

## Directors' Report to Shareholders | For the period ended September 30, 2004

**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 September 30, 2004:**

### 1. A. General

The Company is a property investment company engaged – directly and through its subsidiaries – in the acquisition, development, and management of properties in the USA, Canada, and Israel (hereinafter – “the Group”). The Group focuses mainly on supermarket-anchored shopping centers. In addition, the Group is active in the senior living sector in the USA and Israel, and pursues business opportunities through the acquisition of properties and/ or the acquisition of companies engaged in its areas of activity and/or in synergetic businesses, both in regions where it is already active and also in other regions.

### B. The Group's Properties

As of the date of the financial statements, the Group owns 297 properties with a Gross Leasable Area (“G.L.A.”) of some 3.1 million square meters. These properties comprise 282 operational shopping centers, 7 shopping centers that are under development, 7 senior living facilities (which comprise some 1,250 residential units in Israel and the USA) and an office building in Tel-Aviv. In addition, the Group is a partner in two partnerships, each of which owns a property. These properties have a book value of NIS 15.6 billion and generate annual rental income of NIS 2 billion (gross annual rent calculated for the properties currently owned at the exchange rate on the date of the financial statements). In addition, as of the date of the financial statements, the Company is the largest shareholder (36%) of the Finnish public company, Citycon Oyj. (hereinafter – “Citycon”), whose shares are traded on the Helsinki Stock Exchange (HEX).

In the USA, the Group operates mainly through Equity One Inc. (“EQY”), a public company traded on the NYSE. 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, 40% of EQY. EQY operates in growth regions in the southeastern part of the USA, mainly in Florida, Texas and Georgia, and owns 183 operational shopping centers, with a G.L.A. of 1.9 million square meters, 3 shopping centers that are under development, and is a partner in 2 jointly owned properties. In addition, the Group - through Royal Senior Care (“RSC”), in which it has a 50% interest - is active in the US senior living sector, where it owns 4 senior living facilities containing some 450 residential units.

Operations in Canada are carried out through First Capital Reality (“FCR”), a public company traded on the Toronto Stock Exchange (TSX). As of the date of the financial statements, the Company owns 57% of FCR. FCR operates in growth regions in the Canadian provinces of Ontario, Quebec and Alberta, owning 99 operational shopping centers, with a total G.L.A. of approximately 1.2 million square meters, as well as 4 additional shopping centers under development. In addition, FCR is a stockholder in EQY, holding 17.5% of the latter's stock.

In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (hereinafter – “Mishkenot Clal”). Mishkenot Clal is engaged in the construction, maintenance, operation and management of senior living facilities in Israel and owns 3 senior living facilities, containing some 800 residential units. In addition, the Company owns an office building in Tel-Aviv.

In Finland, the Company owns approximately 36% of Citycon's share capital. As of September 30, 2004, Citycon owned 16 shopping centers and approximately 130 stores, which are let primarily to supermarkets and other retail chains. Citycon's properties have a total G.L.A. of approximately 500 thousand square meters.

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\* The Company's name was changed from Gazit Globe (1982) Ltd. in October 2004.

### C. The Company's Holdings

The following table presents a summary of the Company's holdings as of September 30, 2004, as described above:

Name of investee company	Type of security	Quantity (units in millions)	Holding percentage	Book value (NIS in millions)	Market value as of September 30, 2004 (NIS in millions)	Market value as of the date of the financial statements (NIS in millions)
EQY <sup>(1)</sup>	Shares	16.4	22.5%	980	1,440	1,597
FCR	Shares	29.2	56.9%	1,380	1,733	1,895
FCR	Convertible debentures	125.2	48.0%	381	447	468
Citycon	Shares	40.1	35.9%	439	477	545
Investments in other companies (non-traded) and other assets <sup>(2)</sup>	-	-	-	128	<sup>(3)</sup> 128	<sup>(3)</sup> 128
<b>Total</b>				<b>3,308</b>	<b>4,225</b>	<b>4,633</b>

The Company's net liabilities<sup>(4)</sup> (including those of its wholly owned subsidiaries) amounted to NIS 2,022 million as of September 30, 2004.

### D. Third Quarter 2004 - Highlights

- The Group's investments amounted to NIS 338 million, compared to NIS 1.1 billion in the same period last year.
- Rental income amounted to NIS 469 million, an increase of 22% compared to the same period last year, mainly as a result of the acquisition of properties, developed properties coming online, increases in property rental fees and a higher occupancy rate.
- Gross profit amounted to NIS 247 million (52.6% of revenues), compared to NIS 205 million (53.2% of revenues) for the same period last year, an increase of 21%.
- Cash flow from operating activities amounted to NIS 129 million, compared to NIS 103 million for the same period last year, an increase of 25%.
- F.F.O. (see section 3.C) amounted to NIS 44.7 million, NIS 0.53 per share, compared to the (pro forma<sup>(1)</sup>) F.F.O. of NIS 32.5 million, NIS 0.47 per share, for the same period last year.

<sup>(1)</sup> Represents the Company's direct holding in EQY. (In addition, FCR holds 17.5% in EQY).

<sup>(2)</sup> Mainly represents the Company's holdings in Mishkenot Clal, Royal Senior Care and the office building in Tel Aviv.

<sup>(3)</sup> Represents carrying cost.

<sup>(4)</sup> Net of financial assets.

- Net income amounted to NIS 31.2 million, compared to (pro forma<sup>(1)</sup>) net income of NIS 29.6 million for the same period last year (the inflation-adjusted net income for the same period last year amounted to NIS 49.3 million).
- Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 4.8 billion, representing 30.5% of the total assets, compared to NIS 4 billion at the same date in 2003, which represented 32.5% of the total assets.

**E. First Nine Months of 2004 ("the reporting period") - Highlights**

- The Group's investments amounted to NIS 2.5 billion, compared to NIS 4.8 billion in the same period last year.
- Rental income amounted to NIS 1,346 million, an increase of 35% compared to the same period last year, mainly as a result of the acquisition of properties, developed properties coming online, increases in property rental fees and a higher occupancy rate.
- Gross profit amounted to NIS 714 million (53% of revenues), compared to NIS 530 million (53.2% of revenues) for the same period last year, an increase of 35%.
- Cash flow from operating activities amounted to NIS 382 million, compared to NIS 231 million for the same period last year, an increase of 65%.
- F.F.O. amounted to NIS 118.6 million, NIS 1.42 per share, compared to the (pro forma<sup>(1)</sup>) F.F.O. of NIS 89.7 million, NIS 1.10 per share, for the same period last year.
- Net income amounted to NIS 67 million, compared to (pro forma<sup>(1)</sup>) net income of NIS 57.6 million for the same period last year (the inflation-adjusted net income for the same period last year amounted to NIS 125.1 million).

**F. Change in reported profit Due to Changes in Accounting Standards**

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

The principal effect of the change in the aforementioned accounting standards is in the manner of presenting the financing expenses item, which - under the new reporting method - no longer includes the erosion of the Company's loans at the rate of the change in the Consumer Price Index ("CPI").

As a result of this change, and despite the fact that there has been no alterations to the Company's actual interest payments, the financing expenses reported for the first nine months of the year are approximately NIS 192 million higher than the financing expenses that would have been reported for the same period had it not been for the change in accounting standards.

The change in reported financing expenses for the first nine months of the year, after netting off the effect of minority interests, resulted in a decline in the reported net income of NIS 82 million, compared to the net income that would have been reported under the reporting method, which was the generally accepted accounting practice in Israel until December 31, 2003.

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<sup>(1)</sup> Assuming implementation of Accounting Standards No. 12 and No. 13, as of January 1, 2003.

**In the third quarter of the year, inflation in the USA, Canada and Israel was negligible and, thus, there was almost no difference between the reported financing expenses and the financing expenses that would have been reported, had it not been for the change in accounting standards.**

**The Company's management is of the opinion that the discontinuation of adjusting the financial statements for the effects of inflation has no effect on the Company's operations, revenues, gross profit, operating profit or 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 totaled NIS 2.5 billion** - NIS 2.1 billion was invested in the acquisition of new properties and in the redevelopment, expansion and construction of various other properties. The effect of these investments on the operating results will be reflected in full in future quarters. Additionally, NIS 411 million was invested in acquiring the holding in Citycon.

### **A. Property Transactions**

1. During the reporting period, EQY, FCR and RSC acquired 28 properties, with a total G.L.A. of some 300 thousand square meters, and 15 plots of land for future development. The total consideration for these acquisitions amounted to NIS 1.8 billion.
2. During the reporting period, EQY and FCR invested in excess of NIS 200 million in developing new properties and in the redevelopment of existing properties.
3. During the reporting period, EQY and FCR sold 11 properties (with a total G.L.A. of some 137 thousand square meters) and also a plot of land. The total proceeds from these sales amounted to NIS 313 million. The net gain recognized by the Company from these sales amounted to NIS 12.6 million, compared to a net gain of NIS 4.5 million from the sale of properties in the same period last year.

(In the third quarter of this year, the net gain recognized by the Company from the sale of properties amounted to NIS 10.6 million, compared to a net gain of NIS 1.7 million from the sale of properties in the same period last year.)

