

Gazit-Globe (1982) Ltd.

Directors' Report to Shareholders | for the periods ending June 30, 2004

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter "The Company") hereby presents the Company's financial statements for the periods ended 30 June 2004:

1. A. General

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

B. Group holdings

As of the date of signing the Financial statements, the Group owns 296 income producing properties with an aggregate gross leaseable area (GLA) of approximately 3.1 million square meters that encompasses 281 operating shopping centers, 9 shopping centers under development, 5 senior living facilities that include more than 1,000 living units in Israel and the U.S., an office building in Tel-Aviv and 2 joint ventures, each owning an income producing property. The properties are recorded in the Group's books at a cost of approximately NIS 14.9 billion and produce annual rental income of approximately NIS 1.8 billion (gross annual rent is calculated according to the current properties and the exchange rate on the date of signing the Financial statements). In addition, as of the date of signing the Financial statements the Company owns approximately 36% of Citycon Oyj. (hereinafter "Citycon") – a Finnish public company traded on the Helsinki Stock Exchange (HEX).

In the U.S., the Group operates principally through Equity One Inc. ("EQY"), a public company traded on the NYSE. EQY has REIT (real-estate investment trust) status for income tax purposes. On the date of signing the Financial statements, the Company owns directly and indirectly approximately 40% of EQY's shares capital. EQY operates in growth areas in the southeastern U.S., principally in Florida, Texas and Georgia and owns 184 shopping centers with a GLA of approximately 1.9 million square meters, 4 shopping centers under development and 2 partnerships owning 2 income producing properties. In addition, the Group operates in the U.S. through Royal Senior Care ("RSC") (50%) that engages in the senior living industry in the U.S. and owns two senior living facilities with over 260 living units.

In Canada the Group operates through First Capital Realty Inc. ("FCR"), a public company traded on the Toronto Stock Exchange (TSX). As of the date of signing the Financial statements the Company owns approximately 57% of the FCR shares capital. FCR operates mostly in the provinces of Ontario, Quebec, and Alberta in Canada and owns 97 operating shopping centers with a GLA of approximately 1.2 million square meters and 5 shopping centers under development. In addition, FCR owns approximately 17.8% of the EQY shares capital.

In Israel the Company owns 50% of the shares capital of Mishkenot Clal (1982) Ltd. (hereinafter "Mishkenot Clal") which is engaged in the construction, operation, management and marketing of senior living facilities in Israel and owns 3 senior living facilities with 800 living units. The Group also owns an office building in Tel-Aviv.

In Finland the Company owns approximately 36% of the shares capital of Citycon. As of 30 June 2004, Citycon held 16 shopping centers and approximately 130 commercial properties of which most are leased to supermarkets and other retail chains, with a GLA of approximately 500 thousand square meters.

C. Company holdings

Following is a summary of the Company's holdings as described above, as of 30 June 2004:

Holding	Type of security	Quantity (Millions)	Holding %	Book value (NIS millions)	Market value 30/6/04 (NIS millions)	Market value on Signing date of Financial statements (NIS millions)
EQY ⁽¹⁾	Share	15.8	22.3%	924	1,285	1,395
FCR	Share	23.6	54.2%	1,055	1,285	1,313
FCR	Option warrant	1.3	54.3%	-	18	18
FCR	Convertible debenture	164.5	45.8%	494	555	559
Citycon	Share	37.0	36.3%	391	398	404
Investments in other companies (not listed) and Other assets ⁽²⁾				119	119 ⁽³⁾	119 ⁽³⁾
Total				2,983	3,660	3,808

The Company's liabilities (including liabilities of wholly owned subsidiaries), net ⁽⁴⁾, as of 30 June 2004 totaled approximately NIS 1,771 million.

¹ Represents only the Company's direct holdings in EQY. (In addition, FCR owns about 17.8% of EQY).

² Represents mainly investment in the companies: Mishkenot Clal, Royal Senior Care and an office building in Tel-Aviv.

³ Represent book value.

⁴ Less monetary assets.

D. Second Quarter 2004 – Highlights

- The Group's investments in the acquisition and development of properties in the second quarter of the year totaled approximately NIS 830 million, compared with approximately NIS 198 million, in the acquisition and development of properties in the corresponding period in the previous year.
- Rental income totaled approximately NIS 457 million, an increase of approximately 44% compared with the corresponding period, as a result of the acquisition of new properties and the increase in the rent from the existing properties portfolio.
- Gross profit totaled approximately NIS 244 million (approximately 53.4% of income), compared with approximately NIS 170 million (approximately 53.5% of income), in the corresponding period in the previous year, an increase of approximately 43%.
- The Cash flow from operating activities totaled approximately NIS 159 million, compared with approximately NIS 97 million in the corresponding period, an increase of 64%.
- The Net profit totaled approximately NIS 14.4 million, approximately NIS 0.16 per share compared with Adjusted Net profit of approximately NIS 13.8 million, approximately NIS 0.11 per share.
- The F.F.O. (See item 3c) totaled approximately NIS 43 million, approximately NIS 0.50 per share compared with F.F.O. (Proforma ⁽⁵⁾) in the corresponding period that totaled approximately NIS 36.1 million, approximately NIS 0.40 per share.
- The Company increased its holding in the Finnish public real-estate company Citycon by approximately 6% by an investment of approximately NIS 68 million and reached a holding of approximately 36%.
- The Equity and Minority rights as of the reporting date totaled approximately NIS 4.5 billion which represents approximately 29.8% of the Balance sheet total, compared with approximately NIS 3.3 billion approximately 30.9% of the Balance sheet total, in the corresponding period.

E. Change in the Book profit due to Changes in the Accounting standard

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

The principle effect of the change in the Accounting Standard, as stated above, is the manner of presenting the Finance expenses such that according to the new reporting method, the erosion of the Company's loans at the rate of increase in the Consumer price index had ceased.

