revenue rose to 17% from 16% for the same period last year.

Gross profit

Gross profit amounted to NIS 322 million (48.7% of property rental revenue); this compares to NIS 259 million (51.5% of property rental revenue) for the same period last year – an increase of 24%. The reduction in gross profit as a percentage of property rental revenue is attributable to the increase in rental property depreciation as a percentage of property rental revenue, and FCR's and RSC's relatively greater share in this item, as explained above.

General and administrative expenses

The increase in general and administrative expenses compared to the same period last year stems from the growth in the Company's and the Group's activities, as referred to above. General and administrative expenses as a percentage of property rental revenue amount to 8.3%, compared to 8.4% in the same period last year.

Financing expenses, net

The change in financing expenses stems from the following factors:

1. An increase in the Group's loans from an average balance of NIS 10.7 billion in the first quarter of 2005 to an average balance of NIS 14.4 billion in the first quarter of 2006. Interest expenses for the quarter reflect an average nominal interest rate of approximately 5.9% per annum on the Group's indebtedness.

2. The financing expenses are after taking into account income of NIS 20 million received by EQY as a result of a dividend distributed by DIM; the financing expenses are also net of income of NIS 12 million from other Group investments, compared to the income of NIS 6.7 million received in the same period last year.

Other income, net

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

The gain resulting from the dilution of holdings in consolidated subsidiaries amounts to a total of NIS 3.3 million (the Company's share being NIS 3 million), compared to the gain of NIS 35.7 million (the Company's share being NIS 35.9 million) in the same period last year.

Additionally, the sale of an income-producing property and a plot of land by EQY produced a net gain for the Group of NIS 3.4 million (the Company's share being NIS 1.1 million), compared to the gain of NIS 7 million (the Company's share being NIS 2.2 million) from the sale of properties in the same period last year.

Equity in earnings of affiliates

The increase in this item is attributable to the Company's equity in the earnings of Citycon in the amount of NIS 37.7 million, compared to NIS 11.4 million in the same period last year.

In the reporting period, Citycon revalued its investments in fixed assets to their fair value, in conformity with International Accounting Standard No. 40, resulting in an appreciation in their gross value of € 15.5 million (approximately NIS 87 million) (the Company's share, net of related taxes, being approximately NIS 24 million).

C. F.F.O. [1] and F.F.O. per share

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

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

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

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

The table below presents the computation of the Company's F.F.O. and F.F.O. per share for the periods stated:

	For the 3 months ended March 31		For the year ended December 31,
	2006	2005	2005
	NIS in thousands (other than F.F.O. per share data)		
Net income	**40,288**	**[1]44,834**	**[1]187,902**
Adjustments to net income:			
Depreciation and amortization[2]	51,239	33,202	153,685
Gains from dilution in holdings of consolidated subsidiaries	(3,017)	(38,798)	(75,264)
Gains from the sale of properties	(608)	(2,154)	(13,782)
Losses of Mishkenot Clal [2]	-	2,866	12,059
Deferred tax expenses	3,999	10,269	22,279
Equity in earnings of affiliates[3]	(37,672)	(11,419)	(129,960)
Equity in F.F.O. of affiliates	14,495	13,439	50,758
Other adjustments [4]	1,557	2,096	9,075
Total adjustments to net income	**29,993**	**9,501**	**28,850**
F.F.O.	**70,281**	**54,335**	**216,752**
Primary F.F.O. per share[5]	**0.70**	**0.64**	**2.43**
Fully diluted F.F.O. per share[5]	**0.70**	**0.64**	**2.41**

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

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

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

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

(5) In conformance with Israel Accounting Standard No. 21, which has been applied for the first time in the first quarter of 2006.

4. <u>Financial Status</u>

Liquidity

The Group has a policy of maintaining a high level of liquidity that enables the pursuit of business opportunities in its areas of operations.

As of March 31, 2006, the liquid assets available to the Group, including short-term investments, totaled NIS 138 million, compared to NIS 351 million as of December 31, 2005. In addition, as of March 31, 2006, the Group had unutilized credit facilities available for immediate drawdown of NIS 1.9 billion, compared to NIS 2.1 billion as of December 31, 2005.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 2 billion.

Current Assets

Current assets, as of March 31, 2006, totaled NIS 1.8 billion, compared to NIS 1.9 billion as of December 31, 2005 and mainly includes rental properties held for disposal in an amount of NIS 1.3 billion (see section 2J above).

Investments in Affiliates

Investments in affiliates, amounting to NIS 765 million as of March 31, 2006, relate primarily to the investment in 50.7 million shares of Citycon; investments in affiliates as of December 31, 2005 amounted to NIS 722 million. During the reporting period, the Company acquired additional Citycon shares at a cost of NIS 7 million.

Long-Term Investments

Long-term investments, as of March 31, 2006, totaled NIS 956 million, compared to NIS 650 million as of December 31, 2005.

The increase in this item is derived primarily from the acquisition of listed shares and debentures in companies active in the Group's areas of activity or in synergetic businesses, in regions where it is already active. Among the investments included in the balance as of March 31, 2006 are an investment in 3.6 million shares of DIM (see note 3K to the financial statements), an investment in the debentures and shares of Winn-Dixie Stores Inc., which is currently subject to a court-ordered stay of proceedings notice within the framework of Chapter 11 proceedings, and also an investment in an income-producing property company, which is listed on the NYSE (see note 4F to the financial statements).

Fixed Assets, Net

Net fixed assets (that include rental properties held for disposal, which are presented among current assets – see section 2J above), as of March 31, 2006, totaled NIS 20.4 billion, compared to NIS 18.3 billion at the end of 2005.

In the reporting period, the Group acquired income–producing properties, developed new properties and redeveloped existing properties at a total cost of NIS 2 billion. In addition, the strengthening of the U.S. dollar and the Canadian dollar against the shekel contributed NIS 0.2 billion to the increase in this item. Depreciation expenses for the reporting period amounted to NIS 113 million.

Current Liabilities

Current liabilities, as of March 31, 2006, mainly comprise the line item "credit from banks and other credit granting institutions", which mainly consist of the current maturities of long-term liabilities in the amount of NIS 1 billion, compared to NIS 1.2 billion at the end of 2005.

The balance of current maturities includes the final settlement of loans, in the amount of NIS 0.4 billion (at the end of 2005 - NIS 0.5 billion), which are secured by a charge on the properties. Based on past experience, the Group usually renews most of these loans by taking new, long-term secured and unsecured loans.

Long-Term Liabilities

Long-term liabilities, as of March 31, 2006 totaled NIS 14.7 billion, compared to NIS 12.3 billion at the end of 2005.

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

Shareholders' Equity

The change in shareholders' equity from NIS 1,908 million as of December 31, 2005 to NIS 2,099 million as of March 31, 2006 stems mainly from the sale of treasury stock to institutional investors amounting to NIS 49 million, from the exercise of stock options into shares amounting to NIS 72 million, from the income for the reporting period amounting to NIS 40 million, and from the increase due to "translation adjustments deriving from translation of the financial statements of FCR, EQY and Citycon" and other capital surpluses amounting to NIS 54 million. These were partly offset by the dividend of NIS 25.4 million declared by the Company.

Shareholders' equity per share as of March 31, 2006 amounted to NIS 20.6 per share, compared to NIS 19.4 per share as of December 31, 2005, this being after a dividend distribution of NIS 0.25 per share during the reporting period.

Ratio of Debt to Total Assets

The ratio of the Group's interest-bearing debt to its gross assets (which includes the accumulated depreciation on the Group's assets) stood at 63.5% as of March 31, 2006, compared to 61.5% and 61.7% as of December 31, 2005 and March 31, 2005, respectively.

The ratio of the Group's interest-bearing debt to total market capitalization stood at 52% as of March 31, 2006, compared to 52.2% and 54.4% as of December 31, 2005 and March 31, 2005, respectively.

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

Cash Flows

Cash inflows from operating activities for the reporting period totaled NIS 155 million, compared to NIS 140 million for the same period last year. The growth in cash inflows from operating activities in the reporting period was due to the continuing improvement in operating income.

In addition, in order to fund the Group's activities during the reporting period, the Company and its consolidated subsidiaries raised capital totaling NIS 184 million and took long-term loans and issued debentures in a net amount of NIS 1,808 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which, net of proceeds from the disposal of fixed assets, totaled NIS 1,936 million in the reporting period, and for further investments in affiliates, listed shares and debentures and long-term investments, in an aggregate net amount of NIS 290 million.

5. **Donations**

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

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

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

During the reporting period, the Group's donations amounted to NIS 855 thousand.

6. Additional Information and Subsequent Events

A. From balance sheet date through to the date of signing the financial statements, the Group invested a total of NIS 0.5 billion in acquiring new properties and land for future development.

B. As to the closing of a sale of 29 of EQY's properties in Texas to a joint venture with Investcorp and the sale of 2 other properties in Texas to third parties - see notes 3H, 4I and 4J to the financial statements.

C. As to the sale of Company shares and stock options for Company shares to institutional and foreign investors, interested parties and the parent company for a total consideration of NIS 325 million - see note 4A to the financial statements.

D. As to the issue of 500 thousand Company stock options, together with a wholly owned subsidiary's debentures with a nominal value of NIS 50 million, to institutional investors – see note 4C to the financial statements.

E. As to the raising of debt by the Company - see note 4B to the financial statements.

F. As to the raising of debt by FCR - see note 4D to the financial statements.

G. As to a rights issue made by Citycon – see note 4E to the financial statements.

7. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's president, and Mr. Gil Kotler, the Company's Chief Financial Officer. Since the publication of the Company's annual report for 2005 on March 20, 2006, there have been no significant changes in the market risks or the way in which they are managed.

Attached as Appendix I is the Company's primary linkage balance sheet as of March 31, 2006.