4. As of September 30, 2004, the Group had properties being developed and being redeveloped, as well as land for future development, at a cost of NIS 435 million. These properties and land did not generate any rental income during the reporting period.
5. As of the end of the third quarter of 2004, EQY's average basic monthly rental income was US\$ 8.85 per square meter. During the third quarter of the year, EQY renewed leases on 19 thousand square meters, while increasing the average basic monthly rental on these leases by 3.9% to an average monthly rental of US\$ 13.01 per square meter, as well as signing new leases on 27 thousand square meters at an average basic monthly rental of US\$ 11.04 per square meter. During the third quarter of the year, leases on 19 thousand square meters expired, on which the average monthly rental was US\$ 10.68 per square meter. The net cash inflows from the same properties increased by 3.3%, compared to the same quarter last year.

EQY's properties had an average occupancy rate of 92.9% as of September 30, 2004 (September 30, 2003 – 90.1%).

6. As of the end of the third quarter of 2004, FCR's average basic monthly rental income was C\$ 11.74 per square meter. During the third quarter of the year, FCR renewed leases on 6.5 thousand square meters, while increasing the average basic monthly rental on these leases by 1.9% to an average monthly rental of C\$ 15.27 per square meter, as well as signing new leases on 8 thousand square meters at an average basic monthly rental of C\$ 14.13 per square meter. During the reporting period, leases on 9 thousand square meters expired, on which the average monthly rental was C\$ 13.54 per square meter. The net cash inflows from the same properties increased by 1.7%, compared to the same quarter last year.

FCR's properties had an average occupancy rate of 93.7% as of September 30, 2004 (September 30, 2003 – 92.3%).

## **B. Acquisition of Citycon and Issue of Citycon Shares**

1. In February 2004, the Company's Board of Directors authorized Company management to investigate opportunities for expanding its shopping center operations into Europe, on the basis of the experience and skills the Group had accumulated in the North American shopping center sector.
2. During the reporting period, the Company acquired approximately 40.1 million shares in Citycon, at a cost of NIS 411 million. The reported cost of the investment is net of the Company's share in the dividend distributed by Citycon in March 2004, amounting to NIS 22 million.  
Citycon's Board of Directors consists of 8 directors, three of whom – including the Company's president - were appointed on the Company's recommendation.
3. Citycon is a publicly traded Finnish company that focuses on the commercial property sector in Finland. Its property portfolio, as of September 30, 2004, comprised 146 properties – some of which are supermarket-anchored shopping centers, while others are stores, which are let primarily to supermarkets and other retail chains. Citycon's properties have a total G.L.A. of approximately 500 thousand square meters.
4. In September 2004, Citycon issued 10 million shares to institutional investors in Finland and in other countries, for a consideration of € 20.3 million. As a result of this issue, the Company recognized a NIS 1 million gain due to the dilution of its holding in Citycon.
5. As of September 30, 2004, the Company owns 34.7% of Citycon's issued share capital (35.9% of the share capital, after deducting Citycon's treasury stock).
6. Commencing from the second quarter of this year, the Company presents its investment in Citycon according to the equity method, on the basis of Citycon's financial statements, which are drawn up in conformity with international accounting principles.

## **C. Option Warrants Exercised for Company Shares**

1. During the reporting period, 1.6 million of the Company's option warrants (Series 4) were exercised for 2 million Company shares for a total consideration of NIS 23.9 million. In addition, the Company exercised 0.6 million options warrants it held, for 0.8 million shares. Some three thousand options warrants (Series 4) that had not been exercised until February 20, 2004, the last exercise date, expired.
2. During the reporting period, 3.2 million shares were issued in respect of the exercise of 3.2 million of the Company's option warrants (Series 7), which had been granted to Company shareholders by way of a rights issue in May 2004. As the exercise price in respect of these options was approximately NIS 17 per option warrant, the aggregate proceeds received by the Company from the exercise of these options totaled NIS 53.9 million. Some six thousand options warrants (Series 7) that had not been exercised until July 22, 2004, the last exercise date, expired.

**D. Public Offering of Shares and Conversion of Convertible Debentures into Shares in Subsidiaries**

1. In March 2004, FCR issued 3.4 million shares to institutional investors and others (including 0.8 million shares to the Company), for a total consideration of C\$ 54 million (NIS 190 million). In addition, 7 million options warrants were exercised for FCR shares, for an additional investment of C\$ 86 million (NIS 303 million). Of the above, 3.9 million options warrants were exercised by the Company, for a consideration of C\$ 46 million (NIS 162 million).
2. In March and April 2004, FCR's Compensation Committee approved the issue of 120,000 restricted shares to FCR's Chief Executive Officer (who is also the Company's president) for no consideration. 80,000 of the above shares were issued in May 2004 (half in respect of 2003 and half in respect of 2004), while the remaining shares will be issued through May 2005. The restricted shares have a vesting period of 3 years, which commences on December 15 of the year in respect of which the shares were issued.
3. At the end of August 2004 and prior to redemption date, FCR redeemed in cash the balance of its 7.875% convertible debentures (Series B) for a total net amount of C\$ 35 million. Immediately prior to this redemption, convertible debentures in the principal amount of C\$ 42 million and C\$ 20 million, which were held by a wholly owned subsidiary of the Company and by others, respectively, were converted into 3.8 million FCR shares.

As part of FCR's arrangements to finance the above redemption of its debentures, FCR made a private placement of 2 million shares to the Company (through a wholly owned subsidiary) and to an interested party. The shares were issued at a price of C\$ 16 per share and the total proceeds amounted to C\$ 32 million. 1.56 million of the above shares were issued to the Company.

4. As of September 30, 2004, the Company owns 56.9% of FCR's share capital. During the reporting period, as a result of changes in its percentage holding in FCR, the Company recognized an accounting gain of NIS 11.3 million.
5. During the reporting period, EQY issued 3.1 million shares to the public, within the framework of its Dividend Reinvestment Plan ("DRIP") and resulting from the exercise of option warrants for EQY shares held by employees and others, for a total consideration of US\$ 55 million (NIS 248 million) (of which 0.6 million shares were issued to the Company and its subsidiaries for a consideration of US\$ 10 million). Consequently, the Company's holding in EQY was diluted from 40.5% to 40.0%, and the Company recognized an accounting gain of NIS 10.9 million.

**E. Debt Raised by the Company and Subsidiaries**

1. On January 27, 2004, the Company issued to institutional investors:
  - 1.1 A series of debentures (that are not registered for trading on the Stock Exchange) with a total par value of NIS 120 million. The debentures were issued against payment of their par value. The aforesaid debentures are linked to the CPI, and bear fixed annual interest at the rate of 5.55%. The principal amount of the debentures is to be redeemed in a single payment in February 2010.
  - 1.2 Debentures (Series A) with a total par value of NIS 90 million, at a price of NIS 101 per NIS 100 par value of debentures, for a total consideration of NIS 91 million. The above issue was made by way of enlarging the series of debentures (Series A) that was first offered to the public pursuant to the Company's prospectus dated May 2, 2002.

2. On March 26, 2004, EQY completed the issue of a series of debentures with a total par value of US\$ 200 million. The debentures are to be redeemed in a single payment on April 15, 2009, and bear fixed annual interest at the rate of 3.875%. The debentures were issued at a yield to maturity of 3.902% (a margin of 1.25% above the yield for U.S. government bonds for the above period at the time of issuance). Additionally, EQY entered into an interest swap transaction with a banking institution, whereby a fixed interest rate was swapped for a floating interest rate on a sum of US\$ 100 million; as a result of the interest swap, the interest rate on the exchanged sum is the 6-month LIBOR with an additional margin of 0.4375%.
3. On May 24, 2004, the Company issued – pursuant to a prospectus – a new series of debentures (Series B), which are linked to the euro and bear interest at EUROBOR with an additional margin of 2%. Of the total principal amount of NIS 347.5 million, NIS 66.5 million was issued to institutional investors and the public, while NIS 281 million was issued to wholly owned subsidiaries of the Company.

Within the framework of the issue, the Company enlarged its series of marketable debentures (Series A) by NIS 155 million, issuing NIS 25 million and NIS 130 million to the public and to wholly owned subsidiaries of the Company, respectively. Through to the date of the financial statements, the aforesaid subsidiaries had sold NIS 64 million of these debentures to the public.

Additionally, within the framework of the prospectus, the Company distributed option warrants (Series 8) to the purchasers of the above debentures. The option warrants are convertible into Company shares, through October 13, 2005, at an exercise price of NIS 24 per option; the exercise price is linked to the exchange rate of the US dollar. Furthermore, a rights issue of two series of option warrants (Series 7 and Series 8) was also made, for no consideration, to the shareholders.

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

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

The transaction was completed on March 1, 2004, after being approved by the Anti-Trust Commissioner. After completion of the transaction, Mishkenot Clal holds - through its subsidiaries – all the ownership rights in Mediterranean Towers Kfar Saba and 66.67% of the ownership rights in Mediterranean Towers Nordiya.

#### **G. Long-Term Investments**

During the reporting period, EQY acquired 1.5 million shares in the property company, Cedar Shopping Centers Inc. ("CDR"), through trades on the New York Stock Exchange, constituting 9% of CDR's issued capital. EQY also acquired 220 thousand preferred (Series A) shares in CDR, constituting 9.4% of its issued preferred (Series A) shares.

CDR is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. It owns 29 neighborhood shopping centers with a G.L.A. of some 420 thousand square meters. These shopping Centers are located in 4 states in the eastern United States and are mainly supermarket-anchored.

As of September 30, 2004, CDR has a market value of US\$ 230 million (NIS 1 billion).