As a result of this, even though there was no change in actual interest payments by the Company, the Finance expenses reported in the second quarter were higher in the amount of approximately NIS 96 million than the Finance expenses that would have been reported

⁵ Assuming the implementation of Accounting Standards 12 and 13 beginning as of 1 January 2003.

were it not for the change.

The change in the reported Finance expense, less the effect of the Minority interest, caused a reduction in the reported Net profit in the second quarter of the year in the amount of approximately NIS 45 million compared with Net profit that was reported had there was no change in the Accounting standards.

In the opinion of the Company, cessation of adjustment of Financial statements for the index has no effect on the operations of the Company, its income, Gross profit, Operating profit or Cash flow.

2. The Group and the Business environment – Key Events and Changes in the Reporting period

General

During the reporting period the Group's investments totaled approximately NIS 2.2 billion:

Approximately NIS 1.8 billion was invested in the acquisition of new properties, renovation, expansion and construction of income producing properties (including the first time pro-rata consolidation of properties of Hatsrot Hadar Ltd.). The effect of these investments on the operations result will be expressed in full during the rest of the year. Also, approximately NIS 375 million was invested in the acquisition of substantial holding in Citycon.

A. Real-estate transactions

1. During the reporting period EQY, FCR and RSC acquired 25 income-producing properties with a GLA of 282 thousand square meters and 14 land plots for future development for a total of approximately NIS 1.5 billion.
2. In the reporting period EQY and FCR, developed new properties and renovated existing properties in excess of NIS 200 million.
3. In the reporting period EQY sold 2 income-producing properties (in a total of approximately 30 thousand square meters) for a price of approximately NIS 57 million. As a result of this sale the Company recognized Net profit of approximately NIS 2 million, in comparison with approximately NIS 2.7 million of Net profit from the sale of properties in the corresponding period (in the second quarter of the year the Company posted a loss of approximately NIS 0.7 million compared with a profit of approximately NIS 1.8 million from the sale of properties in the corresponding period).
4. As of 30 June 2004 the Group held properties for development, new development and land for future development at a cost of approximately NIS 428 million. These properties did not produce rental income in the reporting period.
5. At the end of the second quarter of 2004 EQY's average basic monthly rental income was \$ 8.74 per square meter. During the second quarter of the year EQY renewed leases over an area of 19 thousand square meters, while increasing the basic average monthly rent by 4.2% to \$ 12.44 per square meter and signed on lease contracts for a rental area of 38 thousand square meters at an average basic monthly rent of \$

9.67 per square meter. In the second quarter of the year the leases for an area of 17 thousand square meters at an average monthly rent of \$ 11.77 per meter expired. The Net Operating Income (NOI) from same properties increased by 2.5% compared with the corresponding quarter.

As of 30 June 2004 average occupancy rate of EQY properties was approximately 92.5% (As of 30 June 2003 approximately 88.7%).

6. At the end of the second quarter of 2004 the FCR's basic average base rent income was Canadian \$ 11.53 per square meter. During the second quarter of the year FCR renewed lease contracts over an area of 7 thousand square meters, while increasing the average basic apartment monthly rental income by 2% to Canadian \$ 16.77 per square meter and signed on lease contracts for rental area of 5 thousand square meters and an average basic monthly price of Canadian \$ 12.75 per square meter. In the second quarter of the year the lease contracts totaled an area of 3 thousand square meters at an average monthly price of \$ Canadian 11.49 per meter. The Net Cash flow from properties increased by 2.5% compared with the corresponding quarter.

As of 30 June 2004 average occupancy rate of FCR properties was approximately 93.8% (As of 30 June 2003 approximately 91.9%).

B. Acquisition of Citycon

- 1) In the month of February 2004, the Company Board of Directors authorized the Company management to examine on the basis of the experience and the abilities that the Group has acquired in its activities in the field of shopping centers in North America, expanding its activity, in the field of shopping centers in Europe as well.
- 2) In the reporting period the Company acquired approximately NIS 37 million shares of Citycon which represented a holding of approximately 35% of Citycon's issued capital shares (approximately 36.3% of the shares less shares held by Citycon) for a price of approximately NIS 374.7 million. The reported investment cost is after deducting the Company's part in the dividend that Citycon distributed during the month of March 2004 in an amount of approximately NIS 22 million.

The Citycon Board of Directors numbers eight directors, of whom 3 are directors who were appointed according to a recommendation from the Company, and that includes the President of the Company.

- 3) Citycon is a Finnish public company that concentrates in the commercial income producing real-estate business in Finland. Its property portfolio as of 30 June 2004 included approximately 146 properties – some of them supermarket-anchored shopping centers and others commercial buildings that are rented principally to supermarket chains and other retailers in an inclusive area of approximately 500 thousand square meters.
- 4) Beginning from the second quarter of the year, the Company presents its investment in Citycon using the Balance sheet value method according to Citycon's financial statements that were prepared according to international accounting rules.

C. Exercise of Option warrants for Company shares

- 1) In the reporting period approximately 1.6 million Company option warrants (Series 4) were exercised for approximately 2 million Company shares for a total consideration of approximately NIS 23.9 million. In addition, the Company exercised an additional approximately 0.6 million option warrants that were in its possession for approximately 0.8 million shares. There were approximately 3 thousand option warrants that were not exercised as of February 2004, their last day for exercising and they expired.
- 2) In the reporting period approximately 1.3 million Company option warrants (Series 7), that were issued to Company Shareholders through rights in the month of May 2004, were exercised for approximately 1.3 million Company shares for a total consideration of approximately NIS 22.1 million. After the Balance sheet date, approximately 1.9 million additional option warrants were exercised for approximately 1.9 million Company shares, for a total consideration of approximately NIS 32 million. There were approximately 6 thousand option warrants had not been exercised as of July 2004, their last exercise date, and they expired.