May 22, 2006		
Date of approval of he Directors' Report	**Chaim Katzman Chairman of the Board of Directors**	**Dori Segal President and Director**

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

Primary Linkage Balance Sheet as of March 31, 2006

	Linked to the consumer price index	In unlinked NIS	In US$ or linked thereto	In C$ or linked thereto	In euros	Unlinked	Total
	Reported NIS in thousands						
Monetary assets							
Cash and cash equivalents	-	6,959	46,858	37,598	848	-	92,263
Short-term investments	-	-	40,647	1,568	-	3,840	46,055
Tenants, accounts receivable and other debit balances	15,885	1,668	116,828	135,735	-	77,120	347,236
Long-term investments	4,517	-	1,852	16,848	-	933,128	956,345
Long-term loans and debit balances	2,561	-	87,450	39,002	-	-	129,013
	22,963	8,627	293,635	230,751	848	1,014,088	1,570,912
Non-monetary assets[1]	-	673,036	10,198,951	9,533,483	763,426	223,844	21,392,740
	22,963	**681,663**	**10,492,586**	**9,764,234**	**764,274**	**1,237,932**	**22,963,652**
Liabilities							
Short-term credit from banks and other credit granting institutions	-	355	83,206	-	43	-	83,604
Trade and other payables and other credit balances	1,170	42,925	186,548	279,730	2,046	31,316	543,735
Debentures	878,985	-	3,531,572	897,533	181,143	-	5,489,233
Convertible debentures redeemable in shares of a consolidated subsidiary	-	-	-	346,202	-	-	346,202
Liabilities to financial institutions and others	17,792	17,527	4,002,875	5,450,670	228,203	-	9,717,067
Deposits from tenants	1,283	-	48,829	19,191	-	-	69,303
Liabilities for employee rights upon retirement	-	164	-	-	-	-	164
Deferred taxes	-	-	-	-	-	97,552	97,552
	899,230	60,971	7,853,030	6,993,326	411,435	128,868	16,346,860
Receipts in respect of conversion options in consolidated subsidiary	-	-	-	10,757	-	-	10,757
Minority interests	-	-	-	-	-	4,507,514	4,507,514
Shareholders' equity	-	-	-	-	-	2,098,521	2,098,521
	899,230	**60,971**	**7,853,030**	**7,004,083**	**411,435**	**6,734,903**	**22,963,652**

[1] Mainly fixed assets, net.

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

UNAUDITED

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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 three months ended March 31, 2006

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of March 31, 2006, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the 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 44.7% of total consolidated assets as of March 31, 2006, and whose revenues constitute approximately 49.7% of total consolidated revenues for the three months then ended.

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
May 22, 2006

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

CONSOLIDATED BALANCE SHEETS

	March 31, 2006	March 31, 2005	December 31, 2005
	Unaudited	Unaudited	Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	92,263	19,488	282,212
Short-term investments	46,055	60,550	68,691
Tenants	134,261	89,355	110,732
Accounts receivable	212,975	152,356	188,952
Rental property held for sale	1,313,566	40,531	1,298,902
	1,799,120	362,280	1,949,489
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	764,807	525,109	721,864
Long-term investments	956,345	344,401	650,056
Long-term loans and receivables	129,013	97,806	116,503
	1,850,165	967,316	1,488,423
FIXED ASSETS:			
Cost	20,215,672	15,927,280	18,071,470
Less - accumulated depreciation	1,125,149	852,624	1,026,204
	19,090,523	15,074,656	17,045,266
OTHER ASSETS AND DEFERRED CHARGES, NET	223,844	276,734	318,546
	22,963,652	16,680,986	20,801,724

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

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	1,085,247	1,335,817	1,291,091
Trade payables	134,926	120,373	207,621
Other accounts payable	383,390	307,665	345,404
Dividend declared	25,419	-	22,610
	1,628,982	1,763,855	1,866,726
LONG-TERM LIABILITIES:			
Debentures	5,245,458	2,629,505	4,176,037
Convertible debentures redeemable into shares of subsidiary	346,202	-	-
Liabilities to financial institutions and others	8,959,199	6,581,971	7,951,227
Tenants' security deposits	69,303	270,540	65,068
Accrued severance pay, net	164	1,116	164
Deferred taxes, net	97,552	60,636	85,981
	14,717,878	9,543,768	12,278,477
CONVERTIBLE DEBENTURES REDEEMABLE INTO SHARES OF SUBSIDIARY	-	218,099	351,827
RECEIPTS FROM CONVERSION OPTION IN SUBSIDIARY	10,757	-	-
MINORITY INTEREST	4,507,514	3,835,805	*) 4,396,438
SHAREHOLDERS' EQUITY	2,098,521	1,319,459	*) 1,908,256
	22,963,652	16,680,986	20,801,724

*) Restated, see Note 2b(4).

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

May 22, 2006			
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 OPERATIONS

	Three months ended March 31,		Year ended December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands (except per share amounts)		
Rental income	661,285	503,601	2,195,821
Rental property operating expenses	226,025	163,792	717,762
Rental property depreciation	112,931	80,689	360,800
Gross profit	322,329	259,120	1,117,259
General and administrative expenses	54,820	42,147	*) 189,102
Operating income	267,509	216,973	928,157
Financial expenses, net	171,087	142,951	622,058
	96,422	74,022	306,099
Other income, net	7,726	43,342	122,353
Income before taxes on income	104,148	117,364	428,452
Taxes on income	24,274	22,373	74,545
Income after taxes on income	79,874	94,991	353,907
Equity in earnings of affiliates	37,672	11,419	129,960
Minority interest in earnings of subsidiaries	(77,258)	(61,576)	*) (295,965)
Income before cumulative effect	40,288	44,834	187,902
Cumulative effect as of the beginning of the period of change in accounting principles	-	(56,525)	(56,525)
Net income (loss)	40,288	(11,691)	131,377
Net earnings (loss) per share (in reported NIS **):			
Basic earnings (loss) per share:			
Before cumulative effect	0.40	0.52	2.12
Cumulative effect as of the beginning of the period of change in accounting principles	-	(0.66)	(0.63)
Net earnings (loss)	0.40	(0.14)	1.49
Diluted earnings (loss) per share:			
Before cumulative effect	0.38	0.51	2.05
Cumulative effect as of the beginning of the period of change in accounting principles	-	(0.66)	(0.63)
Net earnings (loss)	0.38	(0.15)	1.42

***)** Restated, see Note 2b(4).
****)** 2005 - restated, see Note 2b(2).

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended March 31, 2006 (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)	160,781	1,409,685	*) 5,899	257,360	*) 263,089	25,419	(203,159)	(10,818)	1,908,256
Exercise of stock options into shares	2,274	69,883	-	-	-	-	-	-	72,157
Sale of shares held by the Company	-	26,854	-	-	-	-	22,103	-	48,957
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	44,287	-	-	-	-	44,287
Revaluation of derivatives in affiliate to market value	-	-	9,412	-	-	-	-	-	9,412
Net income	-	-	-	-	40,288	-	-	-	40,288
Cost of share-based payment (1)	-	-	498	-	-	-	-	-	498
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	85	85
Revaluation of loans for purchase of shares	-	-	-	-	41	-	-	(41)	-
Dividend declared	-	-	-	-	-	(25,419)	-	-	(25,419)
Dividend declared (2)	-	-	-	-	(27,107)	27,107	-	-	-
Balance at end of period	163,055	1,506,422	15,809	301,647	276,311	27,107	(181,056)	(10,774)	2,098,521

*) Restated, see Note 2b(4).
(1) See Note 2b(4).
(2) See Note 4k.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended March 31, 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	1,793	38,287	-	-	-	-	-	-	40,080
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	5,070	-	-	-	-	5,070
Revaluation of derivatives in affiliate to market value	-	-	669	-	-	-	-	-	669
Net loss	-	-	-	-	(11,691)	-	-	-	(11,691)
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	341	341
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(19)	(19)
Dividend paid	-	-	-	-	(6)	(17,200)	-	-	(17,206)
Dividend declared	-	-	-	-	(19,798)	19,798	-	-	-
Balance at end of period	145,807	961,187	(355)	130,044	188,078	19,798	(116,004)	(9,096)	1,319,459

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31, 2005 (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	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	14,267	330,964	-	-	-	-	(196,782)	-	148,449
Issuance of share capital	2,500	82,500	-	-	-	-	-	-	85,000
Sale of shares held by the Company	-	73,321	-	-	-	-	109,627	(1,775)	181,173
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	631	631
Revaluation of loans for purchase of shares	-	-	-	-	256	-	-	(256)	-
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	132,386	-	-	-	-	132,386
Revaluation of derivatives in affiliate to market value	-	-	5,828	-	-	-	-	-	5,828
Cost of share-based payment	-	-	*) 1,095	-	-	-	-	-	1,095
Net income	-	-	-	-	*) 131,377	-	-	-	131,377
Dividend paid	-	-	-	-	(40,088)	(17,200)	-	-	(57,288)
Dividend declared	-	-	-	-	(22,610)	-	-	-	(22,610)
Dividend declared	-	-	-	-	(25,419)	25,419	-	-	-
Balance at end of year	160,781	1,409,685	5,899	257,360	263,089	25,419	(203,159)	(10,818)	1,908,256