#### H. Purchase of EQY Shares from Interested Parties of the Company

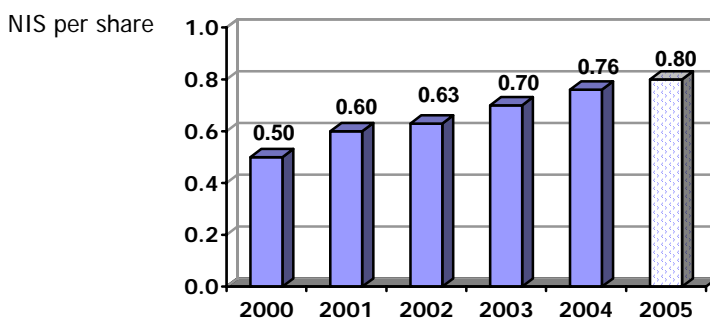
During August 2004, within the framework of acquisitions of EQY shares that the Company transacts from time to time and as part of its ordinary course of business, the Company acquired 130,000 EQY shares from the Chairman of its Board of Directors and 1,250 EQY shares from the Company's CEO, at a price of US\$ 19.08 per share (1% below their market price at that time). The acquisition price was identical to the price at which 137,000 EQY shares were acquired – on the same date - from a third party (who is one of EQY's senior executives, but is not an officer or interested party of the Company). The Company has applied the provisions of the Securities Regulations (Presentation in Financial Statements of Transactions Between a corporation and its Controlling Member), 1996 in its accounting treatment of this transaction.

#### I. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be announced in 2005 will be at least NIS 0.20 per share each quarter (NIS 0.80 per share on an annual basis).

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

**The Company's dividend growth is illustrated by the following graph:**



#### J. Effect of New Accounting Standard in the Period Prior to its Implementation

In June 2004, the Israel Accounting Standards Board approved Israel Accounting Standard No. 19 – "Taxes on Income" (hereinafter – "the Standard"). The Standard provides rules for the recognition, measurement, presentation and disclosure of taxes on income in financial statements.

The principal changes contained in the rules stipulated by the Standard, as compared to the rules that are currently applied, affect the recognition of deferred taxes in respect of temporary differences relating to real estate.

The Standard will be applied to financial statements relating to periods commencing on January 1, 2005 or thereafter. The Standard will be applied by making a "cumulative effect" adjustment through to the beginning of the period in which the Standard is first adopted.

The Company is assessing the new Standard, but is currently unable to estimate what effect the Standard will have on the financial statements.



3. A. Results of Operations

	<u>For the 9 months ended September 30</u>		<u>For the 3 months ended September 30</u>		<u>For the year ended December 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>NIS in thousands (except per share amounts)</u>				
	<u>Reported<sup>(1)</sup></u>	<u>Adjusted<sup>(2)</sup></u>	<u>Reported<sup>(1)</sup></u>	<u>Adjusted<sup>(2)</sup></u>	<u>Adjusted<sup>(2)</sup></u>
Rental income	1,346,431	996,252	469,081	385,502	1,401,186
Rental operating expenses	430,435	325,823	150,038	123,977	457,790
Depreciation of rental properties	201,918	140,016	72,125	56,628	197,489
Gross profit	714,078	530,413	246,918	204,897	745,907
General and administrative expenses	111,825	85,911	38,292	33,182	115,805
Income from ordinary operations	602,253	444,502	208,626	171,715	630,102
Financing expenses, net	390,804	165,823	136,551	60,385	300,163
	211,449	278,679	72,075	111,330	329,939
Other income, net	86,896	47,686	59,770	29,442	56,492
Income before taxes on income	298,345	326,365	131,845	140,772	386,431
Taxes on income	44,279	30,391	19,612	15,056	43,629
Income after taxes on income	254,066	295,974	112,233	125,716	342,802
Company's share in profits of associated companies	24,629	3,652	12,953	6	3,613
Minority interest in earnings of subsidiaries	(211,726)	(174,556)	(93,945)	(76,397)	(209,839)
<b>Net income for the period</b>	<b>66,969</b>	<b>125,070</b>	<b>31,241</b>	<b>49,325</b>	<b>136,576</b>
<b>Net earnings per share - basic</b>	<b>0.80</b>	<b>1.56</b>	<b>0.37</b>	<b>0.69</b>	<b>1.69</b>
<b>Net earnings per share - diluted</b>	<b>0.73</b>	<b>-</b>	<b>0.34</b>	<b>-</b>	<b>-</b>

(1) In accordance with Israel Accounting Standards No. 12 and No. 13.

(2) Adjusted to December 2003 NIS.

**B. Analysis of Results of Operations for the Third Quarter of 2004****Rental income**

The 22% increase compared with the same period last year resulted from the acquisition of new properties during the first nine months of the year, the coming online of properties whose development had been completed, the acquisition of properties during 2003, as well as from a higher average occupancy rate and from the increase in rental fees received in respect of the existing properties portfolio.

**Rental 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, as well as from the NIS 2 million provision created against the hurricanes that hit the southeastern United States during the third quarter of this year. Rental operating expenses as a percentage of rental income fell from 32.2% for the same period last year to 32.0%.

**Depreciation**

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 32.2 million, representing NIS 0.38 per share; this compares with NIS 25.6 million, representing NIS 0.34 per share, for the same period last year.

**Gross profit**

Gross profit amounted to NIS 247 million (52.6% of rental income); this compares to NIS 205 million (53.2% of rental income) for the same period last year – an increase of 21%.

**General and administrative expenses**

General and administrative expenses represent 8.2% of rental income, compared to 8.6% for the same period last year. The decrease in the general and administrative expenses as a percentage of rental income is attributable to economies of scale resulting from the continued growth in the operational activities of EQY and FCR, as well as to salary adjustments, which are connected to the Company's net income.

**Financing expenses, net**

The change in financing expenses stems from the following factors:

1. The financial statements are no longer adjusted for changes in purchasing power ("inflation") in countries in which the Company operates, in accordance with Israel Accounting Standards No. 12 and No. 13, while in the same period last year the financial statements were adjusted for the effects of inflation (approximately 0.8% in the USA and approximately 0.5% in Canada). The adjustment for the effects of inflation in the same period last year resulted in the financing expenses being approximately NIS 45 million lower than they would have been, had no such adjustment been made.
2. An increase in the Group's loans from an average balance of NIS 8.2 billion in the third quarter of 2003 to an average balance of NIS 9.8 billion in the reporting period. Interest expenses for the quarter reflect an average nominal interest rate of approximately 6% on the Group's indebtedness.

3. The weakening of the U.S. dollar against the shekel by 0.3% generated NIS 0.8 million in financing income from the erosion of the security deposits of Mishkenot Clal's tenants; this compares to the strengthening of the U.S. dollar against the shekel in the same period last year by 4%, which created a financing expense of approximately NIS 3.9 million due to the erosion of tenants' securities deposits.
4. Transactions in securities generated a gain of NIS 4.3 million, compared to a gain of NIS 7.7 million in the same period last year.
5. The following table presents the percentage changes in the CPI and exchange rates of the U.S. and Canadian dollars and the euro, versus the shekel:

	Consumer Price Index			Exchange Rates		
	Israel	USA	Canada	U.S. dollar	Canadian dollar	Euro
<b>7-9/2004</b>	(0.2%)	0.1%	(0.2%)	(0.3%)	5.4%	1.1%
<b>7-9/2003</b>	(1.0%)	0.8%	0.5%	3.0%	3.8%	5.2%

### **Other income, net**

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

The Group recorded a net gain of NIS 9 million (the Company's share being NIS 8.2 million) as a result of the dilution of its holdings in consolidated subsidiaries, compared to a gain of NIS 24.7 million (the Company's share being NIS 21 million) in the same period last year.

In addition, the sale of properties by EQY and FCR produced a net gain for the Group of NIS 45.7 million (the Company's share being NIS 10.6 million), compared to a net gain from the sale of properties of NIS 4.7 million (the Company's share being NIS 1.7 million) in the same period last year.

### **The Company's Share in the Profits of Associated Companies**

The Company's share in the profits of Citycon for the third quarter of the year amounted to NIS 12.4 million.

### **C. F.F.O.<sup>(\*)</sup> and F.F.O. per share**

The Company's practice is to publish its F.F.O. results (which is the net reported income, after neutralizing one-time income and expenditure and with the addition of the Company's share of depreciation 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 U.S.-based National Association of Real Estate Investment Trusts (NAREIT).

In view of Israel Accounting Standards No. 12 and No. 13 that came into effect on January 1, 2004, the Company's financial statements are no longer adjusted for changes in purchasing power in Israel; the new treatment is the accepted practice in the U.S. and Canada. The Company is of the opinion that F.F.O. and F.F.O. per share are more accurate reflections 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 a previous period, and for comparing the Company's operating results to those of other property companies.

<sup>(\*)</sup> 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 a company's accountants.