D. Public Offering of shares Consolidated companies

- 1) In March 2004, FCR issued to institutional investors and others approximately 3.4 million shares (including approximately 0.8 million shares to the Company) in consideration of approximately Canadian \$ 54 million (approximately NIS 180 million). In addition the Company and others exercised approximately 4.5 million option warrants for FCR shares (approximately 2.6 million shares by Company) in another investment of approximately Canadian \$ 55 million (approximately NIS 184 million). As a result of the issue of these shares and interest payment on debentures convertible for FCR shares, the Company's rate of holding in FCR declined from 56.9% to approximately 54.2% and the Company recognized profit of approximately NIS 10.5 million.
- 2) In the months of March and April 2004 the FCR Indemnity committee approved an allocation of 120,000 restricted shares for the CEO of FCR (who also serves as Company's President) for no payment. Eighty thousand of the shares were allocated in the month of May 2004 (half of them for the year 2003 and the other half for the year 2004) and the balance will be allocated by the month of May 2005. The restricted shares have a vesting period of 3 years, beginning from 15 December of the year for which the shares were granted.
- 3) During the reporting period EQY issued for the public, in the framework of a dividend re-investment program ("DRIP") and exercise of Option warrants for EQY shares by employees, approximately 1.4 million shares for a total consideration of approximately U.S. \$ 26 million (approximately NIS 117 million) (of which there were 0.2 million shares for a price of approximately \$ 4 million by the Company and its consolidated companies). As a result of this issue of these shares, the Company's holding rate in EQY declined from 40.5% to approximately 40.2% and Globe recognized profit of approximately NIS 4.5 million.

E. Debentures in the Company and Consolidated companies

- 1) On 27 January 2004 after "Maalot – the Israeli Rating Company" raised the Company's debentures' rating to -AA, the Company issued to institutional investors:
 - 1.1 Debentures series (that will not be registered for trade on the Exchange) at a total par value of NIS 120 million. The debentures allocation was made against a payment of their par value. The said debentures are linked to the rise in the Consumer price index, and bear fixed annual interest of 5.55% paid each year. The debentures principal will be paid one installment, in February 2010.
 - 1.2 Debentures (Series 'A') in the amount of NIS 90 million par value at a price of NIS 101 for NIS 100 par value of debentures, and for a total consideration of approximately 91 million. The above-mentioned allocation was made by extending the debenture series (Series 'A') that was first issued to the public pursuant to a Company prospectus dated 2 May 2002.
- 2) On 26 March 2004, EQY completed the issue of a debenture series in the amount of \$ 200 million. The debentures are redeemable in one payment on 15 April 2009 and bear fixed interest of 3.875%. The debentures were issued with a yield to maturity of 3.902% (a spread of 1.25% above the yield of U.S. Treasury bonds for the stated period at the time of issue). In addition, EQY entered a \$ 100 million swap transaction with a banking institution in which a fixed rate was swapped with a floating rate interest, so that after the transaction, the interest rate on the exchanged sum is a six months LIBOR rate with an additional spread of 0.4375%.
- 3) On 24 May 2004 the Company issued according to a prospectus, a new debentures series ('B' debentures) linked to the euro and bearing eurobor interest with an added spread of 2% in the sum of NIS 347.5 million, of which approximately 66.5 million was issued to institutional holders and the public and approximately NIS 281 million was issued to the Company's wholly owned companies.

In the framework of the issue the Company expanded the negotiable debentures series ('A' debentures) by approximately NIS 155 million of which approximately NIS 25 million was issued to the public and approximately NIS 130 million was issued to the Company's wholly owned companies (debentures ('A' series) in the sum of approximately NIS 45 million were sold by the same companies to the public during the month of July 2004).

Also, in the framework of the prospectus the Company distributed to the above-mentioned debenture purchasers option warrants (Series 8) convertible to the Company shares until 13 October 2005 for an exercise price of NIS 24 for each option warrant and distributed through rights to its Shareholders for no payment 2 series of option warrants: option warrants (Series 7), convertible to the Company shares for an exercise price of NIS 17 for each option warrant and option warrants (Series 8) (with an exercise price, in both series, linked to changes in the U.S. dollar exchange rate).

F. Acquisition of Hatsrot Hadar Ltd. by Mishkenot Clal

On 31 January 2004, Mishkenot Clal signed an agreement with Polar Investments Ltd. and Nidoran Ltd. for acquisition of 91.2% of the Hatsrot Hadar Ltd. shares, that it held jointly with Mishkenot Clal in senior living facilities, Mediterranean Towers Kfar Saba (50%) and Mediterranean Towers Nordiya (33%) and that are managed by Mishkenot Clal.

On 1 March 2004 after receipt of approval from the Anti-Trust Commissioner, the transaction was completed. After completion of the transaction, Mishkenot Clal, through its subsidiaries, holds full ownership of Mediterranean Towers Kfar Saba and 66.67% of the ownership of Mediterranean Towers Nordiya.

G. Long-term investments

During the Reporting period EQY acquired approximately 1.6 million negotiable shares of the income producing real-estate company Cedar Shopping Centers Inc. ("CDR") in the course of trading on the New York Exchange, that represents 9.7% of the issued capital of CDR, with an investment of approximately \$ 18.3 million (NIS 82 million).

CDR is a real estate investment trust, with "REIT" tax status, owner of 28 neighborhood supermarket-anchored shopping centers and located in 4 states in the Eastern U.S. on a total area of approximately 400 thousand square meters.

On 30 June 2004 the market value of CDR was approximately \$ 190 million (approximately NIS 855 million).

H. Dividend distribution policy

In conformance with the Company's dividend policy, the Company decided that the dividend to be declared beginning from the second quarter of 2004 would not be less than NIS 0.19 per share per quarter (i.e. NIS 0.76 per share on an annual basis).

The above-stated is subject to the existence of sufficient amounts of distributable profits on the relevant dates and subject to the provisions of any applicable law relating to dividend distributions and to decisions that the Company is authorized to make, including the allocation of its profits for other purposes and revision of this policy.