*) Restated, see Note 2b(4).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2006	2005	2005
	Unaudited		Audited
	Reported NIS in thousands		
Cash flows from operating activities:			
Net income (loss)	40,288	(11,691)	*) 131,377
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	114,282	151,628	*) 530,044
Net cash provided by operating activities	154,570	139,937	661,421
Cash flows from investing activities:			
Investment in newly consolidated companies (b)	-	-	58
Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method (c)	-	-	87,454
Investments in fixed assets	(1,965,069)	(453,969)	(2,854,007)
Repayment of loans to partners in property under development, net	13,004	3,497	11,589
Proceeds from sale of fixed assets	29,564	63,015	195,419
Long-term loans granted	-	-	(19,532)
Repayment of long-term loans granted	5,077	57	1,175
Short-term investments, net	1,951	1,858	44,524
Purchase of marketable securities and long-term investments	(348,817)	(142,911)	(808,614)
Investment in investees	(9,742)	-	(104,844)
Proceeds from realization of long-term investments	68,443	13,968	401,331
Withdrawal of long-term deposits	1,039	-	7,058
Net cash used in investing activities	(2,204,550)	(514,485)	(3,038,389)
Cash flows from financing activities:			
Repayment of loans granted for the purchase of Company and subsidiary's shares	85	341	631
Issuance of share capital, net	-	-	85,000
Exercise of stock options into shares	72,157	40,080	148,449
Sale of shares held by the Company	48,957	-	181,173
Issuance of shares to minorities in subsidiaries, net	62,968	169,720	246,686
Dividend paid	(22,610)	(17,206)	(57,288)
Dividend paid to minorities in subsidiary	(103,034)	(80,527)	(376,607)
Receipt of long-term loans	1,057,289	**) 346,928	**) 2,281,265
Repayment of long-term loans	(484,116)	(291,318)	(1,976,536)
Withdrawal (repayment) of long-term credit lines from banks, net	263,279	(130,142)	(345,343)
Redemption and early redemption of debentures	(133,484)	(13,865)	(18,199)
Sale of Company's debentures by subsidiaries	114,911	11,036	277,551
Short-term bank credit, net	(10,871)	(11,553)	47,575
Issuance of debentures	990,479	313,500	2,095,650
Increase (decrease) in tenants' security deposits, net	-	10	(785)
Net cash provided by financing activities	1,856,010	337,004	2,589,222
Effect of exchange rate differences from cash balances of foreign autonomous entities	4,021	4,225	17,151
Increase (decrease) in cash and cash equivalents	(189,949)	(33,319)	229,405
Cash and cash equivalents at beginning of period	282,212	52,807	52,807
Cash and cash equivalents at end of period	92,263	19,488	282,212

*) Restated, see Note 2b(4).
**) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2006	Three months ended March 31, 2005	Year ended December 31, 2005
	Unaudited	Unaudited	Audited
	Reported NIS in thousands		
(a) Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Gain from realization and revaluation of marketable securities, net	(5,058)	(3,975)	(54,895)
Minority interest in earnings of subsidiaries	77,258	61,576	*) 295,965
Gain from realization of investment in jointly controlled entity	-	-	(1,199)
Equity in earnings of affiliates, net of dividend received	2,078	(11,419)	(95,102)
Depreciation	103,782	80,523	350,100
Deferred taxes, net	11,973	64,371	89,153
Gain from early redemption of debentures and convertible debentures	-	-	(1,174)
Adjustment differences on monetary assets and long-term monetary liabilities, net	7,052	(3,620)	24,044
Amortization of other assets and deferred charges	6,077	5,214	14,954
Capital gain	(3,367)	(6,963)	(46,795)
Increase in accrued severance pay, net	-	74	119
Gain from issuance of shares to third party, net	(3,275)	(35,728)	(71,253)
Cost of share-based payment	1,144	-	*) 2,379
Changes in asset and liability items:			
Increase in tenants and accounts receivable	(71,003)	(11,882)	(121,620)
Increase (decrease) in trade payables and other accounts payable	(15,751)	11,547	135,683
Increase in tenants' security deposits, net	3,372	1,910	9,685
	114,282	151,628	530,044

*) Restated, see Note 2b(4).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2006	Three months ended March 31, 2005	Year ended December 31, 2005
	Unaudited	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)
Current liabilities	-	-	35,566
	-	-	26,820
Fixed assets, long-term investments and loans (mainly real estate)	-	-	(223,888)
Other assets	-	-	(1,237)
Long-term liabilities	-	-	198,782
Minority interest	-	-	(419)
	-	-	(26,762)
	-	-	58
(c) Proceeds from realization of investment in jointly controlled entity which was previously included by the proportionate consolidation method:			
The jointly controlled entity's assets and liabilities at date of realization:			
Current assets	-	-	1,926
Current liabilities	-	-	(38,868)
	-	-	(36,942)
Fixed assets, long-term investments and loans (mainly real estate)	-	-	348,274
Other assets	-	-	22,500
Long-term liabilities	-	-	(251,536)
Minority interest	-	-	3,960
	-	-	123,198
Capital gain from realization of investment in jointly controlled entity	-	-	1,198
	-	-	87,454
(d) Significant non-cash operations:			
Conversion of convertible debentures into subsidiary's shares	-	260,600	492,782
Dividend declared	25,419	-	22,610
Sale of treasury shares to employees against long-term loans	-	-	1,775

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 March 31, 2006, and for the 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, 2005 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 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 new Accounting Standards:

1. Initial adoption of Accounting Standard No. 20 (Revised) regarding the accounting for goodwill and intangible assets upon acquisition of investee:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 20 (Revised), "Accounting for Goodwill and Intangible Assets upon Acquisition of Investee" ("the Standard"), of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment of goodwill and intangible assets upon the acquisition of a subsidiary and an investee which is not a subsidiary, including a company under joint control. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: allocating the excess of cost of an investment in an investee also to the investee's identifiable intangible assets; distinguishing between intangible assets with a finite useful life and intangible assets with an indefinite useful life; immediate recognition as a gain in the statement of income of the balance of negative goodwill arising upon acquisition and remaining after deduction from the cost of the investee's intangible assets and non-monetary assets; the discontinuance of the systematic amortization of goodwill and intangible assets with an indefinite useful life; assessment for impairment of goodwill in respect of a subsidiary or jointly controlled company and of intangible assets with an indefinite useful life on an annual basis, or more frequently, if there are indications of impairment; distinguishing between goodwill relating to the acquisition of a subsidiary and a jointly controlled company as opposed to that of an affiliate in respect of the assessment of impairment, such that impairment of goodwill for an affiliate is evaluated in the context of the assessment of impairment of the investment as a whole. Impairment is accounted for in accordance with Accounting Standard No. 15, "Impairment of Assets".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard:

The Company discontinued the systematic amortization of goodwill which amounted to approximately NIS 902 thousand and NIS 3,403 thousand for the three months ended March 31, 2005, and for the year ended December 31, 2005, respectively (the effect on the Company's net income for the three months ended March 31, 2005 and for the year ended December 31, 2005 amounted to approximately NIS 398 thousand and NIS 1,328 thousand, respectively). The balance of goodwill as of January 1, 2006 is NIS 42,652 thousand.

2. Initial adoption of Accounting Standard No. 21 regarding earnings per share:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 21, "Earnings per Share" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for the computation and presentation of earnings (loss) per share in the financial statements and supersedes Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

According to the Standard, earnings per share are computed based on the number of ordinary shares (and not per NIS 1 par value of the shares as computed until the effective date). Basic earnings per share include only shares which are outstanding during the period whereas convertible securities (such as convertible debentures and options) are only included in the computation of diluted earnings per share, in contrast to the principles applied until the effective date according to which in cases where a convertible security is likely to be converted, it is included in the computation of basic earnings per share. In addition, convertible securities which are converted during the period, are included in diluted earnings per share up to the date of conversion and are included in basic earnings per share from that date. Pursuant to the Standard, options are included in diluted earnings when their exercise results in the issuance of shares for a consideration which is less than the market price of the shares. The amount of dilution is the market price of the shares minus the amount that would have been received as a result of the conversion of the options into shares. This is in contrast to the method of computation prescribed by Opinion No. 55, which also included adjustments to earnings.

The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a result of the initial adoption of the provisions of the Standard, the comparative data of earnings (loss) per share relating to previous periods have been restated as follows:

	Three months ended March 31, 2005		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Basic loss per share:			
Before cumulative effect	0.52	-	0.52
Cumulative effect as of the beginning of the period of change in accounting principles	(0.63)	(0.03)	(0.66)
	(0.11)	(0.03)	(0.14)

	Year ended December 31, 2005		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Basic earnings (loss) per share:			
Before cumulative effect	2.13	(0.01)	2.12
Cumulative effect as of the beginning of the period of change in accounting principles	(0.60)	(0.03)	(0.63)
	1.53	(0.04)	1.49

The comparative data of diluted earnings (loss) per share for previous periods are presented in these financial statements for the first time.

3. Initial adoption of Accounting Standard No. 22 regarding financial instruments: disclosure and presentation:

On January 1, 2006 ("the effective date"), the Company adopted the provisions of Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes principles for the presentation and disclosure of financial instruments and supersedes Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel. In accordance with the provisions, the Standard is being applied prospectively and comparative data have not been restated or reclassified.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2006 are: transaction costs in respect of a financial liability are deducted from the liability and are taken into account in the computation of the effective interest rate; upon the issuance of several types of financial instruments in a single unit (shares, debentures and warrants), the components of the unit, including related transaction costs, are classified separately upon initial recognition into the various financial instruments based on their fair value; compound financial instruments that include both a liability and an equity component (such as convertible debentures) are bifurcated between the equity component (receipts from conversion option) and the liability component and each component is classified separately (net of transaction costs attributed to the different components).

The Standard supersedes the provisions of Opinions No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which in certain circumstances, an investor was required to record a provision for a loss resulting from a decrease in its holdings in an investee, due to the probable conversion of convertible instruments issued by the investee ("loss provision").

As a result of the initial adoption of the provisions of the Standard:

a) On January 1, 2006, the Company recorded the equity component of debentures in a subsidiary as "receipts from conversion option in subsidiary" thereby increasing said item and reducing convertible debentures redeemable into shares of subsidiary in the amount of approximately NIS 10,757 thousand.

b) Transaction costs in respect of a financial liability are deducted from the liability and taken into account in the computation of the effective interest rate. The balance of issuance expenses, amounting to NIS 80 million as of December 31, 2005, in respect of financial liabilities, was offset on January 1, 2006, from the balance of the financial liabilities as presented in the balance sheet as of December 31, 2005.

4. Initial adoption of Accounting Standard No. 24 regarding share-based payment:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 24, "Share-Based Payment" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes rules for measurement and other requirements for three types of share-based transactions:

a) Equity-settled share-based payment transactions;
b) Cash-settled share-based payment transactions;
c) Share-based payment transactions which allow the entity or counterparty to choose the manner of settlement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For equity-settled share-based payment transactions, the Standard is applicable to grants made subsequent to March 15, 2005, and which had not yet vested as of January 1, 2006. The Standard is also applicable to modifications that were made to the terms of equity-settled transactions subsequent to March 15, 2005, even if the modifications relate to grants that were made before this date. In the financial statements for 2006, comparative data in the financial statements for 2005 are to be restated in order to reflect the expense relating to the aforementioned grants.