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

	<u>1-9/2004</u>	<u>1-9/2003</u>	<u>7-9/2004</u>	<u>7-9/2003</u>	<u>1-12/2003</u>
	<u>NIS in thousands (except per share amounts)</u>				
<b>Reported net income</b>	<u>66,969</u>	<u>125,070</u>	<u>31,241</u>	<u>49,325</u>	<u>136,576</u>
<b>Adjustments:</b>					
Loss (gain) from dilution in holdings of subsidiaries	<u>(23,184)</u>	<u>(32,447)</u>	<u>(8,160)</u>	<u>(20,995)</u>	<u>(37,450)</u>
Gains from the sale of properties	<u>(12,642)</u>	<u>(4,455)</u>	<u>(10,629)</u>	<u>(1,721)</u>	<u>(4,205)</u>
<b>Total adjustments</b>	<u>(35,826)</u>	<u>(36,902)</u>	<u>(18,789)</u>	<u>(22,716)</u>	<u>(41,655)</u>
<b>Company's share in depreciation and amortization</b>	<u>87,483</u>	<u>69,022</u>	<u>32,209</u>	<u>25,622</u>	<u>97,095</u>
<b>Reported F.F.O.</b>	<u>118,626</u>	<u>157,190</u>	<u>44,661</u>	<u>52,231</u>	<u>192,016</u>
<b>F.F.O. (pro forma) (*)</b>	<u>118,626</u>	<u>(*)89,728</u>	<u>44,661</u>	<u>(*)32,504</u>	<u>(*)125,751</u>
<b>Reported F.F.O. per share</b>	<u>1.42</u>	<u>1.98</u>	<u>0.53</u>	<u>0.73</u>	<u>2.39</u>
<b>F.F.O. per share (pro forma) (*)</b>	<u>1.42</u>	<u>(*)1.10</u>	<u>0.53</u>	<u>(*)0.47</u>	<u>(*)1.55</u>
<b>F.F.O. per share (pro forma) (*) (without the effect of convertible securities, which are included in the basic EPS computation)</b>	<u>1.44</u>	<u>(*)1.20</u>	<u>0.53</u>	<u>(*)0.43</u>	<u>(*)1.65</u>

(\*) Pro forma (assuming implementation of Israel Accounting Standards No. 12 and No. 13, as of January 1, 2003).

#### 4. **Financial Status**

##### **Liquidity**

The Group has a policy of maintaining a high level of liquidity so as to be able to pursue business opportunities in its areas of operations.

As of September 30, 2004, the liquid assets available to the Group, including short-term investments, totaled NIS 175 million, compared to NIS 121 million as of December 31, 2003. In addition, as of September 30, 2004, the Group had unutilized credit facilities available for immediate drawdown of NIS 1,626 million, compared to NIS 1,196 million as of December 31, 2003.

The increase in cash and unutilized credit facilities derives from the capital raised by the Group during the reporting period, after deducting funds used for the acquisition of properties.

**In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 1.8 billion.**

##### **Investments in Associated Companies**

Investments in associated companies, as of September 30, 2004, totaled NIS 453 million, compared to NIS 16 million as of December 31, 2003. The increase in this item derives from the acquisition of 40 million shares in Citycon, net of the dividend received from that company, as described in section 2.B, and with the addition of the Company's share in Citycon's profits for the second and third quarters, for a total net consideration of NIS 439 million.

##### **Long-Term Investments**

Long-term investments, as of September 30, 2004, totaled NIS 175 million, compared to NIS 40 million as of December 31, 2003.

The increase in this item derives primarily from EQY's acquisition of shares and preferred shares in CDR.

##### **Fixed Assets, Net**

Net fixed assets as of September 30, 2004, totaled NIS 14.1 billion, compared to NIS 12.1 billion at the end of 2003.

In the reporting period, the Group acquired properties, developed new properties, redeveloped existing properties, and for the first time consolidated (by the proportionate consolidation method) the properties of Hatsrot Hadar Ltd., at a total cost of NIS 2 billion. Depreciation expenses for the reporting period amounted to NIS 202 million.

##### **Long-Term Liabilities**

Long-term liabilities as of September 30, 2004 totaled NIS 9.8 billion, compared to NIS 7.4 billion at the end of 2003.

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

### **Shareholders' Equity**

As of September 30, 2004, the Company's shareholders' equity, together with minority interests, totaled an aggregate of NIS 4.8 billion, which financed 30.5% of total assets; this compares to NIS 4.1 billion, which financed 32% of total assets, as of December 31, 2003. Taking into consideration the convertible debentures in FCR, which may be converted into shares by FCR (at the sole discretion of FCR), the shareholders' equity and minority interests, together with the convertible debentures, account for 33.5% and 37%, respectively, of the total assets at the above dates).

The increase in shareholders' equity from NIS 1,141 million as of December 31, 2003 to NIS 1,286 million as of September 30, 2004 stems mainly from the net income for the reporting period (NIS 67 million), from the exercise of option warrants into shares (NIS 78 million) and from the increase due to "translation adjustments deriving from translation of the financial statements of FCR and EQY" and other capital surpluses (NIS 46 million). These were partly offset by the dividend of NIS 46 million paid by the Company.

### **Current Ratio**

The current ratio (current assets to current liabilities) was 0.52 as of September 30, 2004, compared to 0.57 as of December 31, 2003 and 0.83 as of September 30, 2003. The decline in the above ratio stems from the utilization of short-term financing to acquire properties and long-term investments and to repay long-term financing. A parallel consequence of the above actions has been to significantly increase the Company's unutilized credit facilities available for immediate drawdown (NIS 1.6 billion).

### **Cash Flows**

Cash inflows from operating activities for the third quarter of the year totaled NIS 129 million, compared to NIS 103 million for the same period last year. The growth in cash inflows from operating activities for the reporting period was due to the continuing improvement in operating profit, which was partly offset by interest expenses on the Company's loans.

In addition, in order to complete the funding of the Group's activities in the third quarter of the year, the Company and its subsidiaries raised capital totaling NIS 123 million and took long-term loans and issued debentures in a net amount of NIS 135 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which totaled NIS 302 million in the third quarter of the year and to finance long-term investments and the investments in associated companies, which totaled NIS 37 million.

## **5. Donations**

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

The Company donates to the charity "Larger than Life" – a voluntary, humanitarian organization that assists children and youngsters afflicted with cancer and other chronic diseases.

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

The Company also makes donations to Tel-Aviv University, where an institute focusing on research and studies of real estate and real estate related topics has recently commenced its activities (The Chaim Katzman – Gazit Globe Real Estate Institute).

During the reporting period, the Company's donations amounted to NIS 1.9 million.

Of the above sum, the Company donated approximately NIS 200,000 to the 'Larger than Life' charity, approximately NIS 700,000 to the Tel-Aviv University and approximately NIS 800,000 to various bodies in the United States and Canada (through the Company's subsidiaries, such sums being designated for the regions in which they operate).

## **6. Additional Information and Subsequent Events**

- A.** In August 2004, EQY announced that it had signed a binding agreement to acquire six shopping centers in the greater Boston region for a consideration of US\$ 120 million. The transaction was completed at the beginning of October 2004.

The centers have a total G.L.A. of 36 thousand square meters and are anchored by the region's leading supermarket chains, including: Shaw's and Whole Foods. EQY believes that the centers have some development and expansion potential.

The greater Boston region is one of the most densely populated areas on the East Coast and is characterized by higher than average per capita income and population growth rates.

- B.** From the beginning of October 2004 through the date of the financial statements, Group companies sold 3 shopping centers with a total G.L.A of 28 thousand square meters for a consideration of NIS 77 million. The Company expects to record a capital gain of NIS 6 million in respect of the sale of these properties in the fourth quarter of the year.

- C.** In November 2004, RSC completed the acquisition of two senior living facilities in the state of South Carolina for a total consideration of US\$ 13.8 million.

The senior living facilities, which are located in the suburbs of Columbia (the state capital of South Carolina) and in Greenville, were built in 1999 and 2001 (at a very high standard of finishing), and extend over plots of land of 2 hectares and 4.4 hectares, respectively; each of these facilities has a built-on rental area of 6,000 square meters and contains some 90 residential units.

- D.** In October 2004, the Israeli credit rating company, Midrug Ltd., announced that all the Company's debenture series had been given an Aa3 rating (a rating equivalent to –AA on S&P's rating scale). The Company's debentures have also been given a –AA rating by Maalot – The Israel Securities Rating Co. Ltd.

- E.** In November 2004, a consortium of European banks granted Citycon an unsecured credit facility of € 450 million. The credit facility is for 4.5 years and replaces loans of € 435 million that were secured by properties. The cost of the credit facility is less than the cost of the secured loans that it replaces.

## **7. Reporting of Exposures to Market Risks and their Management**

- A.** The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's president, and Mr. Gil Kotler, the Company's Chief Financial Officer. Since the publication of the Company's annual report for 2003 on March 22, 2004, there have been no significant changes in the market risks or the way in which they are managed.

**B. Primary Linkage Report**

The significant change to the primary linkage report is an investment of NIS 411 million that was made to purchase marketable shares in the publicly traded Finnish property company, Citycon. The investment was made in euros, which is Citycon's functional currency and the currency in which its shares are traded. To finance part of this investment, the Company took euro loans and/ or euro-linked loans and issued euro-linked debentures, so that – as of the date of this report - the Company has only a small currency exposure in respect of this investment.

The Company operates in a number of economic regions and in various currencies. The Company has a policy objective of maintaining the various currency exposures, to which its shareholders' equity is subject, at ratios that are similar to the ratio of assets held in those currencies.

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**Chaim Katzman**

Chairman of the Board of Directors

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**Dori Segal**

President and Director



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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2004**

**UNAUDITED**

**INDEX**

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The Board of Directors  
Gazit-Globe Ltd.

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

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

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

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

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

Tel-Aviv, Israel  
November 16, 2004

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

**CONSOLIDATED BALANCE SHEETS**

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

**CONSOLIDATED BALANCE SHEETS**

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

November 16, 2004

Date of approval of the  
financial statements

Chaim Katzmann  
Chairman of the Board  
of Directors

Dori Segal  
CEO and Director

Gil Kotler  
Chief Financial Officer

**CONSOLIDATED STATEMENTS OF INCOME**

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3h.

