

GAZIT-GLOBE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2005

UNAUDITED

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The Board of Directors
Gazit-Globe Ltd.

Re: Review of unaudited interim consolidated financial statements
for the three months ended March 31, 2005

At your request, we have reviewed the accompanying interim consolidated balance sheet of Gazit-Globe Ltd. as of March 31, 2005, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 93.8% of total consolidated assets as of March 31, 2005, and whose revenues constitute approximately 96.8% of total consolidated revenues for the three months then ended.

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

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

Tel-Aviv, Israel
May 29, 2005

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

CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	19,488	79,189	52,807
Short-term investments	60,550	52,916	56,021
Tenants	89,355	76,389	103,123
Accounts receivable	99,818	99,734	70,001
Loans to partners in property under development	52,538	62,302	55,810
Rental property held for sale	40,531	6,004	54,888
	<u>362,280</u>	<u>376,534</u>	<u>392,650</u>
LONG-TERM INVESTMENTS, LOANS AND RECEIVABLES:			
Investments in affiliates	525,109	321,912	533,867
Long-term investments	344,401	76,157	216,105
Long-term loans and receivables	97,806	47,018	88,687
	<u>967,316</u>	<u>445,087</u>	<u>838,659</u>
FIXED ASSETS:			
Cost	15,927,280	14,031,176	15,391,857
Less - accumulated depreciation	852,624	658,041	778,122
	<u>15,074,656</u>	<u>13,373,135</u>	<u>14,613,735</u>
OTHER ASSETS AND DEFERRED CHARGES, NET			
	<u>276,734</u>	<u>273,687</u>	<u>307,451</u>
	<u><u>16,680,986</u></u>	<u><u>14,468,443</u></u>	<u><u>16,152,495</u></u>

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

CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	1,335,817	403,066	755,391
Trade payables	120,373	84,808	152,474
Other accounts payable	307,665	204,255	256,216
Dividend declared	-	14,562	-
	<u>1,763,855</u>	<u>706,691</u>	<u>1,164,081</u>
LONG-TERM LIABILITIES:			
Debentures	2,629,505	2,229,978	2,298,157
Liabilities to financial institutions and others	6,581,971	6,154,432	7,182,308
Tenants' security deposits	270,540	270,799	267,416
Accrued severance pay, net	1,116	1,032	1,042
Deferred taxes, net	60,636	-	-
	<u>9,543,768</u>	<u>8,656,241</u>	<u>9,748,923</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	<u>218,099</u>	<u>661,148</u>	<u>479,220</u>
MINORITY INTEREST	<u>3,835,805</u>	<u>3,237,338</u>	<u>3,458,056</u>
SHAREHOLDERS' EQUITY	<u>1,319,459</u>	<u>1,207,025</u>	<u>1,302,215</u>
	<u><u>16,680,986</u></u>	<u><u>14,468,443</u></u>	<u><u>16,152,495</u></u>

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

May 29, 2005

Date of approval of the
financial statements

Chaim Katzman
Chairman of the Board

Dori Segal
President and Director

Gil Kotler
Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,		Year ended December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands (except per share amounts)		
Rental income	503,601	420,420	1,858,235
Rental property operating expenses	163,792	135,092	598,675
Rental property depreciation	80,689	61,986	282,176
Gross profit	259,120	223,342	977,384
General and administrative expenses	42,147	35,521	159,392
Operating income	216,973	187,821	817,992
Financial expenses, net	142,951	121,535	519,676
Other income, net	74,022	66,286	298,316
	43,342	25,760	129,202
Income before taxes on income	117,364	92,046	427,518
Taxes on income	22,373	11,073	55,029
Income after taxes on income	94,991	80,973	372,489
Equity in earnings (losses) of affiliates	11,419	(4)	36,004
Minority interest in earnings of subsidiaries	(61,576)	(59,617)	(298,383)
Income before cumulative effect	44,834	21,352	110,110
Cumulative effect as of the beginning of the period of change in accounting principle, net (Note 2b)	(56,525)	-	-
Net income (loss)	(11,691)	21,352	110,110
Net earnings (loss) per NIS 1 par value of Ordinary shares (in reported NIS):			
Before cumulative effect	0.52	0.27	1.17
Cumulative effect as of the beginning of the period of change in accounting principle	(0.63)	-	-
Net earnings (loss)	(0.11)	0.27	1.17