The Standard applies to all transactions in which a share-based payment is made in respect of purchase of goods or services, including transactions with employees or other parties that must be settled using the Company's equity instruments or in cash. Concurrently with the recording of an expense in the statement of income, shareholders' equity is increased when the share-based payment transaction is settled in equity instruments, or a liability is recorded when the transaction is settled in cash.

As a result of the initial adoption of the provisions of the Standard:

a) The Company recorded for the three months ended March 31, 2006, an expense in the statement of operations, a loss of approximately NIS 775 thousand and a corresponding increase in shareholders' equity (capital reserves) in the amount of approximately NIS 498 thousand and an increase in minority interest of approximately NIS 277 thousand in respect of options to employees and directors in the Company and subsidiaries.

b) The Company restated its financial statements for the three months ended March 31, 2005, and for the year ended December 31, 2005, in order to retroactively reflect the effect of the change in accounting treatment of share-based payment transactions with employees or other parties, to be settled using the Company's and subsidiaries' equity instruments, and which had been granted subsequent to March 15, 2005 and had not vested as of December 31, 2005 or which had been granted prior to March 15, 2005 but whose terms were subsequently modified.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following is the effect of the changes on the financial statements:

Balance sheet:

	December 31, 2005 (audited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
Capital reserves	4,804	1,095	5,899
Shareholders' equity	1,908,788	(532)	1,908,256
Retained earnings	264,716	(1,627)	263,089
Minority interest	4,395,906	532	4,396,438

Statement of operations:

	Year ended December 31, 2005 (audited)		
	As previously reported	The change	As presented in these financial statements
	Reported NIS in thousands		
General and administrative expenses	186,723	2,379	189,102
Income before taxes on income	430,831	(2,379)	428,452
Minority interest in earnings of subsidiaries	(296,717)	752	(295,965)
Net income	133,004	(1,627)	131,377

5. Initial adoption of Accounting Standard No. 25 regarding revenues:

On January 1, 2006, the Company adopted the provisions of Accounting Standard No. 25, "Revenues" ("the Standard") of the Israel Accounting Standards Board. The Standard deals with the recognition of revenue from three types of transactions: sale of goods, rendering of services and revenue from interest, royalties and dividends and prescribes the required accounting treatment (principles of recognition, measurement, presentation and disclosure) regarding these three types of transactions.

The initial adoption of the Standard had no material effect on the interim financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

As of:	Representative exchange rate of US$	Representative exchange rate of €	Israeli CPI
	N I S		Points *)
March 31, 2006	4.665	5.662	186.1
March 31, 2005	4.361	5.6488	179.7
December 31, 2005	4.603	5.4465	185.1
		%	
Change during the period:			
March 2006 (3 months)	1.3	3.9	0.6
March 2005 (3 months)	1.2	(3.9)	(0.6)
December 2005 (12 months)	6.8	(7.3)	2.4

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

NOTE 3:- ADDITIONAL INFORMATION

a. In February 2006, ProMed completed the acquisition of a medical office building including a multi-story parking lot situated in the district hospital campus in the State of New Jersey, U.S.

The built area includes a gross 24,000 sq.m. for lease and about 1,700 roofed parking spaces and is leased in full to the hospital. The acquisition was carried out by way of purchasing the property's leasehold rights until 2041. The overall cost of acquisition amounted to approximately U.S. $ 88 million (approximately NIS 415 million) whereby about 30% was financed by the Company's independent sources and the remainder was financed by assigning the loan that had been granted in respect of the built area from the sellers to the Company.

In November 2005, the date on which the Company entered into the contingent agreement for the acquisition of said property, the Company announced that its Board had approved, in addition to the purchase of the medical office building as above, an initial budget of U.S. $ 300 million (approximately NIS 1.4 billion) for additional investments in the area and that it intends to examine the acquisition and/or establishment of additional properties in the U.S.

b. In January 2006, entities controlled by Clal Insurance Holdings Ltd. ("Clal Insurance") exercised the remaining non-marketable stock options which had been allocated to them in February 2005 into approximately 2.3 million Company shares for an aggregate consideration of approximately NIS 72 million. On the same date, Clal Insurance announced that it had become an interested party in the Company with a 6% interest.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

c. In January 2006, the Company entered into an agreement with Clal Finances Underwriters Ltd., controlled by Clal Insurance, for a period of one year, for receiving consulting services in matters of capital raising, marketing securities and other banking and investment-related services in consideration of the allocation of 300 thousand non-marketable stock options, convertible into the Company's shares. Should the stock options be exercised into shares, as above, Clal Insurance will have a 6.2% interest in the Company.

d. In January 2006, EQY signed a new agreement for receiving a non-secured credit line amounting to U.S. $ 275 million (approximately NIS 1.3 billion) from a consortium of banks and financial institutions managed by Wells Fargo Bank. The credit line is for a period of three years and is renewable from time to time. The credit line replaces EQY's former credit line.

e. In January through March 2006, a wholly-owned subsidiary of the Company sold approximately NIS 106 million par value of debentures (series B) in consideration of approximately NIS 113 million and approximately NIS 2.3 million par value of debentures (series C) in consideration of approximately NIS 2.5 million. Furthermore, in March 2006, the Company sold 1,100 thousand dormant shares to institutional entities for an aggregate consideration of approximately NIS 49 million.

f. In March 2006, EQY issued a series of debentures with an overall scope of U.S $ 125 million (approximately NIS 588 million). The debentures are non-secured, bear fixed interest of 6% and are redeemable in one installment in September 2016. The debentures were ranked as Baa3 (Positive outlook) by Moody's and as BBB (Positive outlook) by Standard & Poor's.

g. On March 24, 2006, FCR entered into an agreement with a group of underwriters headed by RBC Dominion Securities Inc. for the sale of Can $ 100 million (approximately NIS 400 million) in debentures (series B), which are non-secured and bear an annual interest rate of 5.25%. The debentures will be redeemed on March 30, 2011.

h. On March 27, 2006, EQY entered into an agreement whereby it will establish a joint venture with Investcorp, an international investment fund which manages a U.S. $ 2.3 billion portfolio. The joint venture shall purchase EQY's rights in 29 out of 32 properties it owns in the State of Texas with an area covering some 260 thousand sq.m. Investcorp will hold 80% of the rights to the joint venture and EQY will hold the remaining 20% and also manage the joint venture for the next 15 years. The value of said properties was set at U.S. $ 388 million (approximately NIS 1.8 billion). The net proceeds EQY is expected to receive in respect of said transaction amount to approximately U.S. $ 310 million (approximately NIS 1.4 billion) and it will record a gain of approximately U.S. $ 90 million (approximately NIS 420 million). The Company's share in the pre-tax gain is expected to reach approximately NIS 122 million. The transaction was finalized on April 25, 2006 and will be included in the financial statements for the second quarter of 2006.

   On May 12, 2006, following the completion of the transaction, EQY announced that it will be distributing a special dividend to its shareholders in the amount of U.S. $ 1 (approximately NIS 4.7) per share.

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

i. On March 28, 2006, a wholly-owned subsidiary of the Company completed the acquisition of a commercial center in Hamburg, Germany with a total rental area of about 12,250 sq.m. for an overall cost of approximately € 33 million (approximately NIS 185 million) which was financed by the Company's independent sources.

j. As of March 31, 2006, EQY holds, directly and indirectly, about 3.6 million shares of DIM, a publicly-traded company incorporated in the Netherlands whose shares are traded on the Euronext Amsterdam Stock Exchange, which represented 46.4% of DIM's share capital (the total investment in DIM constitutes less than 2% of the Company's consolidated balance sheet). DIM owns 19 commercial centers in the southeast of the U.S. with an area of some 250 thousand sq.m. EQY also committed to purchase another 45 thousand DIM shares in consideration of U.S. $ 941 thousand (approximately NIS 4.4 million) in September 2007.

As of March 31, 2006, the investment in DIM is presented at cost since EQY has no significant influence over DIM due to its inability to nominate directors in DIM.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In May 2006, the Company sold about 3.6 million dormant shares to institutional and foreign entities and to interested parties for a total consideration of approximately NIS 175 million (simultaneously with the allocation of about 1.2 million non-marketable stock options at no consideration).

The Company also sold about 3.1 million dormant shares to the parent company for a total consideration of approximately NIS 150 million (simultaneously with the allocation of about 1 million non-marketable stock options at no consideration).

Each stock option mentioned in this item is exercisable into one share for an exercise increment of NIS 54 linkage to the Israeli CPI and subject to adjustments. The exercise period of the stock options expires on May 8, 2007.

b. In April 2006, a wholly-owned subsidiary of the Company sold approximately NIS 178 million par value of debentures (series C) in consideration of approximately NIS 188 million and also allocated NIS 45 million par value of debentures (series A) by way of series extension in consideration of approximately NIS 44.2 million.

c. In April 2006, the Company entered into agreements whereby it will allocate, at no consideration, a total of 500 thousand non-marketable stock options to institutional entities of the Bank Hapoalim Ltd. group. Each stock option as above will be exercisable into one Ordinary share of the Company by March 31, 2008. Stock options which are exercised by March 31, 2007 will bear an exercise increment of NIS 50.5, linked to the Israeli CPI, and subsequent to that date will bear an exercise increment of NIS 54.5, linked to the Israeli CPI.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

Simultaneously with the closing of the option agreement, as above, an American wholly-owned subsidiary of the Company entered into another agreement with the optionees whereby it will allocate to them non-marketable debentures with an aggregate scope of NIS 50 million par value in consideration of their par value .The debentures bear annual interest of 4.57% paid semi-annually and the principal payments will be made in equal portions in each of the years 2013 through 2015. The principal and interest are linked to the Israeli CPI. The Company has provided a full guarantee for the subsidiary's debenture obligations.

d. In April 2006, FCR entered into an agreement with a group of underwriters for raising approximately Can $ 26 million (approximately NIS 105 million) through the allocation of one million Ordinary shares of FCR for a price of Can $ 25.75 (approximately NIS 99.5) per share. The underwriters exercised an option for the purchase of an additional 135,000 shares for the issuance price. Following said allocation, the Company is expected to record a capital gain of approximately NIS 25 million.

e. In April 2006, CITYCON issued about 27 million shares by way of issuance of rights for a total consideration of approximately € 75 million (approximately NIS 425 million) (about 99.4% of the shareholders responded to the issuance of rights). The Company acquired bout 10 million shares in the context of the issuance for an investment of approximately € 27.9 million (approximately NIS 158 million).

f. The balance of long-term investments as of March 31, 2006 includes a long-term investment in an income-producing real estate company traded on the NYSE for approximately NIS 364 million. As of the date of signing the financial statements, the Company's share price is 15% lower than the cost in the books. According to the Company's estimate, based on tests and analyses, the decrease in share value does not reflect its fair value and is, therefore, temporary.