(4) See Note 4a.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3h.

(4) See Note 4a.

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

(1) Adjusted to the NIS of December 2003.

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

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

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

1. Starting point for the preparation of financial statements:

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)**

## 2. Financial statements in reported amounts:

## a) Definitions:

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

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

## b) Balance sheet:

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

## c) Statement of income:

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

## d) Statement of changes in shareholders' equity:

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

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)**

## c. Change in the amortization period of goodwill:

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

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

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

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- ADDITIONAL INFORMATION**

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

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

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

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

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

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



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- ADDITIONAL INFORMATION (cont.)**

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

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

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

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

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

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- ADDITIONAL INFORMATION (cont.)**

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

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

**NOTE 4:- SUBSEQUENT EVENTS**

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5:- GEOGRAPHIC INFORMATION

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

CITYCON

**Citycon Oyj,  
Financial Results Q3, 2004**

# CITYCON

## **Independent Auditors' Review Report to the Board of Directors of Citycon Oyj**

We have reviewed the consolidated balance sheet of Citycon Oyj as of September 30, 2004, the related consolidated statements of operations for the nine-month period ended September 30, 2004, and the related consolidated statements of cash flows for the nine-month period ended September 30, 2004, which are included in the Company's interim report. These consolidated financial statements are the responsibility of the Board of Directors and the Company's management.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A 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 reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Accounting Act and other rules and regulations governing the preparation of interim financial statements in Finland.

Helsinki, October 21, 2004

Ari Ahti  
*Authorized Public Accountant*

Jaakko Nyman  
*Authorized Public Accountant*

# CITYCON

**CITYCON OYJ STOCK EXCHANGE BULLETIN 21 OCTOBER 2004 11.30 a.m.**

## **CITYCON'S INTERIM REPORT 1 JANUARY–30 SEPTEMBER 2004**

- Profit before extraordinary items and taxes rose to EUR 17.8 million (EUR 15.4 million)
- Turnover increased to EUR 66.1 million (EUR 57.9 million)
- Earnings per share increased to EUR 0.13 (EUR 0.11)
- Share offering to selected institutional investors was oversubscribed
- Citycon is assessing opportunities for expansion in the Scandinavian and Baltic countries
- Demand and occupancy rates for business premises remained strong during the period

### **Key figures**

	<b>1–9 2004</b>	<b>1–9 2003</b>	<b>1–12 2003</b>
Turnover, EUR million	66.1	57.9	78.1
Operating profit, EUR million	37.5	33.2	43.3
% of turnover	56.8	57.3	55.5
Profit before extraordinary items and taxes, EUR million	17.8	15.4	19.1
Profit, EUR million	12.8	11.3	14.3
Earnings per share, EUR	0.13	0.11	0.14
Earnings per share, diluted, EUR	0.12	0.11	0.14
Equity per share, EUR	2.00	1.98	2.01
P/E (price/earnings) ratio	13	9	11
Return on equity (ROE), %	8.5	7.6	7.1
Return on equity including minority interest, %	5.7	5.2	4.9
Return on investment (ROI), %	6.2	6.1	5.8
Equity ratio, %	46.2	48.3	44.9
Equity ratio with capital loan not counted as part of shareholders' equity, %	38.1	39.1	36.7
Gearing, %	148.2	142.5	163.2
Net rental income, %	8.5	8.5	8.5
Occupancy rate, %	97.1	97.6	97.3
Personnel at end of period	43	35	34

### **Trend in the business environment**

Interest rates in the euro zone continued to be low. The economic trend in the euro zone and particularly in Finland continued to be favourable.

According to Statistics Finland, retail sales was 4.7 per cent bigger in the period of January-August 2004 than in the period of January-August 2003. Strong retail sales kept up healthy demand for retail premises and vacancy rates continued to remain low, particularly in the Helsinki Metropolitan Area and Finland's other major cities.

The Finnish property market continued to attract international investors and the internationalisation of the Finnish property market continued.

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## Property portfolio and business activities

The book value of the property portfolio owned by Citycon was EUR 731.0 million at the end of the period (EUR 643.3 million). Citycon owned 16 shopping centres, which comprised 58.9 per cent of the company's property portfolio book value, together with 130 supermarket and shop properties, which comprised 41.1 per cent of the value of the company's property portfolio. At the end of the period, in terms of book values, 46.7 per cent of the properties were in the Helsinki Metropolitan Area, 35.6 per cent were in other major Finnish cities and 17.6 per cent were in other parts of Finland.

On 26 May 2004, the Board of Directors of Citycon Oyj decided to start a process to assess business opportunities in the Scandinavian and Baltic countries. At the same time, the company will continue the implementation of its strategy of expanding its core business in Finland where Citycon will in accordance with its strategy focus on retail premises, mainly in the Helsinki Metropolitan Area and in other major cities..

## Customers, the portfolio of leases, and the occupancy rate

Citycon's customers are Finnish and international speciality and grocery retail chains, supermarkets and department stores, and independent dealers who are not part of chains. There were no significant changes in the customer structure during the period.

During the period, the company signed a total of 260 leases, of which 79 came with the acquisition of Torikeskus in Seinäjoki and 8 with the extension to IsoKarhu. At the end of the period, Citycon had a total of 1,471 leases with roughly 850 lessees. The average length of the leases was 3.6 years.

The occupancy rate for Citycon's entire property portfolio was 97.1 per cent (97.6%).

## Trend in portfolio of leases by division

	1-9 2004	1-9 2003	1-12 2003
<b>Shopping centres</b>			
Number of leases signed during the period, total	196	104	151
Total area of leases signed, sq.m.	28,557	12,131	16,399
Occupancy rate at end of period, %	97.4	98.3	97.6
Average length of lease portfolio at the end of period, years	2.9	2.9	3.0
<b>Supermarkets and shops</b>			
Number of leases signed during the period, total	64	34	51
Total area of leases signed, sq.m.	20,535	8,058	9,806
Occupancy rate at end of period, %	96.7	96.9	96.8
Average length of lease portfolio at end of period, years	4.4	4.4	4.4

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## Rental income

The net rental income of Citycon's leasing business during the period was EUR 46.4 million (EUR 40.9 million). The average net rental yield of the properties owned by the company remained good and was 8.5 per cent (8.5%).

Shopping centres accounted for 55.1 per cent of the net rental income (49.6%) and supermarkets and shops accounted for 44.9 per cent (50.4%). Of net income, roughly, 46.7 per cent was generated by properties in the Helsinki Metropolitan Area, 35.1 per cent by properties in other major Finnish cities, and roughly 18.2 per cent by other properties in Finland.

## Trend in rental income by division

	1-9 2004	1-9 2003	1-12 2003
<b>Shopping centres</b>			
Gross rental income, EUR million	34.8	26.8	36.5
Net rental income, EUR million	25.6	20.3	27.5
Net rental yield, %	8.0*	8.0	8.1*
<b>Supermarkets and shops</b>			
Gross rental income, EUR million	27.4	27.4	36.5
Net rental income, EUR million	20.8	20.6	27.2
Net rental yield, %	9.2	9.0	8.9

\*Figures include uncompleted projects

## Investments and development projects

Citycon's gross investments amounted to EUR 15.0 million (EUR 2.0 million).

Gross investments include the acquisition of a new shopping centre, Torikeskus in Seinäjoki, for EUR 7.1 million and EUR 7.9 million for property development projects.

**The Shopping Centres Division's** property portfolio grew on 1 March 2004 with the acquisition of Torikeskus in Seinäjoki, one of the foremost shopping centres in the Southern Ostrobothnia region.

The extension to the IsoKarhu shopping centre in Pori was completed during the third quarter. The extension will boost Citycon's profit even in the next quarter. The conversion work on Jyväskeskus, which is in Jyväskylä, was completed in May, which immediately boosted rental income. The combined total of the investments in IsoKarhu and Jyväskeskus is roughly EUR 12 million.

Shopping Centres Division also continued the planning for extensions at the Lippulaiva and Espoontori shopping centres in Espoo, the Myyrmanni shopping centre in Vantaa, and the Koskikeskus shopping centre in Tampere, as well as starting to assess the possibilities for development at Trio in Lahti and Forum in Jyväskylä.

**The Supermarkets and Shops Division** invested EUR 0.6 during the period. The division examined possibilities for development at the Länsikeskus property in Espoo and at shopping centres in the Hervanta district of Tampere and in Kuopio city centre.

**The Property Development Division** continued the planning of development projects for Citycon's retail sites together with the other divisions. The division also devoted effort to



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investigating the commercial framework for new shopping centres in the Helsinki Metropolitan Area and in the Tampere market zone.

## **Divestments**

During the period, Citycon sold, in accordance with its strategy, 3 properties belonging to the Supermarkets and Shops Division. The combined book value of the properties sold was EUR 0.6 million and the capital gains were EUR 0.1 million.

## **Turnover and profit**

During the period, Citycon's turnover increased to EUR 66.1 million (EUR 57.9 million). Operating profit increased to EUR 37.5 million (EUR 33.2 million). The increase was largely due to the acquisitions of shopping centres at the end of 2003 and in the first quarter of 2004. Gross rental income accounted for 94.1 per cent (93.6%) of turnover.