3. A. Operating results

	For the 6 months ended 30 June		For the 3 months ended 30 June		For the year ended 31 December
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	Unaudited				Audited
NIS thousands (except for net profit per share figures)					
	Reported ⁽⁶⁾	Adjusted ⁽⁷⁾	Reported ⁽⁶⁾	Adjusted ⁽⁷⁾	Adjusted ⁽⁷⁾
Income from rents	877,350	610,750	456,930	317,760	1,401,186
Operating expenses – rental properties	280,397	201,846	145,305	102,724	457,790
Depreciation – rental properties	129,793	83,389	67,807	44,978	197,489
Gross profit	467,160	325,515	243,818	170,058	745,907
General and Administrative expenses	73,533	52,728	38,012	25,222	115,805
Regular Operating profit	393,627	272,787	205,806	144,836	630,102
Finance expenses, net	(254,253)	(105,439)	(132,718)	(122,155)	(300,163)
Other income, net	139,374	167,348	73,088	22,681	329,939
	27,126	27,126	1,366	23,589	56,492
Profit before Income tax	166,500	185,593	74,454	46,270	386,431
Income taxes	24,667	15,335	13,594	8,686	43,629
Profit after Income taxes	141,833	170,258	60,860	37,584	342,802
Company's share in Included companies' profits	11,676	3,647	11,680	1,360	3,613
Minority interest in Consolidated companies' profits	(117,781)	(98,160)	(58,164)	(25,137)	(209,839)
Net Profit	35,728	75,745	14,376	13,807	136,576
Net profit per share	0.43	.89	0.16	.11	1.69
Diluted Net profit per share	0.39		0.13		

⁶ In accordance with Accounting Standards 12 and 13.

⁷ Adjusted for the NIS as of December 2003.

B. Analysis of Operating expenses for the Second quarter 2004

Rental Income

The 44% increase compared with the corresponding period last year is due to the acquisition of new properties during the first quarter of the year and the acquisition of 9 new properties in the reporting period, the inclusion of income production from properties that completed development, acquisition of properties during the year 2003 and a rise in the average occupancy rate and increase in rental income in the existing properties portfolio.

Operating expenses of rental properties

The increase in properties operating expenses compared with the comparable period is due to the volume of properties as stated above. The ratio of operating properties expenses to total rental income decreased by from approximately 32.3% to approximately 31.8% in the corresponding period.

Depreciation of rental properties

The Company's share in the properties depreciation (depreciation of properties less the minority interest therein) totaled approximately NIS 28.1 million that is approximately NIS 0.34 per share compared with approximately NIS 23.3 million which represents approximately NIS 0.33 per share in the corresponding period.

Gross profit

Gross profit totaled approximately NIS 244 million (approximately 53.4% of rental income) compared with approximately NIS 170 million (approximately 53.5% of rental income) in the corresponding period.

General and Administrative expenses

The ratio of General and Administrative expenses to total rental income represents approximately 8.3% compared with approximately 7.9% in the corresponding period. The increase in the ratio of General and Administrative expenses is attributed principally to the increase of operating activity of EQY and FCR that was accompanied by growth in Administrative expenses of these companies and the establishment of the Company activity framework in Europe and the expansion of this activity.

Finance expenses, net

The change in Finance expenses is due to the reasons below:

- 1) Cessation of adjusting the Financial statements for changes in the purchasing power of currency (inflation) in the countries where the Company conducts business, in conformance with Accounting Standard No. 12 and No. 13, while in the corresponding period the Financial statements were adjusted for negative changes in inflation (approximately 0.3% in the U.S. and 0.6% in Canada) and caused an increase in Finance expenses of approximately NIS 30 million.
- 2) An increase in the Group's loans from an average balance of approximately NIS 6.7 billion in the second quarter of 2003 to an average balance of approximately NIS 9.3 billion in the reporting period. Finance expenses in the quarter reflect an average nominal interest of 5.9% of the Group's liabilities.

- 3) Weakening of the U.S. dollar against the NIS at a rate of 0.7% caused Finance income due to erosion of residents' deposits in Mishkenot Clal in the amount of approximately NIS 1.5 million and is compared with weakening of the U.S. dollar against the NIS in the corresponding period at an effective rate of approximately 6.8% that caused Income from erosion of the deposits in the amount of approximately NIS 7 million.
- 4) Following are the rates of change in the Consumer price index and exchange rates of the U.S. dollar and Canadian dollar against the NIS:

	Consumer's Price Index			Exchange Rates		
	ISRAEL	U.S.	CANADA	ISRAEL	U.S.	CANADA
	Rates of change			Rates of change		
4-6/2004	1.5%	1.2%	1.2%	(0.7%)	(3.5%)	(1.3%)
4-6/2003	(1.3%)	(0.3%)	(0.6%)	(8.0%)	(0.5%)	(3.5%)

Other Income, net

This item includes principally profits and losses from capital transactions such as decline of holdings rate in consolidated companies and real-estate sales.

The Group posted a Net profit as a result of the decline of its holdings in consolidated companies, in the amount of approximately NIS 0.2 million (the Company's share was approximately NIS 0.2 million) and this is compared with profits of approximately NIS 18.4 million (the Company's share was approximately NIS 15.9million) in the corresponding period.

In addition, EQY sold property that caused a net loss to the Group of approximately NIS 2 million (the Company's share in the loss was approximately NIS 0.7 million), and this is compared with a net profit, from sale of properties of approximately NIS 4.6 million (the Company's share in the profit was approximately NIS 1.8 million) in the corresponding period.

Company's share in profits of Included companies

The Company included for the first time its portion in Citycon's profits in the second quarter of the year that totaled the amount of approximately NIS 11.8 million.