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended March 31, 2005 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
Balance at the beginning of the period (audited)	144,014	922,900	(1,024)	124,974	219,573	17,200	(116,004)	(9,418)	1,302,215
Exercise of stock options into shares	1,793	38,287	-	-	-	-	-	-	40,080
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	5,070	-	-	-	-	5,070
Revaluation of derivatives in affiliate to market value	-	-	669	-	-	-	-	-	669
Loss	-	-	-	-	(11,691)	-	-	-	(11,691)
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	341	341
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(19)	(19)
Dividend paid	-	-	-	-	(6)	(17,200)	-	-	(17,206)
Dividend declared (1)	-	-	-	-	(19,798)	19,798	-	-	-
Balance at the end of the period	<u>145,807</u>	<u>961,187</u>	<u>(355)</u>	<u>130,044</u>	<u>188,078</u>	<u>19,798</u>	<u>(116,004)</u>	<u>(9,096)</u>	<u>1,319,459</u>
	Three months ended March 31, 2004 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous entities	Retained earnings	Dividend declared subsequent to the balance sheet date	Less - shares held by the Company	Less - loans for purchase of shares	Total
Balance at the beginning of the 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	2,836	30,460	-	-	-	-	(9,400)	-	23,896
Foreign currency translation adjustments for foreign autonomous entities, net	-	-	-	34,864	-	-	-	-	34,864
Net income	-	-	-	-	21,352	-	-	-	21,352
Issuance of share capital, net	17	302	-	-	-	-	-	-	319
Revaluation of loans for purchase of shares	-	-	-	-	-	-	-	(56)	(56)
Dividend paid	-	-	-	-	21	(14,583)	-	-	(14,562)
Dividend declared	-	-	-	-	(15,393)	15,393	-	-	-
Balance at the end of the period	<u>140,769</u>	<u>872,409</u>	<u>1,702</u>	<u>121,039</u>	<u>181,151</u>	<u>15,393</u>	<u>(116,004)</u>	<u>(9,434)</u>	<u>1,207,025</u>

(1) See Note 4c.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(11,691)	21,352	110,110
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	151,628	73,262	451,850
Net cash provided by operating activities	139,937	94,614	561,960
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated subsidiaries (b)	-	(8,861)	(8,861)
Investment in subsidiary and in jointly controlled entity	-	(10,824)	(29,220)
Investments in fixed assets	(453,969)	(875,405)	(2,937,886)
Repayment (grant) of loans to partners in property under development, net	3,497	(3,728)	4,928
Proceeds from sale of fixed assets	63,015	39,338	410,105
Long-term loans granted	-	(20,755)	(53,529)
Repayment of long-term loans granted	57	2,600	27,097
Short-term investments, net	1,858	3,146	37,313
Purchase of marketable securities and long-term investments	(142,911)	(28,646)	(238,791)
Investment in affiliate	-	(306,453)	(467,143)
Proceeds from realization of long-term investments	13,968	10,409	60,406
Net cash used in investing activities	(514,485)	(1,199,179)	(3,195,581)
<u>Cash flows from financing activities:</u>			
Repayment of loans for the purchase of Company and subsidiary's shares	341	13,476	15,681
Issuance of share capital, net	-	319	-
Exercise of stock options into shares	40,080	23,896	77,895
Issuance of shares to minorities in subsidiaries, net	169,720	228,236	506,976
Deferred charges in respect of raising loans and debentures	(4,479)	(14,485)	(28,102)
Dividend paid	(17,206)	-	(63,075)
Dividend paid to minorities in subsidiary	(80,527)	(84,544)	(291,193)
Receipt of long-term loans	351,407	545,340	1,545,586
Repayment of long-term loans	(291,318)	*) (222,147)	(379,451)
Withdrawal (repayment) of long-term credit lines from banks, net	(130,142)	*) (495,933)	54,509
Redemption and early redemption of debentures and convertible debentures	(13,865)	(845)	(170,618)
Sale of Company's debentures by subsidiaries	11,036	2,772	107,937
Short-term bank credit, net	(11,553)	26,767	42,320
Issuance of debentures	313,500	1,099,344	1,211,311
Increase in tenants' security deposits, net	10	7,640	9,358
Net cash provided by financing activities	337,004	1,129,836	2,639,134
Effect of exchange rate differences from cash balances of foreign autonomous entities	4,225	267	(6,357)
Increase (decrease) in cash and cash equivalents	(33,319)	25,538	(844)
Cash and cash equivalents at the beginning of the period	52,807	53,651	53,651
Cash and cash equivalents at the end of the period	19,488	79,189	52,807

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands		
(a) <u>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Gain from realization and revaluation of marketable securities, net	(3,975)	(4,315)	(11,015)
Minority interest in earnings of subsidiaries	61,576	59,617	298,383
Equity in losses (earnings) of affiliates	(11,419)	4	(36,004)
Depreciation	80,523	59,618	284,824
Deferred taxes, net	64,371	3,574	28,295
Loss from early redemption of debentures and convertible debentures	-	23	15
Adjustment differences on monetary assets and long-term monetary liabilities, net	(3,620)	(5,175)	14,209
Amortization of other assets and deferred charges	5,214	7,145	22,775
Gain from sale of real estate	(6,963)	(8,352)	(81,396)
Increase in accrued severance pay, net	74	16	25
Gain from issuance of shares to minorities in investees	(35,728)	(15,312)	(32,583)
Changes in asset and liability items:			
Increase in accounts receivable	(11,882)	(4,758)	(107,719)
Increase (decrease) in trade payables and other accounts payable	11,547	(21,984)	57,322
Increase in tenants' security deposits, net	1,910	3,161	14,719
	<u>151,628</u>	<u>73,262</u>	<u>451,850</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2005	2004	2004
	Unaudited		Audited
	Reported NIS in thousands		
(b) <u>Investment in newly consolidated subsidiaries:</u>			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	-	(1,381)	(1,381)
Current liabilities	-	5,932	5,932
	-	4,551	4,551
Fixed assets, long-term investments and loans (mainly real estate)	-	(123,804)	(123,804)
Other assets	-	(3,653)	(3,653)
Long-term liabilities	-	115,512	115,512
Minority interest	-	(1,467)	(1,467)
	-	(13,412)	(13,412)
	-	(8,861)	(8,861)
(c) <u>Significant non-cash operations:</u>			
Conversion of convertible debentures into subsidiary's shares	260,600	-	69,687
Purchase of fixed assets in consideration for subsidiary's shares	-	-	13,000
Dividend declared	-	14,562	-