## **Balance sheet and financing**

The Group's financing situation remained good during the period. The balance sheet total was EUR 857.3 million (EUR 752.2 million), of which cash and cash equivalents were EUR 27.9 million (EUR 23.5 million). At the end of the period, Citycon had a total of EUR 459.2 million (EUR 386.6 million) of liabilities. Interest-bearing liabilities decreased by EUR 2.3 million during the period to EUR 509.7 million (EUR 440.3 million), when the capital loan of EUR 68.5 million (EUR 68.5 million) was included in the figure.

The average interest rate for interest-bearing liabilities during the period was 5.1 per cent (5.5%). The average loan period, weighted according to the principals of the loans, was roughly 3.9 years (4.8 years), and the average interest-rate fixing period was 3.8 years (4.1 years).

Citycon's interest-bearing liabilities included 86.5 per cent of floating rate loans, of which 77.6 per cent has been converted to a fixed rate by means of interest rate swaps and 12.3 per cent has been hedged with interest rate caps. The par value of the interest rate swaps at the end of the period was EUR 340.8 million and that of the interest rate caps was EUR 53.8 million. The interest coverage ratio, i.e. the previous twelve months' profit before interest expenses, taxes and depreciation to net financial expenses, was 2.2 (2.1).

The Group's equity ratio was 46.2 per cent (48.3%). If the capital loan is not included in shareholders' equity, the equity ratio was 38.1 per cent (39.1%).

Net financial expenses rose by EUR 1.8 million to EUR 19.7 million (EUR 17.8 million).

## **Citycon and IFRS**

Citycon Oyj is to go over to reporting in accordance with IAS/IFRS standards (International Financial Reporting Standards) in its interim reports and financial statements in 2005. The company made decisions on the main optional accounting principles in IFRS at the beginning of 2004 and examined the effect of the adoption of IFRS on its accounting principles in its financial statements bulletin released on 12 February 2004. In addition, on 31 August 2004, Citycon issued preliminary IFRS comparative figures on the balance sheet as at 1 January 2004 and for the 1<sup>st</sup> and 2<sup>nd</sup> quarters of the year. In the future, Citycon will disclose preliminary comparative figures in a separate

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bulletin on the issue dates of interim reports and annual financial statements. Citycon will present final reconciliation calculations in its interim report for the first quarter of 2005.

## Personnel

At the end of the period, the Citycon Group had a total of 43 (35) employees, of whom 32 (28) were employed by the parent company.

## Shares and shareholders

### Directed share offering

During the period, Citycon carried out a directed share offering to Finnish and international institutional investors. The intention of the share offering was to expand Citycon's ownership structure to support the company's forthcoming growth and to improve the liquidity of the company's shares. The decision by the Board of Directors to hold the share offering was based on an authorisation granted by the annual general meeting of 15 March 2004 to increase the share capital by means of a new issue of shares.

New shares in the amount of 10,000,000 were offered at price EUR 2.03 for subscription. Of the shares, 91 per cent were allocated to foreign and 9 per cent to Finnish investors. The new shares were the equivalent of roughly 9.4 per cent of Citycon's share capital and voting rights conferred by shares before the offering, and after it they were equal to roughly 8.6 per cent. The share offering was carried out in a bookbuilding process on 13 and 14 September 2004. The share offering was oversubscribed by a factor of 2.4.

The share offering affected Citycon's shareholders' equity and the number of its shares and shareholders as follows:

	Share offering excluded	Change	Share offering included
Share capital, EUR, million	142.8	13.5	156.3
Shareholders' equity, EUR, million	276.6	20.3	296.9
Total number of shares, million	105.8	10.0	115.8

The increase in share capital, being EUR 13,500,000 was entered in the Trade Register on 24 September 2004. The new shares were quoted on the Main List of the Helsinki Exchanges as of 27 September 2004.

Details of the directed share offering can be found in the stock exchange bulletins issued by Citycon in September 2004.

### Share capital, the number and par value of shares at the end of the period

Citycon's share capital as at 30 September 2004 was EUR 156,300,108.30 and the number of shares was 115,777,858. The par value of a share is EUR 1.35.

### Traded volume and price

During the period, the total for Citycon shares traded on the Helsinki Exchanges was 103.5 million shares and EUR 195.8 million. The high price quoted during the period was EUR 2.19 and the low was EUR 1.52. The weighted average price for the period was EUR 1.89 and the closing price of

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the period was EUR 2.15. The company's market capitalisation at the end of the period was EUR 240.6 million (EUR 134.5 million), after deducting the portion of treasury shares from the total.

## **Shareholdings**

At the end of the period, Citycon had a total of 1,188 registered shareholders. The registered shareholders held 115,770,184 shares, so they had 99,99 per cent of the shares and voting rights. Nominee-registered shareholders, mostly international investors, had 91,496,706 shares, which is 79,03 per cent of the number of shares and voting rights.

## **Treasury shares and the shareholdings of the Board of Directors and the management**

The number of treasury shares remained the same during the period, at 3,874,000 shares, which is the equivalent of 3.3 per cent of the company's total shares and voting rights. The total purchase price of the shares was EUR 4.7 million. The book value of treasury shares on 30 September 2004 corresponded to their purchase price, which was lower than their market value at the end of period. The effect of treasury shares has been deducted for the calculation of the key figures.

In deciding on carrying out the directed share offering on 15 September 2004. Citycon's Board of Directors also decided to propose to the annual general meeting to be held in spring 2005 that the 3,784,000 treasury shares held by the company be invalidated instead of selling them in public trading at the Helsinki Exchanges as decided by the Board of Directors on 11 August 2004.

The members of Citycon Oyj's Board of Directors held a total of 66,453 shares on 30 September 2004, which was 0.05 per cent of the company's total shares and voting rights. Citycon's CEO held 100,000 shares and 1,650,000 stock options, in addition to which the other members of the Corporate Management Committee held a total of 3,000 shares and 971,670 stock options on 30 September 2004.

## **Citycon in international investors' comparative indexes**

Citycon is included in international property investment companies' indexes. The EPRA/NAREIT Global Real Estate Index and the GPR 250 Property Securities Index serve as comparative indexes for international investors.

## **Authorisations and stock options**

During the period, Citycon's Board of Directors exercised an authorisation granted by the annual general meeting on 15 March 2004 to increase the share capital by means of a share offering, and it decided on 15 September 2004 to carry out a directed share offering. The Board of Directors decided on 11 August 2004 to exercise the authorisation, granted by the annual general meeting of 15 March 2004, to dispose of the invalidation of treasury shares. The disposal of treasury shares was not carried out. However, and instead the Board of Directors decided on 15 September 2004 to propose the cancellation of these shares to the next annual general meeting.

Citycon Oyj applied for the listing of the 1999 A/B/C warrants on the main list of the Helsinki Exchanges during the period. The A/B warrants were included on the main list of the Helsinki Exchanges as of 23 April 2004 and the C warrants have been included on the same list since 1 September 2004.

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The annual general meeting of 15 March 2004 decided on issuing stock options to personnel of Citycon Oyj and of its subsidiaries and to a wholly owned subsidiary of Citycon Oyj as part of the Group's personnel incentive and commitment system. Citycon's Board of Directors decided on 26 May 2004 on the distribution of stock options in accordance with the decision of the annual general meeting.

A total of 1,135,000 2004A stock options were distributed to the personnel of the Group. The rest of the stock options 2,765,000 (A/B/C) were granted to Veniamo-Invest Oy, a subsidiary of Citycon Oyj, to be further distributed to the present and future personnel of the Group.

## **Changing the number of members on the Board of Directors**

An extraordinary general meeting of Citycon Oyj on 10 August 2004 decided, in accordance with a proposal from the Board's Nomination Committee, to increase the number of members on the Board of Directors from seven to eight, within the limits permitted by the articles of association. The meeting augmented the Board of Directors' international expertise in property business by electing, in accordance with a proposal by the Nomination Committee, the American Dori Segal as the new member. Segal is the CEO of First Capital Realty Inc and Gazit-Globe (1982) Ltd. His membership will be in effect until the next annual general meeting.

## **Events after the end of the review period**

Subscriptions were made for 35,000 new shares on 13 October 2004 based on the option rights 1999. The increase of share capital is estimated to be registered in the Trade Registry on 27 October 2004 and the new shares are estimated to be listed on the Helsinki Exchanges along with the old shares on 28 October 2004.

The Board has in its meeting on 21 October 2004 decided to establish a new investment committee to complement the existing audit, nomination and compensation committees. The Investment Committee will be among other things reviewing investments being within the decision making scope of the Board and supervising investment and approval processes. The Investment Committee consists of three members, Stig-Erik Bergström, Tuomo Lähdesmäki and Dori Segal.

## **Outlook for the future**

Citycon forecasts that demand, occupancy rates and rents for its retail premises will continue to remain good in the Helsinki Metropolitan Area and Finland's major cities. The company reasserts its estimate that turnover and profit for the current year will grow due to the favourable market outlook, combined with the shopping centres acquired at the end of 2003 and the beginning of 2004.