C. F.F.O.⁽⁸⁾ and the F.F.O. per share

The Company customarily announces the F.F.O. results (reported net income after neutralizing all non-recurring income and expense items plus the Company's share of depreciation and other reductions) and the F.F.O. per share, which is accepted practice in those countries in which the Company operates and in accordance with the position paper issued by the U.S.-based National Association of Real Estate Investment Trusts ("NAREIT"). In view of the Accounting Standards No. 12 and No. 13 that came into effect in Israel regarding cessation of adjusting financial statements for changes in the purchasing power

⁸ According to the position paper announced by NAREIT, the F.F.O. index does not reflect Cash flow from Regular activities in accordance with accepted accounting rules, it does not reflect cash held by the Company or its ability to distribute the cash and it does not replace the reported net income. Furthermore the F.F.O. is not an item that is audited by the Company's auditors.

of the local currency beginning 1 January 2004 as is accepted practice in the U.S. and Canada, the Company is of the opinion that subject and in addition to its Financial statements, the F.F.O. and F.F.O. per share fairly reflect the Company's operating results and allow a basis for comparison of the Company's operating results in a particular period to previous periods, and those of the Company's to the operating results of other income property companies.

Following is a computation of the F.F.O. and the F.F.O. per share of the company in the periods as stated.

	1-6/2004	1-6/2003	4-6/2004	4-6/2003	1-12/2003
NIS thousands (except for profit per share figures)					
Reported Net profit	35,728	75,745	14,376	13,807	136,576
Adjustment					
Loss (profit) from decline in holding rates of consolidated companies	(15,024)	(11,499)	(201)	(15,900)	(37,450)
Profits from sale of properties	(2,013)	(2,745)	703	(1,804)	(4,205)
Total adjustments	(17,037)	(14,244)	502	(17,704)	(41,655)
Company's share in Depreciation and other reductions	55,274	43,575	28,073	23,293	97,095
Reported F.F.O	73,965	105,076	42,951	19,936	192,016
F.F.O (Proforma)	73,965	57,341 ⁽⁹⁾	42,951	36,108 ⁽⁹⁾	125,751 ⁽⁹⁾
F.F.O Reported per share	0.89	1.27	0.50	0.18	2.39
F.F.O per share (Proforma)	0.89	0.65 ⁽⁹⁾	0.50	0.40 ⁽⁹⁾	1.55 ⁽⁹⁾
F.F.O per share (Proforma) (without effect of convertible securities shown in basic computation)	0.91	0.81	0.53	0.51 ⁽⁹⁾	1.65 ⁽⁹⁾

⁹ Pro-forma (application of Accounting Standards No. 12 and No. 13 beginning as of 1 January 2003).

4. Financial condition

Liquidity

The Group's policy is to maintain an appropriate level of liquidity, to enable it to exploit business opportunities in its field of activities.

As of 30 June 2004 the liquid balances at the Group's disposal, including short-term deposits, totaled approximately NIS 94.3 million compared with approximately NIS 121.4 million as of 31 December 2003. Also, as of 30 June 2004 the Group had unused credit lines for immediate withdrawal in the amount of approximately NIS 1,415 million compared with approximately NIS 1196 million as of 31 December 2003.

The increase in cash and unused credit lines is due to raising of capital and debt that the Group transacted during the reporting period less monies that were used for the acquisition of income producing properties.

The Group's net cash and unutilized credit lines for immediate access total approximately NIS 1.5 billion.

Investments in Included companies

Investments in included companies as of 30 June 2004 totaled approximately NIS 407 million compared with approximately NIS 16 million on 31 December 2003. The increase in this item derives from the acquisition of approximately 37 million shares of Citycon less the dividend received from Citycon, as described in item 2 b' plus the addition of the Company's share in Citycon profits in the second quarter of 2004, for a total of approximately NIS 391 million.

Long-term investments

Long-term investments as of 30 June 2004 total approximately NIS 147 million compared with approximately NIS 40 million on 31 December 2003.

The increase in this item derives principally from the acquisition of approximately 9.7% of CDR for an investment of NIS 82 million by EQY.

Fixed assets, net

Fixed assets, net, as of 30 June 2004 is approximately NIS 13.7 billion compared with approximately NIS 12.1 billion at the end of the year 2003. In the reporting period the Group acquired income producing properties, developed new properties, renovated existing properties and consolidated for the first time in proportionally with Hatsrot Hadar Ltd. in the amount of approximately NIS 1.8 billion. Depreciation expense in the reporting period totaled the amount of NIS 130 million.

Long-term liabilities

Long-term loans as of 30 June 2004 is approximately NIS 9 billion compared with approximately NIS 7.4 billion at the end of the year 2003.

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

Equity

The Company's Equity together with Minority rights as of 30 June 2004 in the total amount of approximately NIS 4.5 billion, financed approximately 30% of the Balance sheet and this is compared with approximately NIS 4.1 billion that funded approximately 32% of the total Balance sheet as of 31 December 2003. Taking into account the convertible debentures redeemable for shares by FCR (at the sole discretion of FCR) the ratio of equity, minority rights and convertible debentures stands at approximately 34% compared with approximately 37% respectively.

The increase in Equity of approximately NIS 1,141 million as of 31 December 2003 to approximately NIS 1,212 million as of 30 June 2004 derives principally from profit in the reporting period of approximately NIS 35.7 million, exercise of option warrants for shares of approximately NIS 46.4 million and an increase in Adjustments from Translations of FCR and EQY financial statements and Equity funds of NIS 19.2 million, less dividends that the Company paid in the amount of approximately NIS 30 million.

Current ratio

The ratio of Current assets to Current liabilities was approximately 0.56 as of 30 June 2004 compared with approximately 0.57 as of 31 December 2003 and approximately 0.84 as of 30 June 2003. The decline in the ratio is due to utilization of short-term sources for purchasing properties and long-term investment and repaying long-term lines of credit. Simultaneously, these transactions substantially increased the unutilized balance of credit lines for immediate withdrawal of the Company (approximately NIS 1.4 billion).

Cash flow

The Cash flow from operating activities in the second quarter of the year totaled approximately NIS 159 million compared with approximately NIS 97million in the corresponding period. The increase in Cash flow from operating activities in the reporting period is due to the continuing improvement in Operating profit, less interest expense for Company loans.

In addition to this, the Group, in the second quarter of the year, completed financing its capital raising activity in its consolidated companies in the amount of approximately NIS 115 million and received loans and issued long-term debentures, net, of approximately NIS 630 million. These Cash flows were used principally for investment operations in fixed assets that totaled in the second quarter of the year approximately NIS 830 million and for acquiring long-term investments and investments in included companies in the amount of approximately NIS 160 million.