Furthermore, up to the date of signing the financial statements, the Company increased its holding in that company by an additional investment of approximately NIS 60 million.

g. In the context of entering into investments in acquisitions, management and development of commercial centers in Israel, in May 2006, the Company signed a series of agreements with Mr. Ronen Ashkenazi and a company under his control ("the Ashkenazi company") whereby the Company and the Ashkenazi company will hold Gazit Development at rates of 85% and 25%, respectively. In addition, the Ashkenazi company was allocated about 1.3 million stock options, exercisable for a period of ten years into about 1.3 million shares of Gazit Development for a price per share identical to the original investment price such that after the exercise of the stock options, the Ashkenazi company's holdings in Gazit Development will increase to about 25%.

The Company has undertaken to invest approximately U.S. $ 85 million (approximately NIS 397 million) against placing shareholders' loans to Gazit Development (subordinate to loans from third parties). A management agreement was also signed between Gazit Development and the Ashkenazi company whereby Mr. Ronen Ahkenazi will provide management services to Gazit Development for a period of five years.

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

The board of directors of Gazit Development will include between three to five members to be determined by the Company and the Ashkenazi company will be entitled to nominate one member. Certain decisions of the general meeting of Gazit Development's shareholders and board will be passed by a special vote of 86%.

h. In April 2006, the VAT Authorities dismissed the Company's principal claims in its objection to the VAT assessments received for 2003 and 2004 and for part of 2002 and 2005. Notwithstanding, the Company's claims regarding technical errors committed in determining the amount of the assessments were accepted. As a result, the assessment deduction limit was written down to approximately NIS 3.5 million. The Company appealed the above decision of the VAT Authorities.

The Company, based, among other things, on the opinion of its legal counsel, believes that it has arguments to support its position that the assessments, their calculation and reasoning do not coincide with the Company's nature of operation and consequently provide no grounds for limiting the Company's assessment deduction. The Company did not include a provision in respect of the above in its financial statements.

i. On April 25, 2006, EQY announced that it had completed the sale of 29 properties in Texas owned by it to the joint venture with Invescorp (see Note 3h above) and will recognize a gain of approximately U.S. $ 90 million (approximately NIS 420 million) in the second quarter of 2006. The Company's share in the pre-tax gain is approximately NIS 122 million.

j. In May 2006, EQY announced the sale of two properties in Texas to third parties in consideration of approximately U.S. $ 15.3 million (approximately NIS 71 million) and it is expected to record a gain of approximately U.S. $ 6.7 million (approximately NIS 31 million). The Company's share in the pre-tax gain is approximately NIS 7.5 million.

k. In May 2006, the Company declared a dividend of NIS 0.25 per share to be paid in July 2006. The record date is June 19, 2006.

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Three months ended March 31, 2006 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	335,532	315,197	10,556	661,285
Segment results	179,121	138,333	4,875	322,329

	Three months ended March 31, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	281,779	214,190	7,632	503,601
Segment results	159,853	99,211	56	259,120

	Year ended December 31, 2005 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	1,184,546	984,454	26,821	2,195,821
Segment results	650,261	461,993	5,005	1,117,259

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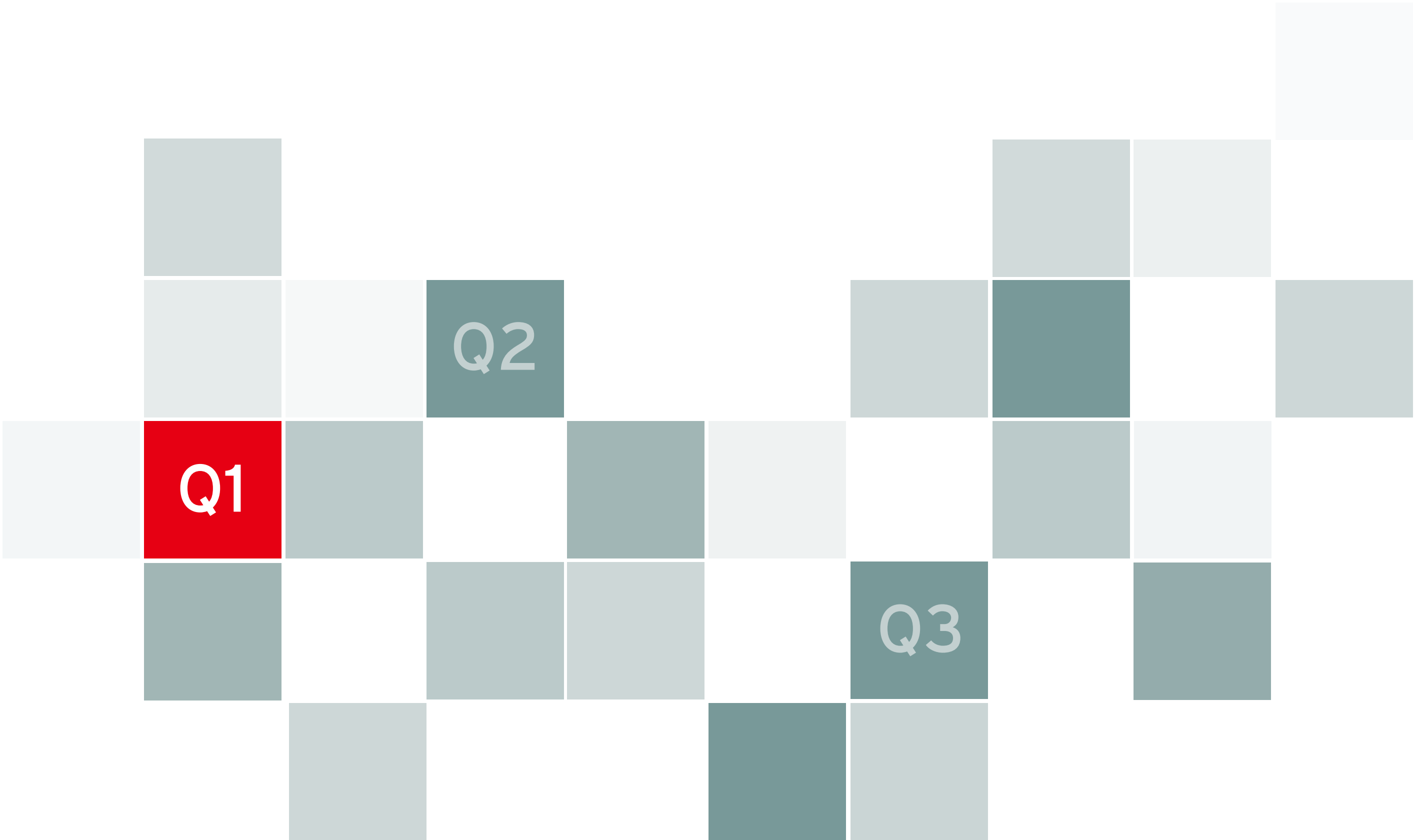

CITYCON

Citycon's Interim Report 1 January-31 March 2006

Summary

- Turnover improved to EUR 27.3 million (Q1/2005: EUR 21.2 million).
- Profit before taxes came to EUR 24.9 million (EUR 7.8 million), including EUR 15.5 million valuation gains (EUR 0.0 million)
- Profit before taxes without the valuation items increased to EUR 9.4 million (EUR 7.8 million)
- Earnings per share were EUR 0.13 (EUR 0.05), earnings per share without the valuation items and the related tax impact was EUR 0.05 per share (EUR 0.05)
- Net cash from operating activities per share amounted to EUR 0.11 (EUR 0.11)
- The most significant acquisitions in Finland were the Tullintori shopping centre in Tampere and Myyrmanni in Vantaa, the latter becoming fully owned by Citycon
- In Sweden, Citycon acquired five retail centre properties in the Greater Gothenburg Area
- The company decided in March to raise EUR 75.0 million equity through a rights issue in April

Key figures and ratios

	1-3 2006	1-3 2005	1-12 2005
Turnover, EUR million	27.3	21.2	92.2
Operating profit, EUR million	31.9	14.2	105.2
% of turnover	117.0	67.2	114.1
Profit before taxes, EUR million	24.9	7.8	74.2
Profit for the period, EUR million	18.9	5.9	59.8
Fair market value of investment properties, EUR million	1,057.6	736.4	956.6
Earnings per share (basic), EUR	0.13	0.05	0.49
Earnings per share (diluted), EUR	0.13	0.05	0.49
Earnings per share (basic), without the effects of change in fair values, EUR	0.05	0.05	0.21
Net cash from operating activities per share, EUR	0.11	0.11	0.21
Equity per share, EUR	2.63	2.17	2.60
P/E (price / earnings) ratio	8	12	6
Return on equity (ROE), %	20.9	9.6	22.5
Return on investment (ROI), %	12.4	7.6	13.5
Equity ratio, %	33.8	31.7	36.7
Gearing, %	178.9	198.8	156.8
Net rental yield, %	8.2	8.7	8.4
Occupancy rate, %	96.7	96.4	97.2
Personnel at the end of the period	59	45	57

Business Environment

During the report period, despite toughening competition, the market for the shopping-centre property business remained favourable, with international investors showing a keen interest in Nordic retail properties. Finnish retail sales continued to grow despite lower consumer confidence in March. Demand for retail premises was still active and occupancy rates remained high, these favourable developments being encouraged by low inflation. The slight growth in interest rates did not have any major effect on the market situation.