Helsinki, 21 October 2004  
Citycon Oyj  
Board of Directors

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## Consolidated income statement

EUR million	1-9 2004	1-9 2003	1-12 2003
Turnover	66.1	57.9	78.1
Other income	0.3	0.2	-0.5
Expenses			
Materials and services	16.7	13.4	18.7
Salaries and social expenses	2.1	1.9	2.6
Depreciation and impairments	5.7	4.9	6.5
Rents and maintenance charges	2.5	3.1	4.1
Share of associated companies' profit	0.3	0.3	0.4
Other expenses of business operations	1.6	1.3	1.9
Expenses, total	28.8	24.8	34.3
Operating profit	37.5	33.2	43.3
Financial income and expenses	-19.7	-17.9	-24.2
Profit before extraordinary items and taxes	17.8	15.4	19.1
Taxes	-5.0	-4.1	-4.9
Profit	12.8	11.3	14.3

## Consolidated balance sheet

EUR million	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
Assets			
Non-current assets			
Intangible assets	4.7	4.1	4.5
Tangible assets	740.5	620.7	729.1
Investments			
Holdings in associated companies	55.3	74.8	55.5
Treasury shares	4.7	4.7	4.7
Other investments	21.4	21.5	23.1
Investments, total	81.4	101.0	83.3
Non-current assets, total	826.6	725.8	816.9
Current assets			
Short-term receivables	2.9	2.9	3.4
Cash and cash equivalents	27.9	23.5	15.1
Current assets, total	30.8	26.4	18.5
Assets, total	857.3	752.2	835.3

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Liabilities and shareholders' equity			
Shareholders' equity			
Share capital	156.3	142.8	142.8
Share premium fund	35.1	28.3	28.3
Treasury share reserve	4.7	4.7	4.7
Other funds	6.6	6.6	6.6
Retained profits	13.0	13.0	13.0
Profit	12.8	11.3	14.3
Capital loan	68.5	68.5	68.5
Shareholders' equity, total	296.9	275.0	278.0
Minority interest	101.3	90.6	99.8
Liabilities			
Long-term liabilities	426.5	366.1	428.3
Short-term liabilities	32.8	20.5	29.2
Liabilities, total	459.2	386.6	457.5
Liabilities and shareholders' equity, total	857.3	752.2	835.3
Gross investment in non-current assets	15.0	2.0	84.2
% of turnover	22.7	3.5	107.9
Depreciation and impairments	5.7	4.9	6.5
Personnel, average	40	33	33

## Cash flow statement

EUR million	1-9 2004	1-9 2003	1-12 2003
<b>Operating activities</b>			
Profit before extraordinary items	17.8	15.4	19.1
Adjustments:			
Depreciation	5.7	4.9	6.5
Financial income and expenses	19.7	17.9	24.2
Other adjustments	0.2	0.1	0.9
Cash flow before change in working capital	43.4	38.2	50.8
Change in working capital	0.3	0.5	0.0
Cash flow from operating activities before financial items and taxes	43.8	38.7	50.7
Interest paid and payments for other financial expenses of operating activities	-16.3	-15.8	-24.1
Dividend and interest received from business operations	0.5	0.3	0.5
Taxes paid	-3.5	-3.2	-4.7

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Cash flow from operating activities (A)	24.5	20.0	22.4
<b>Investing activities</b>			
Investments in tangible and intangible assets	-8.5	-1.9	-4.9
Shares in subsidiaries purchased	-7.6	0.0	-77.1
Shares in subsidiaries sold	0.7	1.4	1.4
Shares in associated companies purchased	0.0	-0.2	-0.8
Shares in associated companies sold	0.0	1.6	1.6
Other items	0.0	0.1	0.1
Cash flow from investing activities (B)	-15.3	1.0	-79.7
<b>Financial activities</b>			
Proceeds from issuance of share capital	20.3	0.0	0.0
Withdrawals of short-term loans	8.1	0.0	2.1
Repayments of short term loans	-8.0	0.0	0.0
Withdrawals of long-term loans	4.9	0.0	67.9
Repayments of long term loans	-7.3	-0.2	-0.2
Dividend paid and other distribution of profit	-14.3	-9.2	-9.2
Cash flow from financial activities (C)	3.7	-9.3	60.6
Increase (+)/decrease (-) in cash and cash equivalents (A+B+C)	12.9	11.7	3.3
Cash and cash equivalents at beginning of period	15.1	11.7	11.7
Cash and cash equivalents at end of period	27.9	23.5	15.1

## Key financial figures

	1-9 2004	1-9 2003	1-12 2003
Earnings per share, EUR	0.13	0.11	0.14
Equity per share, EUR	2.00	1.98	2.01
Return on equity (ROE), %	8.5	7.6	7.1
Return on equity, including minority interest, %	5.7	5.2	4.9
Return on investment (ROI), %	6.2	6.1	5.8
Equity ratio, %	46.2	48.3	44.9
Equity ratio with capital loan not counted as part of shareholders' equity, %	38.1	39.1	36.7

## Treasury shares

25 November 1999-30 September 2004	1-9 2004	1-9 2003	1-12 2003
Number of shares, million	3.9	3.9	3.9
Total par value, EUR million	5.2	5.2	5.2
Share of shareholders' equity, %	3.3	3.7	3.7
Share of voting rights, %	3.3	3.7	3.7
Acquisition cost, EUR million	4.7	4.7	4.7

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The book value of treasury shares on 30 September 2004 corresponded to the purchase price, which was lower than market value at the end of the period. The effect of the treasury shares has been eliminated for the calculation of the key figures.

## Consolidated contingent liabilities

EUR million	30 Sept. 2004	30 Sept. 2003	31 Dec. 2003
Mortgages on land and buildings	362.2	337.2	338.4
Group company shares pledged	76.9	0.0	78.4
Other pledged shares	76.8	96.2	76.7
Other pledges given	0.6	3.2	3.2

## Group's derivatives

EUR million	30 Sept. 2004		30 Sept. 2003		31 Dec. 2003	
	Par values	Fair values	Par values	Fair values	Par values	Fair values
Interest- rate derivatives						
Interest-rate swaps						
Maturing in 2004	0.0	0.0	50.0	-1.7	0.0	0.0
Maturing in 2007	78.2	-0.3	78.2	0.0	78.2	1.1
Maturing in 2008	50.0	-2.1	0.0	0.0	50.0	-1.3
Maturing in 2009	129.6	-7.4	66.0	-7.0	91.0	-5.4
Maturing in 2010	83.0	-6.8	83.0	-7.4	83.0	-5.8
Total	340.8	-16.7	277.2	-16.1	302.2	-11.4
Interest-rate options						
Interest-rate caps purchased						
Maturing in 2004	53.8	0.0	53.8	0.0	53.8	0.0
Total	53.8	0.0	53.8	0.0	53.8	0.0

The fair values for derivatives describe their value if all agreements had been closed at the market price at the end of the period. Derivatives have been used for hedging the loan portfolio. The accrued interest for the period included in the derivatives' fair values, being EUR 2.1 million (EUR 1.4 million) has been booked in interest expenses.

The taxes correspond to the profit of the period. The figures are unaudited. An Independent Auditors' Review Report to the Board of Directors of Citycon Oyj is enclosed.

## Accounting principles

The accounting principles applied in the annual financial statements as at 31 December 2003 are applied in this interim report

## Financial reporting

Citycon Oyj will disclose its financial statements bulletin on 18 February 2005. The annual report will be published on the company's website during week 10, and the printed version will be completed in week 12.

Citycon Oyj will publish its interim reports in 2005 as follows:



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January-March	27 April 2005
January-June	20 July 2005
January-September	19 October 2005

The annual general meeting of Citycon Oyj will be held on 5 April 2005.

Further information for investors can be seen on Citycon's website, [www.citycon.fi](http://www.citycon.fi).

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Helsinki Exchanges

Main media

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**Citycon Oyj,**

**Preliminary Information of IFRS Comparative Figures for the  
Third Quarter of 2004**

# CITYCON

## **Independent Auditors' Review Report to the Board of Directors of Citycon Oyj**

We have reviewed the preliminary comparative IFRS information for the first three quarters of 2004. These statements are the responsibility of the company.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A 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 reviews, we are not aware of any material modifications that should be made to the preliminary comparative information for the first three quarters of 2004, for them to be in conformity with the IFRS principles.

Helsinki, October 21, 2004

Ari Ahti  
*Authorized Public Accountant*

Jaakko Nyman  
*Authorized Public Accountant*

# CITYCON

CITYCON OYJ STOCK EXCHANGE BULLETIN 21 OCTOBER 2004 11.30 a.m.

## PRELIMINARY INFORMATION OF IFRS COMPARATIVE FIGURES FOR THE THIRD QUARTER OF 2004

In this bulletin, Citycon presents preliminary comparative IFRS figures for the first three quarters of 2004. In The bulletin issued on 31 August 2004, the company presented the preliminary opening IFRS balance as at 1 January 2004, preliminary comparative figures for the first and second quarters, and the major impacts of the transition from FAS (Finnish Accounting Standards) to IFRS (International Financial Reporting Standards).

Preliminary comparative figures for the entire financial year will be issued by Citycon in the annual financial statements 2004. The segment information required by IAS 14 will be given starting with the first quarter of 2005. The final reconciliation required by IFRS 1 (First-time adoption of IFRS) will also be presented in the interim report for the first quarter of 2005 as Citycon starts reporting according to IFRS for the first time.

The comparative information has been prepared in accordance with the latest versions of IFRS. The 'notes' column refers to the additional information explained in the separate section. A summary of Citycon's most significant accounting principles is included in the end of this release.

Citycon will go over to reporting in accordance to IFRS in its interim reports and final accounts for 2005. The timetable for the transition has not been changed.

The figures are unaudited.