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of March 31, 2005, and for the three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with the Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

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

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

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

	Representative exchange rate of US\$	Representative exchange rate of €	Israeli CPI Points *)
	N I S		
As of:			
March 31, 2005	4.361	5.6488	179.7
March 31, 2004	4.528	5.5353	178.4
December 31, 2004	4.308	5.8768	180.7
		%	
Change during the period:			
March 2005 (three months)	1.2	(3.9)	(0.6)
March 2004 (three months)	3.4	-	(0.1)
December 2004 (12 months)	(1.6)	6.2	1.2

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

NOTE 3:- ADDITIONAL INFORMATION

- a. During the reported period, approximately 1,753 thousand stock options (series 8) and approximately 40 thousand stock options were exercised by the Company's directors into approximately 1,793 thousand shares in consideration for approximately NIS 40 million.
- b. In January 2005, FCR issued by a private placement approximately 2.7 million shares of FCR at the price of C\$ 19.25 per share, for the total consideration of approximately C\$ 52 million. Gazit Canada acquired approximately 707 thousand shares in this issuance with an investment of approximately C\$ 14 million.

As a result of the issuance and the exercise of stock options into shares of FCR, the Company's shareholdings in FCR decreased from 56.8% to 54.7% and the Company recorded in the first quarter of 2005 a capital gain of approximately NIS 14.3 million.

- c. During February 2005, the Company issued by private placements to institutional investors approximately NIS 227 million par value of debentures (series A) in consideration for approximately NIS 221 million. The above issuance was executed by the extension of the series of debentures which was first issued to the public in May 2002.
- d. In February 2005, a wholly owned American subsidiary of the Company issued NIS 100 million par value of non-marketable debentures to entities controlled by Clal Holdings Insurance Company Ltd. ("Clal Insurance"). The issued debentures are redeemable in February of the years 2010 and 2012. The debentures are linked to the Israeli CPI and bear annual interest at the rate of 5.1%, payable once a year and is fully guaranteed by the Company.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (Cont.)

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

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

Assuming full exercise and if it does not sell shares which it holds, Clal Insurance will become a related party in the Company with holdings of approximately 7.9% of the share capital (eliminating treasury shares and other issuances that the Company may effect from time to time).

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

NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a. In April 2005, the Company raised NIS 425 million by a private placement to institutional entities of debentures (series C) in consideration of their par value which the Company listed for trade on May 10, 2005 pursuant to a prospectus. These debentures are linked to the increase in the Israeli CPI, bear fixed annual interest at the rate of 4.95%, payable twice a year. The principal of the debentures is payable in 8 annual payments from 2011 up to 2018 (each of the first seven payments will be 10% of the amount and the last eighth payment will be 30% of the amount). Similarly, pursuant to the Company's said prospectus, it offered to the public additional NIS 75 million par value of debentures (series C) at same terms along with stock options that are exercisable into additional 450 million debentures (series C). Said debentures were rated Aa3 by Midroog Ltd. and (AA) by Maalot.
- b. In May 2005, the Company's Board approved an employment contract with the vice chairman of the Board. According to the above agreement, the vice chairman of the Board will be entitled to annual salary of approximately NIS 780 thousand, including related expenses (employed 50% of a full time position).

Further, according to the employment contract, the Company expects to issue to the vice chairman of the Company's Board 400,000 stock options exercisable into the shares of the Company.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)**

The exercise increment of the stock options is determined based on the average price for the shares of the Company on the stock exchange during the 30 trading days which preceded that date on which the stock options will be issued. The exercise increment will be linked to the Israeli CPI and subject to adjustments. The stock options vest over 4 years and they may be exercised in four equal parts at the end of each year of engagement.

According to the Black-Scholes model, the economic value of the stock options is approximately NIS 3.1 million.

The above engagement arrangement was not yet approved by the Company's meeting of shareholders which is to convene in June 2005.

- c. In May 2005, the Company declared a dividend of NIS 0.23 per share payable in June 2005. The record date for the entitlement to the dividend is June 14, 2005.

NOTE 5:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Three months ended March 31, 2005 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	281,779	214,190	7,632	503,601
Segment results	159,853	99,211	56	259,120
	Three months ended March 31, 2004 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	248,803	164,093	7,524	420,420
Segment results	144,611	78,078	653	223,342
	Year ended December 31, 2004 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	1,085,522	742,308	30,405	1,858,235
Segment results	620,285	355,957	1,142	977,384