Financial Performance

Citycon improved its reported turnover by 28.3 per cent, to EUR 27.3 million (EUR 21.2 million), due mainly to property investments made in Finland, Sweden and Estonia in 2005 and 2006.

Profit before taxes rose by 217.7 per cent, to EUR 24.9 million (EUR 7.8 million), including EUR 28.3 million in fair-value increase in investment properties and EUR 12.8 million in fair-value decrease in investment properties. Earnings per share came to EUR 0.13 (EUR 0.05). Earnings per share, excluding items due to changes in fair value, amounted to EUR 0.05 (EUR 0.05).

Property Portfolio in Summary

Citycon engages in the retail-property business throughout the ownership chain, i.e. development, ownership, leasing and management of properties. Citycon operates through the following three divisions: Shopping Centres, Supermarkets and Shops, and Property Development.

At the end of the report period, the company owned 28 (16) shopping and retail centres and 127 (128) supermarkets and shops. On 31 March 2006, the market value of the company's property portfolio totalled EUR 1,057.6 million, of which shopping and retail centres accounted for 69.1 per cent (60.8 per cent) and supermarkets and shops 30.9 per cent(39.2). Finland, Sweden and Estonia account for 83.8 per cent, 10.4 per cent and 5.8 per cent of the company's property portfolio, respectively, based on fair values.

In February, Citycon announced that it considers selling some 75 non-core properties, due to market conditions and interest shown by property investors. All these properties, with their combined area of around 96,000 sq.m., are located in Finland. The company plans to carry out the deal during the first half of 2006.

Changes in Property Portfolio Fair Value

Citycon applies the fair-value model in the measurement of its investment properties under IAS 40, whereby changes in fair value are recognised through profit or loss. The most recent valuation statement, dated 18 April 2006, on the Citycon property portfolio's March-end status, based on an appraisal by Aberdeen Property Investors Finland Oy, is available on the company's website at www.citycon.fi. More detailed information on this valuation method is available in Citycon's Annual Report 2005, page 14.

During the reporting period, the fair value of Citycon's property portfolio rose by EUR 15.5 million, due to changes in general market conditions and the leasing business. The report period saw a total value increase of EUR 28.3 million and a total value decrease of EUR 12.8 million.

Lease Portfolio and Occupancy Rate

At the end of the period, Citycon had a total of 2,327 leases concluded with 1,414 lessees and the occupancy rate for the company's property portfolio stood at 96.7 per cent (96.4 per cent) with a net yield of 8.2 per cent (8.7 per cent).

First-quarter net rental income increased by 26.5 per cent, to EUR 19.5 million.

Lease portfolio summary

	1-3 2006	1-3 2005	1-12 2005
Number of leases started during the period	122	77	298
Total area of leases started, sq.m.	39,465	19,684	51,476
Occupancy rate at end of the period, %	96.7%	96,4%	97.2%
Average length of lease portfolio at the end of the period, year	3.0	3.6	3.2

Shopping Centres

Citycon leads the Finnish shopping centre business. The company's net rental income from shopping centres improved by 42.6 per cent, to EUR 13.1 million. Shopping centres accounted for 67.4 per cent of Citycon's net rental income.

Key figures: Shopping Centres

Lease portfolio summary

	1-3 2006	1-3 2005	1-12 2005
Number of leases started during the period	93	56	233
Total area of leases started, sq.m.	16,293	6,051	29,160
Occupancy rate at end of the period, %	97.3%	97.0%	98.0%
Average length of lease portfolio at the end of the period, year	2.4	2.7	2.6

Financial performance, Shopping Centres

	1-3 2006	1-3 2005	1-12 2005
Turnover, EUR million	18.4	12.7	57.4
Change in value of investment property, EUR million	10.2	-	22.1
Operating profit, EUR million	22.3	9.1	61.2
Gross rental income, EUR million	18.3	12.4	56.1
Net rental income, EUR million	13.1	9.2	40.6
Net rental yield, %	8.0	8.2	8.2
Net rental yield, like-for-like properties, %	8.1	8.4	8.3
Market value of property portfolio, EUR million	730.4	447.4	636.7
Capital expenditure, EUR million	83.8	0.8	174.9

The calculation method for net income is based on the guidelines of the KTI Institute for Real Estate Economics and the IPD Investment Property Databank. Like-for-like properties refer to properties held by Citycon through the 12-month reference period. Properties under development and expansion as well as lots are eliminated from the figures.

Capital expenditure and development projects

The Shopping Centres division's largest first-quarter investments included the acquisition of retail centres in Lindome, Backa, Hindås, Landvetter and Floda in the Greater Gothenburg Area, Sweden, the related capital expenditure totalling EUR 33.4 million. As a result, the Greater Gothenburg Area became Citycon's third foreign operating region in addition to the Stockholm Metropolitan Area and Tallinn.

In Finland, the most sizeable investments included the Myyrmanni shopping centre in Vantaa becoming wholly owned by Citycon, the acquisition of the Tullintori shopping centre in the heart of Tampere and the purchase of the Valtari shopping centre in Kouvola.

Supermarkets and Shops

Specialising in the development, lease and management of supermarket and other retail-outlet properties, the Supermarkets and Shops division reported a 2.7 per cent improvement in net rental income, to EUR 6.4 million.

Key figures: Supermarkets and Shops

Lease portfolio summary

	1-3 2006	1-3 2005	1-12 2005
Number of leases started during the period	29	21	65
Total area of leases started, sq.m.	23,172	13,633	22,316
Occupancy rate at end of the period, %	95.5%	95.7%	95.8%
Average length of lease portfolio at the end of the period, year	4.3	4.8	4.2

Financial performance, Supremarkets and Shops

	1-3 2006	1-3 2005	1-12 2005
Turnover, EUR million	8.9	8.5	34.8
Change in value of investment property, EUR million	5.3	-	23.8
Operating profit, EUR million	11.6	6.7	49.6
Gross rental income, EUR million	8.9	8.5	34.7
Net rental income, EUR million	6.4	6.2	25.3
Net rental yield, %	8.7	9.6	8.9
Net rental yield, like-for-like properties, %	8.9	9.7	9.0
Market value of property portfolio, EUR million	327.2	289.0	320.0
Capital expenditure, EUR million	0.7	0.3	3.6

The calculation method for net income is based on the guidelines of the KTI Institute for Real Estate Economics and the IPD Investment Property Databank. Like-for-like properties refer to properties held by Citycon through the 12-month reference period. Properties under development and expansion as well as lots are eliminated from the figures.

Citycon is considering selling some 75 non-core properties within its Supermarkets and Shops division, these properties accounting for roughly 35 per cent of the division's gross leasable area.

Property Development

The Property Development division's mission is to develop and extend Citycon's existing and new retail sites together with the company's other divisions. The division is also responsible for commissioning the construction of new retail sites. The division's key figures are not reported separately because it has no property portfolio or rental income.

The division's largest-scale projects underway during the report period included the extension and refurbishment of the Hervanta shopping centre in Tampere and Lippulaiva in Espoo.

Human Resources

On 31 March 2006, Citycon Group had a total of 59 (45) employees, 52 of whom worked in Finland and 7 in Estonia.

Turnover and Profit

Turnover for the period came to EUR 27.3 million (EUR 21.2 million), of which gross rental income accounted for 99.6 per cent (98.6 per cent). Operating profit rose to EUR 31.9 million (EUR 14.2 million). Profit before taxes amounted to EUR 24.9 million (EUR 7.8 million) and after taxes EUR 18.9 million (EUR 5.9 million). The effect of changes in the property portfolio's fair value and the related tax impact on the reported profit was EUR 11.0 million. The reported profit after taxes is EUR 1.3 million above the Q1/2005 level, taking into account the changes in the property portfolio's fair value and its related tax impact.

Capital Expenditure

Citycon's gross capital expenditure totalled EUR 84.5 million (EUR 1.1 million), of which property acquisitions and property development accounted for EUR 79.5 million (EUR 0.0 million) and EUR 5.0 million (EUR 1.1 million), respectively.

Balance Sheet and Financial Position

The period-end balance sheet total stood at EUR 1,077.8 million (EUR 769.4 million), of which cash and cash equivalents accounted for EUR 12.3 million (EUR 23.1 million). The Group's financial position remained at a healthy level.

On 31 March 2006, Group liabilities totalled EUR 713.2 million (EUR 525.6 million), short-term liabilities accounting for EUR 134.8 million (EUR 32.4 million).

Interest-bearing liabilities increased by EUR 156.7 million, to EUR 664.6 million (EUR 507.9 million), their interest rate averaging 4.4 per cent (5.2 per cent). The average loan maturity, weighted according to loan principals, was 2.6 years (3.3 years) while the average interest-bearing period was 2.1 years (3.4 years).

The Group's equity ratio was 33.8 per cent (31.7 per cent). Interest cover, or the previous 12 months' profit before interest expenses, taxes and depreciation relative to net financial expenses, was 2.3. Period-end gearing stood at 178.9 per cent (198.8 per cent).

Citycon's period-end interest-bearing liabilities included 89.2 per cent (86.0 per cent) of floating-rate loans, of which 56.7 per cent (80.6 per cent) had been converted into fixed rate ones, based on interest-rate swaps. The overall hedging rate of the loan portfolio was 50.6 per cent. On 31 March 2006, the nominal value of interest-rate swaps totalled EUR 376.5 million (EUR 339.4 million) while the market value of derivatives came to EUR -9.4 million (EUR -19.3 million).

Net financial expenses totalled EUR 7.0 (EUR 6.4 million). The increase in net financial expenses was mainly caused by the higher net interest bearing debt.

Commercial paper programme

In February 2006, Citycon signed a new commercial paper programme worth EUR 100 million, replacing its previous commercial paper programmes valued at EUR 60 million.