5. Contributions

The Company customarily makes contributions for community charities and welfare activity.

The Company contributes to the Bigger than Life Association – a voluntary humanitarian organization that helps children ill with cancer and other severe chronic diseases.

Chaim Katzman, Chairman of the Board of Directors of the Company, serves as honorary president of the above-named organization. The Company is the official sponsor of the organization.

In addition, the Company contributes to Tel-Aviv University, which is currently establishing the Academic Center for Research and Teaching in the Real-estate field (Chaim Katzman – Gazit-Globe Real-estate Institute)

In the reporting period the Company contributed approximately NIS 858 thousand. Of this amount the Company contributed the amount of NIS 75 thousand to the Bigger than Life Association and also approximately NIS 290 thousand to other associations in the U.S. and Canada (through the Company's consolidated companies in their operating areas).

6. Additional information and events after the Balance sheet date

A. At the end of August 2004, FCR transacted an early redemption of the balance of convertible debentures (7.875%) (Series 'B') in a total amount of approximately Canadian \$ 35 million in cash. Immediately preceding the redemption, convertible debentures of approximately Canadian \$ 42 million and Canadian \$ 20 million that were held by the Company in full ownership of the Company and others, respectively, were converted to approximately 3.8 million shares of FCR.

In the framework of FCR preparations to fund the above mentioned debentures redemption FCR made a private issue to the Company (through a company under its full ownership) and another interested party in FCR of approximately 2 million shares (of which 1.56 million shares went to the Company) at a price of Canadian \$ 16 per share, for a total consideration of Canadian \$ 32 million.

B. In the month of August a Company wholly owned company exercised the balance of option warrants in its possession for approximately 1.3 million FCR shares in an investment of approximately Canadian \$ 16 million.

C. In the month of August 2004, EQY announced that it signed a binding agreement for the acquisition of six shopping centers in the Metropolitan Boston area for a total price of approximately U.S. \$ 120 million. The deal is expected to be completed by September 30. The total area of these shopping centers is approximately 36 thousand square meters and the main facility in each are the leading chain supermarkets in the area including Shaw's and Whole Foods. EQY estimates that the shopping centers have good potential for development and expansion.

The Metropolitan Boston area is one of the most densely populated areas on the east coast and is characterized by higher than average personal income and population growth rate.

D. From the beginning of July 2004 until the signing date of the Financial statements the Group companies sold 4 shopping centers, with a GLA of approximately 31 thousand square meters, for a price of approximately NIS 123 million. The Company is expected to record a capital gain in the third quarter of this year from the sale of these properties in the amount of approximately NIS 6 million.

E. In the month of August 2004, in the framework of purchasing EQY shares that the Company does from time to time and in the course of its regular business, the Company acquired 130,000 EQY shares from its Board Chairman and 1,250 EQY shares from the Company's President at a price of U.S. \$ 19.08 per share that was lower by approximately 1% than the Stock exchange price at the time. The acquisition price is identical to the price at which 137 thousand EQY shares from a third party (who is a senior officer in EQY, but is not an officer or interested party in the Company) that was done on the same day. The Company will observe the Securities Regulations (Presentation of Transactions between the Company and its Controlling owner in Financial statements) 5756 – 1996 in recording this transaction in the books.

7. Exposure to Market risks and their Management

A. The persons responsible for reporting and managing the market risks are Mr. Dori Segal, President and Mr. Gil Kotler, Chief Financial Officer. Since publication of the Company's 2003 Financial statement on 22 March 2004, there have been no material changes in Globe's and the Company's market risks or in the means employed to manage them.

B. Linkage based report

The substantial difference in the linkage-based report is an investment of approximately NIS 375 million for the acquisition of negotiable shares of the public real-estate company Citycon in Finland. The acquisition was carried out in Euros because Finland operates in that currency and its shares are traded in that currency. To finance part of the investment the Company took loans in Euros and/or linked to the Euro and Euro-linked debentures, such that the Company as of the reporting date has no exposure from currencies because of this investment.

Chaim Katzman
Chairman of the Board

Dori Segal
President and Director

GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

UNAUDITED

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The Board of Directors
Gazit-Globe (1982) Ltd.

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

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of June 30, 2004, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six 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 June 30, 2004, and whose revenues constitute approximately 97.8% and 97.8% of total consolidated revenues for the six 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 June 30, 2004 totaled NIS 391,141 thousand and the Company's share in the earnings of the above companies for the three months then ended totaled NIS 11,782 thousand.

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
August 31, 2004

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
	NIS in thousands		
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	20,590	167,675	53,651
Short-term investments	73,695	63,594	67,709
Tenants	77,230	72,234	84,911
Accounts receivable	94,441	83,354	66,194
Loans to partners in property under development	58,356	59,637	57,522
Rental property held for sale	199,127	5,491	63,649
	<u>523,439</u>	<u>451,985</u>	<u>393,636</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	407,051	27,646	15,706
Long-term investments	146,647	65,859	40,353
Long-term loans	58,871	58,843	58,517
	<u>612,569</u>	<u>152,348</u>	<u>114,576</u>
FIXED ASSETS:			
Cost	14,303,725	10,203,249	12,608,688
Less - accumulated depreciation	652,764	408,321	530,276
	<u>13,650,961</u>	<u>9,794,928</u>	<u>12,078,412</u>
OTHER ASSETS AND DEFERRED CHARGES, NET			
	<u>280,599</u>	<u>260,023</u>	<u>228,823</u>
	<u><u>15,067,568</u></u>	<u><u>10,659,284</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

	June 30,		December 31,
	2004	2003	2003
	Unaudited		Audited
NIS in thousands			
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	576,163	295,812	378,944
Trade payables	79,297	60,100	129,921
Other accounts payable	273,143	182,952	187,094
	<u>928,603</u>	<u>538,864</u>	<u>695,959</u>
LONG-TERM LIABILITIES:			
Debentures	2,304,845	961,692	1,084,222
Liabilities to financial institutions and others	6,425,430	4,987,506	6,143,093
Tenants' security deposits	272,187	136,656	146,260
Accrued severance pay, net	1,043	905	846
Deferred taxes	-	731	-
	<u>9,003,505</u>	<u>6,087,490</u>	<u>7,374,421</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	<u>638,627</u>	<u>742,690</u>	<u>649,463</u>
MINORITY INTEREST	<u>3,284,552</u>	<u>2,344,605</u>	<u>2,954,392</u>
SHAREHOLDERS' EQUITY	<u>1,212,281</u>	<u>945,635</u>	<u>1,141,212</u>
	<u>15,067,568</u>	<u>10,659,284</u>	<u>12,815,447</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.