### Key figures

	Note	FAS Q3	Preliminary IFRS Q3	FAS Q3 Cum.	Preliminary IFRS Q3 Cum.
Earnings per share, EUR		0.04	0.06	0.13	0.20
Earnings per share, diluted, EUR		0.04	0.06	0.12	0.20
Equity per share, EUR		2.00	2.02	2.00	2.02
Return on equity (ROE), %		8.9	11.9	8.5	13.8
Return on investment (ROI), %		6.4	8.2	6.2	7.9
Equity ratio, %	g	38.1	29.3	38.1	29.3

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## Preliminary IFRS Q3 2004 comparison Income statement

EUR million	Note	FAS Q3	Change Q3	Prel. IFRS Q3	FAS Q3 Cum.	Change Q3 Cum.	Prel. IFRS Q3 Cum.
Turnover		22.0	-0.9	21.1	66.1	-2.8	63.3
Other income		0.2	0	0.2	0.3	-0.1	0.2
Change in value of investment property	a						
Expenses							
Depreciation and impairments		1.9	-1.7	0.2	5.7	-5.5	0.2
Share of associated companies profit	b	0.1	-0.1	0	0.3	-0.3	0
Other expenses		7.2	-1.3	5.9	22.8	-2.2	20.6
Operating profit		13.0	2.1	15.2	37.5	5.1	42.7
Net financial expenses		-6.8	0.2	-6.6	-19.7	0.2	-19.5
Profit before and taxes		6.2	2.4	8.6	17.8	5.3	23.2
Taxes	d	-1.7	-3.3	-2.4	-5.0		-2.3
Profit		4.5	1.8	6.2	12.8	8.0	20.9
Earnings per share, EUR		0.04	0.02	0.06	0.13	0.07	0.20
Earnings per share, diluted, EUR		0.04	0.02	0.06	0.12	0.07	0.20

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## Preliminary IFRS Q3 2004 comparison

### Balance sheet

EUR million	Note	FAS 30.9.04	Change	Prel. IFRS 30.9.04
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		4.7	-4.3	0.3
Tangible assets		740.5	-739.4	1.1
Investment properties	a		740.0	740.0
Investments				
Holdings in associated companies	b	55.3	-55.3	0
Treasury shares	c	4.7	-4.7	0
Other investments		21.4	-21.2	0.2
Investments, total		81.4	-81.2	0.2
Deferred tax asset	d			
Non current assets, total		826.6	-84.9	741.6
<b>Current assets</b>				
Short-term receivables		2.9	-0.4	2.4
Cash and cash equivalents		27.9	-0.6	27.3
Current assets, total		30.8	-1.0	29.8
<b>Assets, total</b>		<b>857.3</b>	<b>-86.0</b>	<b>771.4</b>
<b>Liabilities and shareholders' equity</b>				
Equity attributable to equity holders of the parent				
Share capital		156.3	0	156.3
Share premium fund		35.1	-0.1	34.9
Treasury share fund	c	4.7	-4.7	0
Treasury shares	c	0	-4.7	-4.7
Fair value reserve	e		-10.9	-10.8
Other funds		6.6	0	6.6
Retained profits	a.b.d	13.0	9.7	22.7
Profit		12.8	8.0	20.9
Capital loan	f	68.5	-68.5	0
Shareholders' equity, total		296.9	-71.1	225.7
Minority interest		101.3	-101.3	0
<b>Liabilities</b>				
Long term liabilities	f	426.5	82.7	509.2

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Deferred tax liability	d		4.3	4.3
Long term liabilities, total		426.5	87.0	513.5
Short-term liabilities		32.8	-0.5	32.2
Short-term liabilities, total		32.8	-0.5	32.2
Liabilities, total		459.2	86.4	545.7
<b>Liabilities and shareholders' equity, total</b>		<b>857.3</b>	<b>-86.0</b>	<b>771.4</b>

## Preliminary statement of changes in shareholders' equity

Attributable to equity holders of the parent

EUR million	Share capital	Share premium fund and other reserves	Fair value reserve	Treasury shares and capital loan	Retained profits	Total equity
FAS Balance 31 Dec. 2003	142.8	34.8		73.1	27.3	278.0
IFRS Balance 1 Jan. 2004	142.8	34.8	-7.7	-4.7	36.9	202.2
Cash flow hedges Profit			-4.7		8.4	-4.7
Total recognised income and expense			-4.7		8.4	8.4
Dividends					-14.3	-14.3
IFRS Balance 31 Mar. 2004	142.8	34.8	-12.4	-4.7	31.0	191.5
Cash flow hedges Profit			4.8		6.3	4.8
Total recognised income and expense			4.8		6.3	11.1
IFRS Balance 30 June 2004	142.8	34.8	-7.6	-4.7	37.3	202.6
Cash flow hedges Profit			-3.3		6.2	-3.3
Total recognised income and expense			-3.3		6.2	3.0
Share Offering	13.5	6.7				20.2

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IFRS Balance 30 Sep. 2004	156.3	41.5	-10.9	-4.7	43.5	225.7
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## Cash flow statements

Cash flow statements are not presented, as the differences between IFRS cash flow statement and the cash flow statement prepared according to Finnish Accounting Standards are not considered to be material.

## The targeted share offering and the comparative IFRS information for it

	Note	Share offering excluded FAS	Change	Share offering included FAS	Share offering excluded IFRS	Change	Share offering included IFRS
Share capital, EUR, million		142.8	13.5	156.3	142.8	13.5	156.3
Shareholder's equity, EUR, million	h	276.6	20.3	296.9	205.6	20.2	225.7
Total number of shares, million		105.8	10.0	115.8	105.8	10.0	115.8

Details of the targeted share offering can be found in the stock exchange bulletins issued by Citycon in September 2004.

## Notes to the preliminary comparative financial information for Q3 in 2004

- Investment properties have been valued at fair value and the change in values has been recorded in the income statement and the equity in the opening balance.
- Consolidation principles of mutual real estate companies have been changed.
- Own shares held by the parent company are not presented in assets, but are deducted from equity.
- Deferred taxes have been recognised for all temporary differences according to IAS 12 Income Taxes.
- The fair value of cash flow hedging derivatives has been included in the balance sheet and the changes in the values in cash flow hedge reserve in equity.
- Capital loan has been classified as a liability in the IFRS balance sheet.
- The covenant calculation used in the financial agreements will remain the same.
- The transaction costs related to the acquisition of equity have been treated as a reduction in shareholders' equity with an adjustment for income tax.

## Summary of Citycon's most significant IFRS accounting principles

The consolidated financial statements for 2005 of Citycon are to be prepared in accordance with International Financial Reporting Standards (IFRS). The comparative figures of 2004 are restated from previous applied Finnish Accounting Standards (FAS) to IFRS.

## Principles of consolidation



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Mutual real estate companies are consolidated by proportional consolidation, where Citycon's share of assets, liabilities, income and expenses of the company is combined line by line with similar items in the Citycon's financial statements.

## **Investment properties**

Investment property is property (land or building – or part of a building – or both) held to earn rental income or capital gain or both. In the valuation of investment properties according to IAS 40 Citycon has decided to use the fair value model, which will result in changes in value being posted to the income statement. The valuation of investment properties is assessed in accordance with International Valuation Standards (IVS) at least once a year by an external valuer to the income statement. The valuation of investment properties is assessed in accordance with International Valuation Standards (IVS) at least once a year by an external valuer.

## **Property, plant and equipment**

Property (other than investment property), plant and equipment are recorded at historical cost and depreciated over the estimated economic lives of the assets. Machinery and equipment is depreciated over a period of from 4 to 10 years.

## **Intangible assets**

Intangible assets include software licenses. They are recorded at cost and amortised on straight-line basis over 5 years.

## **Impairment**

Property, plant and equipment and intangible assets are assessed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount shall be estimated. An impairment loss is recognised in the income statement if the carrying amount exceeds the recoverable amount.

## **Revenue recognition**

Revenue comprise mainly of rental income from investment property. Rental income is recognised on a straight-line basis over the term of the lease.

## **Leases**

Leases, for which Citycon acts as a lessee, are classified as finance leases and recognised as assets and liabilities if the risks and rewards have been transferred. A lease is classified as an operating lease if it does not transfer substantially all the, risks and rewards incidental to ownership.

## **Pension benefits**

Employee pension cover has been arranged through statutory pension insurance. The contributions to defined contribution plans are charged to the income statement in the period to which they relate.

## **Equity and equity-related compensation benefits**

IFRS 2 Share-based payment -standard has been applied to share options that were granted after 7 November 2002 and have not vested before 1 January 2005. For such option plans the fair value of the equity instruments granted is measured at grant date and the options are expensed over the vesting period of the instrument.

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## **Share offering expenditure**

The transaction costs related to the acquisition of equity have been treated as a reduction in shareholders' equity with an adjustment for income tax.

## **Capital loan**

The capital loan is treated under IFRS as a liability.

## **Reacquired own equity instruments (treasury shares)**

Treasury shares are deducted from the shareholders' equity.

## **Derivatives**

Interest rate derivatives are used as hedging instruments. They are designated as cash flow hedges of the future interest payments on variable rate liabilities. Hedging instruments are measured at fair value and the change in value that relates to the effective part of the hedge is recognised directly in equity. The ineffective part, if any, is recognised in the income statement. Fair value changes remain in equity until the hedged cash flow is recognised.

## **Provisions**

Provisions are recognised, when the group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

## **Taxes**

Income taxes include taxes based on taxable profit for the financial period, adjustments to prior year taxes and change in deferred taxes.

Deferred tax assets and liabilities are recognised using the liability method for all temporary differences arising from the difference between the tax basis of assets and liabilities and their carrying values in IFRS, the enacted tax rate is used in the determination of deferred income tax.

Helsinki. 21 October 2004

Citycon Oyj  
Board of Directors

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