Rights issue

On 24 March 2006, Citycon's Board of Directors made a decision on a EUR 75-million-worth rights issue, as authorised by the Annual General Meeting on 14 March 2006. Accordingly, a total of 27,429,469 new shares were offered for subscription at a price of EUR 2.75 per share between 3 and 21 April 2006. Shareholders were entitled to subscribe for one new share against every five shares held. Consequently, a total of 27,274,949 new shares were subscribed in the rights issue. The offered shares accounted for around 20 per cent of Citycon's share capital and votes prior to the issue and the subscribed shares around 16.5 per cent following the issue.

Citycon plans to use the net proceeds from the rights issue, about EUR 75 million, to ensure financing required for the Group's growth strategy and to maintain a strong balance sheet. In the implementation of its growth strategy, Citycon intends to make flexible use of both share-based financing and other equity-linked financial instruments, with the aim of ensuring an optimum balance sheet structure while taking the progression of planned investments into account.

Decisions by AGM 2006

Citycon's Annual General Meeting (AGM), held in Helsinki on 14 March 2006, adopted the financial statements of Citycon Oyj and Citycon Group for 2005 and discharged the Board of Directors and the CEO from liability. The AGM decided that a per-share dividend of EUR 0.14 be paid for 2005. The dividends were paid on 24 March 2006.

Board of Directors and Board emoluments

With the number of Board members remaining at eight, the AGM re-elected the following Board members for a one-year term: Amir Gal, Raimo Korpinen, Tuomo Lähdesmäki, Carl G. Nordman, Claes Ottosson, Dor J. Segal and Thomas W. Wernink. Gideon Bolotowsky (58), M.Sc. (Eng.), Finnish citizen, was elected a new Board member. As a Board member from 2000 and Board Chairman from 2002, Stig-Erik Bergström was not available for re-election. At its first meeting, the Board elected Thomas W. Wernink Chairman and Tuomo Lähdesmäki Deputy Chairman.

The AGM decided that the Chairman of the Board be paid an annual emolument of EUR 150,000, the Deputy Chairman an annual emolument of EUR 60,000 and the ordinary members of the Board an annual emolument of EUR 25,000. It was further

resolved that the Chairman of the Board be paid a meeting fee of EUR 600 and the Deputy Chairman and ordinary members of the Board a meeting fee of EUR 400 for each meeting. The meeting fee will also be paid for the Board committee meetings. In accordance with the AGM's decision, Finnish Board members have agreed to spend their annual Board emoluments, less statutory withholding tax, buying Citycon shares.

Independence of Board members

In the Board of Directors' view, all Board members are independent of the company, including Thomas W. Wernink whose Consultancy Agreement with Citycon terminated on 14 March 2006. Furthermore, the Board holds the view that Gideon Bolotowsky, Raimo Korpinen, Tuomo Lähdesmäki, Carl G. Nordman and Thomas W. Wernink are independent of major shareholders.

Board committees

At its first meeting, the Board of Directors also elected members to its committees as follows:
Raimo Korpinen (Chair), Gideon Bolotowsky and Thomas W. Wernink to the Audit Committee;
Tuomo Lähdesmäki (Chair), Gideon Bolotowsky and Thomas W. Wernink to the Compensation Committee;
Thomas W. Wernink (Chair), Amir Gal, Carl G. Nordman and Dor J. Segal to the Investment Committee; and
Tuomo Lähdesmäki (Chair), Amir Gal, Claes Ottosson and Thomas W. Wernink to the Nomination Committee.

Board authorisations

The AGM authorised the Board of Directors to decide to increase share capital through one or several rights issues by offering a maximum of 50,000 new shares at a nominal per-share value of EUR 1.35 for subscription by shareholders, i.e. the share capital may increase by a maximum total of EUR 67,500,000. The AGM authorised the Board to decide on the subscription-price determination principles, the subscription price and other terms and conditions governing the issues. The authorisation does not entitle the Board to deviate from the pre-emptive subscription right of the shareholders. The Board exercised this authorisation on 24 March 2006 when it decided on a share issue based on the shareholders' pre-emptive subscription right. Following the share issue, the authorisation entitles the Board to increase the company's share capital by a further EUR 30,678,818.85 at the most, by issuing a maximum of 22,725,051 new shares. The authorisation is valid until 14 March 2007.

In addition, the AGM authorised the Board to decide to issue one or several convertible bonds, issue stock options and increase the company's share capital through one or several rights issues in such a way that, based on these issues, the company's share capital may increase by a maximum of EUR 37,025,733 and that a maximum of 27,426,468 new shares may be offered at a nominal per-share value of EUR 1.35. Valid until 14 March 2007, this authorisation includes a right to waive the shareholders' pre-emptive right to subscribe for company shares. Citycon may not issue stock options as part of its employee incentive scheme.

Auditor

The AGM decided to alter Article 9 of the Articles of Association, regarding company auditors, in such a way that Citycon has one auditor, which must be an authorised public accountant firm certified by the Central Chamber of Commerce of Finland. Accordingly, the AGM elected Ernst & Young Oy, Authorised Public Accountants, as the company's auditor for 2006, with Tuija Korpelainen acting as chief auditor, as notified by Ernst & Young Oy.

Share Capital and Shares

Under the Articles of Association, Citycon's minimum share capital totals EUR 100 million and maximum share capital EUR 500 million, within which limits the company may reduce or increase its share capital without altering its Articles of Association. The company has a single series of shares, with each share entitling its holder to one vote at the shareholders' meeting.

At the beginning 2006, Citycon had a share capital of EUR 184,115,724.30 and the number of shares totalled 136,382,018. The report period saw Citycon increase its share capital through stock options by a total of EUR 1,033,195.60. The company's period-end registered share capital amounted to EUR 185,148,919.80 and the number of shares totalled 137,147,348, each share bearing a nominal value of EUR 1.35.

In January-March, the number of Citycon shares traded on the Helsinki Stock Exchange totalled 13.4 million (7.8 million) at a total value of EUR 51.6 million (EUR 21.1 million). The highest quotation was EUR 4.23 (EUR 3.03) and the lowest EUR 3.20

(EUR 2.40). The reported trade-weighted average price was EUR 3.85 (EUR 2.71), and the share closed at EUR 4.11 (EUR 2.45). The company's market capitalisation on 31 March 2006 totalled EUR 563.7 million (EUR 275.0 million).

Stock Options

Citycon has two option schemes in force, the 1999 A/B/C scheme and the 2004 A/B/C scheme. Stock options attached to the 1999 stock-option scheme are listed on the Helsinki Stock Exchange. These stock-option schemes form part of Citycon's Group-wide employee incentive and commitment programme.

Amended stock-option terms as a result of share issue

On 24 March 2006, the Board of Directors decided on a share issue based on the shareholders' pre-emptive subscription right. In order to ensure equal treatment of holders of Citycon stock options and shares, the Board, under the terms and conditions governing the stock options, also decided to amend the stock options' terms and conditions, owing to the share issue. The amended terms and conditions took effect on 24 March 2006, with related major changes described in the table below.

Amended stock-option terms and conditions in summary:

1999 stock options	Number	Subscription ratio, stock option/share	Subscription price per share, EUR	Share subscription start date	Share subscription expiration date
1999A	1,800,000	1:1.0927	1.35	1 Sept. 2000	30 Sept. 2007
1999B	1,800,000	1:1.0927	1.35	1 Sept. 2002	30 Sept. 2007
1999C	1,727,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Not distributed	172,500	1:1.0927	1.35	1 Sept. 2004	30 Sept. 2007
Total	5,500,000				
2004 stock options					
2004A	1,040,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B	1,195,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004A, not distributed	260,000	1:1.0611	2.2336	1 Sept. 2006	31 March 2009
2004B, not distributed	105,000	1:1.0611	2.6766	1 Sept. 2007	31 March 2010
2004C, not distributed	1,300,000	1:1.0611	-	1 Sept. 2008	31 March 2011
Total	3,900,000				

As a result of these amendments, the holders of the remaining 1999 stock option rights are entitled to subscribe for a maximum of 3,776,928 shares corresponding to a further share capital increase of EUR 5,098,852.80. The 2004 stock options entitle their holders to subscribe for a maximum of 4,138,290 shares, with the result that the company's share capital may increase by a maximum of EUR 5,586,691.50.

More information on the company's stock option schemes is available on pages 8 to 9 and 26 to 28 in the Financial Statements Appendix to the Annual Report 2005.

Events after the Period

On 24 March 2006, Citycon's Board of Directors decided on a EUR 75 million rights issue based on the AGM's authorisation of 14 March 2006. The rights issue was completed successfully on 21 April 2006. A total of 27,274,949 shares were subscribed in the rights issue at a per-share subscription price of EUR 2.75 equalling approximately 99.4 per cent of the shares offered. The resulting share-capital increase of EUR 36,821,181,15 is expected to be registered in the Trade Register on 28 April 2006. The new shares traded on the Helsinki Stock Exchange as the so-called interim shares since 24 April 2006 will be combined with the company's current class of shares (Trading code CTY1S) as soon as the share-capital increase has been registered in the Trade Register. This combination is expected to take place on 28 April 2006 and the new shares, together with the old ones, should be available for public trading on the Helsinki Stock Exchange's Main List as of 2 May 2006.

More detailed information on the rights issue can be found in Citycon's stock exchange releases, published in March and April 2006 and available on the company's website at www.citycon.fi.

In early April, a total of 546,350 shares were subscribed on the basis of the 1999 stock-option scheme, under the amended terms and conditions, with the resulting share-capital increase being registered in the Trade Register on 18 April 2006. The new shares became available for public trading on 19 April 2006.

A total of 38,244 new Citycon shares at a per-share nominal value of EUR 1.35 were subscribed on 19 April, exercising stock options based on the 1999 A/B/C stock-option scheme. The resulting share-capital increase of EUR 51,629.40 will be registered in the Trade Register circa 4 May 2006 and the new shares should become available for public trading on 5 May 2006.

The per-share subscription price of the shares subscribed with the option rights was EUR 1.35. All of the subscribed shares entitle their holders to a dividend for 2006. Other shareholder entitlements will take effect as of the date of registration of the share capital increase. Each share entitles its holder to one vote.