August 31, 2004Date of approval of the
financial statementsChaim Katzmann
Chairman of the Board
of DirectorsDori Segal
President and DirectorGil Kotler
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands (except per share amounts)				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
Rental income	877,350	610,750	456,930	317,760	1,401,186
Rental property operating expenses	280,397	201,846	145,305	102,724	457,790
Rental property depreciation	129,793	83,389	67,807	44,978	197,489
Gross profit	467,160	325,515	243,818	170,058	745,907
General and administrative expenses	73,533	52,728	38,012	25,222	115,805
Operating income	393,627	272,787	205,806	144,836	630,102
Financial expenses, net	254,253	105,439	132,718	122,155	300,163
Other income, net	139,374	167,348	73,088	22,681	329,939
	27,126	18,245	1,366	23,589	56,492
Income before taxes on income	166,500	185,593	74,454	46,270	386,431
Taxes on income	24,667	15,335	13,594	8,686	43,629
Income after taxes on income	141,833	170,258	60,860	37,584	342,802
Equity in earnings of affiliates	11,676	3,647	11,680	1,360	3,613
Minority interest in earnings of subsidiaries	(117,781)	(98,160)	(58,164)	(25,137)	(209,839)
Net income	35,728	75,745	14,376	13,807	136,576
Net earning per NIS 1 par value of Ordinary shares (in NIS)					
Basic earning	0.43	0.89	0.16	0.11	1.69
Diluted earning	0.39	-	0.13	-	-

(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

	Six months ended June 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	4,193	51,563	-	-	-	-	(9,400)	-	46,356
Foreign currency translation adjustments for autonomous entities	-	-	-	9,697	-	-	-	-	9,697
Revaluation of derivatives in affiliate to market value (3)	-	-	9,521	-	-	-	-	-	9,521
Revaluation of loans for purchase of shares	-	-	-	-	64	-	-	(64)	-
Net income	-	-	-	-	35,728	-	-	-	35,728
Dividend paid	-	-	-	-	(15,650)	(14,583)	-	-	(30,233)
Dividend declared (4)	-	-	-	-	(16,007)	16,007	-	-	-
Balance at end of period	<u>142,109</u>	<u>893,210</u>	<u>11,223</u>	<u>95,872</u>	<u>179,306</u>	<u>16,007</u>	<u>(116,004)</u>	<u>(9,442)</u>	<u>1,212,281</u>
	Six months ended June 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
Exercise of stock options into shares	2,917	30,935	-	-	-	-	-	-	33,852
Repurchase of shares	-	-	-	-	-	-	(63)	63	-
Foreign currency translation adjustments for autonomous entities	-	-	-	(30,285)	-	-	-	-	(30,285)
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	493	493
Net income	-	-	-	-	75,745	-	-	-	75,745
Dividend paid	-	-	-	-	(12,508)	(11,374)	-	-	(23,882)
Balance at end of period	<u>130,128</u>	<u>741,141</u>	<u>1,702</u>	<u>31,672</u>	<u>157,219</u>	<u>-</u>	<u>(106,607)</u>	<u>(9,620)</u>	<u>945,635</u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3f.

(4) See Note 4d.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Three months ended June 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	140,769	872,409	1,702	120,983	181,207	15,393	(116,004)	(9,434)	1,207,025
Exercise of stock options into shares	1,340	20,801	-	-	-	-	-	-	22,141
Foreign currency translation adjustments for autonomous entities	-	-	-	(25,111)	-	-	-	-	(25,111)
Revaluation of derivatives in affiliate to market value (3)	-	-	9,521	-	-	-	-	-	9,521
Revaluation of loans for purchase of shares	-	-	-	-	8	-	-	(8)	-
Net income	-	-	-	-	14,376	-	-	-	14,376
Dividend paid	-	-	-	-	(278)	(15,393)	-	-	(15,671)
Dividend declared (4)	-	-	-	-	(16,007)	16,007	-	-	-
Balance at end of period	<u>142,109</u>	<u>893,210</u>	<u>11,223</u>	<u>95,872</u>	<u>179,306</u>	<u>16,007</u>	<u>(116,004)</u>	<u>(9,442)</u>	<u>1,212,281</u>
	Three months ended June 30, 2003 (unaudited)								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for autonomous entities	Retained earnings		Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands (2)								
Balance at beginning of period	127,211	710,206	1,702	76,644	156,002		(106,544)	(10,176)	955,045
Exercise of stock options into shares	2,917	30,935	-	-	-		-	-	33,852
Repurchase of shares	-	-	-	-	-		(63)	63	-
Foreign currency translation adjustments for autonomous entities	-	-	-	(44,972)	-		-	-	(44,972)
Repayment of loans for purchase of shares	-	-	-	-	-		-	493	493
Net income	-	-	-	-	13,807		-	-	13,807
Dividend paid	-	-	-	-	(12,590)		-	-	(12,590)
Balance at end of period	<u>130,128</u>	<u>741,141</u>	<u>1,702</u>	<u>31,672</u>	<u>157,219</u>		<u>(106,607)</u>	<u>(9,620)</u>	<u>945,635</u>

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3f.

(4) See Note 4d.