The unexercised stock options based on Citycon's 1999 stock-option scheme entitle their holders to subscribe for a further 3,192,334 new shares, with the result that the company's share capital may increase by a further EUR 4,309,650.90. The share subscription period will expire on 30 September 2007.

As a result of the above increases, Citycon Oyj's registered share capital totals EUR 222,759,302.85 and the number of shares 165,006,891.

Future Outlook

Citycon expects demand, occupancy rates and rents for its retail premises to remain stable in the Helsinki Metropolitan Area and Finland's major cities as well as in Sweden and Estonia. In this increasingly intensified competitive environment, the company continues to seek opportunities to expand its business in Finland, Scandinavia and the Baltic countries.

Due to favourable market prospects and acquisitions and extension projects carried out in 2005 and to be carried out in 2006, Citycon expects growth in business and operating results.

Condensed consolidated income statement, IFRS

EUR MILLION	1-3 2006	%	1-3 2005	%	1-12 2005
Turnover	27.3	100.0	21.2	100.0	92.2
Other operating income	0.2	0.9	0.0	0.0	0.3
Net fair value gains on investment property	15.5	56.9	–	0.0	45.9
Net gains on sale of investment property	-	0.0	0.3	1.3	0.3
Expenses					
Depreciation and impairment loss	0.1	0.3	0.0	0.0	0.2
Operating expenses	11.0	40.5	7.3	34.2	33.3
Operating profit	32.2	117.0	14.2	67.1	105.2
Net financial income and expenses	7.0	25.8	6.4	30.2	31.1
Profit before taxes	24.9	91.2	7.8	36.9	74.2
Income tax expense	-6.0	-22.0	-2.0	-9.3	-14.4
Profit for the period	18.9	69.2	5.9	27.5	59.8
Attributable to					
Parent company shareholders	18.1		5.9		59.2
Minority interest	0.8		–		0.6
Earnings per share (basic), EUR	0.13		0.05		0.49
Earnings per share (diluted), EUR	0.13		0.05		0.49

Condensed consolidated balance sheet, IFRS

EUR MILLION	31 March 2006	31 March 2005	31 Dec. 2005
Assets			
Non-current assets			
Investment property	1,057.6	736.4	956.6
Property, plant and equipment	0.5	0.2	0.7
Deferred tax receivables	–	5.4	–
Other non-current assets	0.3	0.0	0.2
Total non-current assets	1,058.5	742.0	957.6
Current assets			
Trade and other receivables	7.0	4.2	9.9
Cash and cash equivalents	12.3	23.1	15.6
Total current assets	19.4	27.4	25.5
Total assets	1,077.8	769.4	983.1

EUR MILLION	31 March 2006	31 March 2005	31 Dec. 2005
Liabilities and Shareholders' Equity			
Equity attributable to parent company shareholders			
Share capital	185.1	156.8	184.1
Share issue	–	–	1.1
Share premium fund and other reserves	78.8	41.5	85.4
Fair value reserve	-6.0	-13.0	-10.5
Treasury shares	–	-4.7	–
Retained earnings	102.3	63.3	96.5
Total equity attributable to parent company shareholders	360.3	243.9	356.6
Minority interest	4.3	–	3.6
Total shareholders' equity	364.7	243.9	360.2
Liabilities			
Interest-bearing liabilities	566.5	493.2	542.7
Deferred tax liabilities	11.9	–	5.8
Total long-term liabilities	578.5	493.2	548.4
Short-term liabilities	134.8	32.4	74.4
Total liabilities	713.2	525.6	622.9
Total liabilities and shareholders' equity	1,077.8	769.4	983.1

Condensed consolidated statement of changes in shareholders' equity, IFRS

Equity attributable to parent company shareholders

EUR MILLION	Share capital	Share issue	Share premium fund and other reserves	Fair value reserve	Treasury shares	Retained earnings	Equity attributable to parent company shareholders	Minority interest	Shareholders' equity, total
Balance at 1 Jan. 2005	156.8	–	41.5	-13.3	-4.7	57.4	237.7	–	237.7
Cash flow hedges				0.3			0.3		0.3
Profit for the period						5.9	5.9		5.9
Total recognized income and expense for the period				0.3		5.9	6.1		6.1
Other changes						0.0	0.0		0.0
Balance at 31 March 2005	156.8	–	41.5	-13.0	-4.7	63.3	243.9	–	243.9
Balance at 1 Jan. 2006	184.1	1.1	85.4	-10.5	–	96.5	356.6	3.6	360.2
Cash flow hedges				4.5			4.5		4.5
Profit for the period						18.1	18.1	0.7	18.8
Total recognized income and expense for the period				4.5		18.1	22.7		22.7
Change in share capital	1.0	-1.1	0.0				0.0		0.0
Dividends			-6.6			-12.6	-19.2		-19.2
Share subscriptions based on stock options						0.2	0.2		0.2
Balance at 31 March 2006	185.1	–	78.8	-6.0	0.0	102.3	360.3	4.3	364.6

Condensed consolidated cash flow statement, IFRS

EUR MILLION	1-3 2006	1-3 2005	1-12 2005
Cash flow from operating activities			
Profit before taxes	24.9	7.8	74.2
Adjustments	-8.7	6.3	-14.1
Cash flow before change in working capital	16.2	14.1	60.1
Change in working capital	-1.3	0.3	1.9
Cash generated from operations	14.9	14.4	62.0
Paid interest and other financial charges	-1.9	-0.8	-32.3
Received interest and other financial income	0.0	0.1	0.4
Taxes received and paid	1.5	-0.9	-5.2
Net cash from operating activities	14.5	12.7	24.8
Cash flow from investing activities			
Acquisition of subsidiaries. less cash acquired	-46.5	–	-92.6
Purchase of property. plant and equipment	-38.0	-1.0	-7.2
Sale of investment property	–	2.8	2.8
Proceeds from sale of other investments	–	1.0	1.0
Net cash used in investing activities	-84.4	2.5	-96.1
Cash flow from financing activities			
Proceeds from share issue	–	–	74.4
Proceeds from short-term loans	101.0	–	134.6
Repayments of short-term loans	-36.0	–	-108.6
Proceeds from long-term loans	30.0	–	199.7
Repayments of long-term loans	-10.8	–	-205.6
Dividends paid	-17.5	–	-15.7
Net cash from/used in financing activities	66.7	0.0	78.9
Net change in cash and cash equivalents	-3.2	15.2	7.7
Cash and cash equivalents at period-start	15.6	7.9	7.9
Effects of exchange rate changes	0.0	–	–
Cash and cash equivalents at period-end	12.3	23.1	15.6

Segment information

EUR MILLION	1-3 2006	1-3 2005	1-12 2005
Turnover			
Shopping Centres	18.4	12.7	57.4
Supermarkets and Shops	8.9	8.5	34.8
Unallocated	–	0.0	–
Total	27.3	21.2	92.2
Operating Profit			
Shopping Centres	22.3	9.1	61.2
Supermarkets and Shops	11.6	6.7	49.6
Unallocated	-2.0	-1.6	-5.5
Total	31.9	14.2	105.2

Key financial figures

	1-3 2006	1-3 2005	1-12 2005
Earnings per share (basic), EUR	0.13	0.05	0.49
Earnings per share (diluted), EUR	0.13	0.05	0.49
Equity per share, EUR	2.63	2.17	2.60
Return on equity (ROE), %	20.9	9.6	22.5
Return on investment (ROI), %	12.4	7.6	13.5
Equity ratio, %	33.8	31.7	36.7

Consolidated contingent liabilities

EUR MILLION	31 March 2006	31 March 2005	31 Dec. 2005
Mortgages on land and buildings	7.8	2.4	7.8

Group's derivative financial instruments

	31 March 2006		31 March 2005		31 Dec. 2005	
EUR MILLION	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Interest rate and foreign exchange derivatives						
Interest rate and currency swaps						
Maturing in 2007	78.2	0.4	78.2	-0.7	78.2	-0.1
Maturing in 2008	50.0	-1.0	50.0	-2.3	50.0	-1.5
Maturing in 2009	145.3	-4.3	128.2	-8.5	125.3	-6.3
Maturing in 2010	83.0	-4.6	83.0	-7.7	83.0	-6.8
Maturing in 2011	20.0	0.2	–	–	–	–
Total	376.5	-9.4	339.4	-19.3	336.5	-14.7

The fair values of derivatives reflect their values if all agreements were closed at the market price at the end of the period.
Derivatives have been used for hedging the loan portfolio.
The fair values include an accrued interest of EUR 1.4 million (EUR 1.7 million) for the period, which has been booked in interest expenses.
The fair values include the positive values of EUR 0.8 million (EUR 0.0 million) and the negative values of EUR 10.2 million (EUR 19.3 million).

The figures are unaudited.

Accounting Principles

The accounting principles applied in the annual financial statements as of 31 December 2005 are applied in these financial statements.

In the annual financial statements at 31 December 2005, Citycon change to calculate wholly owned, domestic real estate companies' deferred tax liability on the temporary difference between the debt-free cost of these companies' shares and their fair value. The figures for the comparison period 1 January-31 March were changed to comply with the new accounting practice.

Financial Reports in 2006

Interim report for 1 Jan - 30 June 2006 will be published on 21 July 2006.

Further information for investors is available on Citycon's website, www.citycon.fi.

Helsinki 27 April 2006

CITYCON OYJ
Board of Directors

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Report on the general review of Citycon Oyj's interim report for the period 1 January – 31 March 2006

We have generally reviewed the interim report of Citycon Oyj for the period 1 January - 31 March 2006. The Board of Directors and the Managing Director have prepared an interim report in accordance with the Securities Market Act, chapter 2, paragraph 5. Based on our interim review we express at the request of the Board of Directors a report in accordance with the Securities Market Act, chapter 2, paragraph 5.

We conducted our general review in accordance with the International Standard on Auditing applicable to general review engagements. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The general review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our general review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view in accordance with the Securities Market Act regarding the financial position of Citycon Oyj.

Helsinki, 27 April 2006

Ernst & Young Oy
Authorized Public Accountants

Tuija Korpelainen
Authorized Public Accountant