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
Cash flows from operating activities:					
Net income	35,728	75,745	14,376	13,807	136,576
Adjustments to reconcile net income to net cash provided by operating activities (a)	217,561	52,439	144,299	83,491	225,208
Net cash provided by operating activities	253,289	128,184	158,675	97,298	361,784
Cash flows from investing activities:					
Investment in newly consolidated companies (b)	(8,861)	(800,858)	-	-	(827,451)
Investment in subsidiary and jointly controlled entity	(10,824)	(15,026)	-	(15,026)	(57,988)
Investments in fixed assets	(1,705,005)	(394,995)	(829,600)	(197,766)	(2,310,376)
Repayment (grant) of loans to partners in property under development, net	(1,945)	(14,564)	1,783	(9,004)	(3,744)
Proceeds from sale of real estate	70,583	66,638	31,245	23,193	145,523
Long-term loans granted	(20,755)	(3,500)	-	-	(214)
Repayment of long-term loans granted	23,231	34,995	20,631	32,494	17,452
Short-term investments, net	3,609	73,565	463	60,993	108,964
Purchase of marketable securities and long-term investments	(120,377)	(45,356)	(91,731)	(42,092)	(76,269)
Investment in affiliate	(374,748)	-	(68,295)	-	-
Proceeds from realization of long-term investments	10,409	34,491	-	13,133	74,938
Net cash used in investing activities	(2,134,683)	(1,064,610)	(935,504)	(134,075)	(2,929,165)
Cash flows from financing activities:					
Repayment of loans for the purchase of Company and subsidiary's shares	13,476	493	-	493	16,058
Issuance of share capital, net	-	-	-	-	63,745
Exercise of stock options into shares	46,356	33,852	22,141	33,852	78,401
Issuance of shares to minorities in subsidiary, net	321,273	515,422	93,037	377,391	1,002,175
Deferred charges in respect of raising loans and debentures	(14,995)	(10,585)	(510)	(779)	(19,672)
Dividend paid	(30,233)	(23,882)	(30,233)	(23,882)	(52,178)
Dividend paid to minorities in subsidiaries	(138,456)	(90,526)	(53,912)	(38,097)	(211,918)
Receipt of long-term loans	1,179,271	1,031,657	633,931	32,662	2,245,899
Repayment of long-term loans	(811,232)	(598,576)	(93,152)	(341,200)	(788,186)
Redemption and early redemption of debentures and convertible debentures	(19,586)	(22,916)	(18,741)	(13,014)	(123,379)
Issuance of debentures	1,206,974	-	107,630	-	-
Sale of Company's debentures by subsidiaries	2,772	1,767	-	638	117,632
Short-term bank credit, net	83,933	145	57,166	57	313
Increase in tenants' security deposits	12,336	845	4,696	1,791	1,111
Net cash provided by financing activities	1,851,889	837,696	722,053	29,912	2,330,001
Effect of exchange rate differences from cash balances of foreign autonomous entities	(3,556)	(17,291)	(3,823)	(26,788)	7,335
Decrease in cash and cash equivalents	(33,061)	(116,021)	(58,599)	(33,653)	(230,045)
Cash and cash equivalents at beginning of period	53,651	283,696	79,189	201,328	283,696
Cash and cash equivalents at end of period	20,590	167,675	20,590	167,675	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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
(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	(4,736)	1,241	(421)	(6,985)	(11,334)
Minority interest in earnings of subsidiaries	117,781	98,160	58,164	25,137	209,839
Equity in earnings of affiliates, net of dividend received	(11,676)	(2,337)	(11,680)	(787)	(1,232)
Depreciation	129,903	83,592	70,285	45,063	199,406
Deferred taxes, net	10,897	834	7,323	(790)	17,081
Loss from early redemption of debentures and convertible debentures	30	160	7	145	288
Adjustment differences on monetary assets and long-term monetary liabilities, net	(24,977)	(99,466)	(19,802)	32,639	(159,356)
Write-down of long-term investments	-	-	-	-	250
Amortization of other assets and deferred charges	9,669	10,733	2,524	2,564	23,848
loss (gain) from sale of real estate	(6,322)	(6,921)	2,030	(4,646)	(11,070)
Increase in accrued severance pay, net	26	65	10	49	6
Gain from issuance to third party	(15,524)	(13,619)	(212)	(18,403)	(44,627)
Changes in asset and liability items:					
Increase in tenants and other accounts receivable	(22,198)	(26,496)	(17,440)	(26,429)	(35,225)
Increase in trade payables and other accounts payable	30,117	5,323	52,101	36,378	29,259
Increase (decrease) in tenants' security deposits, net	4,571	1,170	1,410	(444)	8,075
	<u>217,561</u>	<u>52,439</u>	<u>144,299</u>	<u>83,491</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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
	NIS in thousands				
	Reported ⁽¹⁾	Adjusted ⁽²⁾	Reported ⁽¹⁾	Adjusted ⁽²⁾	Adjusted ⁽²⁾
(b) <u>Investment in newly consolidated companies: (3)</u>					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(1,381)	(51,118)	-	-	(52,815)
Current liabilities	5,932	57,085	-	-	58,979
	4,551	5,967	-	-	6,164
Fixed assets, long-term investments and loans (mainly real estate)	(123,804)	(3,117,878)	-	-	(3,221,407)
Other assets (including goodwill)	(3,653)	(87,421)	-	-	(90,323)
Long-term liabilities	115,512	1,357,659	-	-	1,402,741
Minority interest	(1,467)	51,677	-	-	53,394
	(13,412)	(1,795,963)	-	-	(1,855,595)
Increase in minority interest in respect of consideration paid in subsidiary's shares	-	989,138	-	-	1,021,980
	(8,861)	(800,858)	-	-	(827,451)
(c) <u>Significant non-cash operations:</u>					
Conversion of convertible debentures into subsidiary's shares	-	-	-	-	127,934
Purchase of fixed assets against liabilities	-	-	-	-	11,788
Purchase of fixed assets in consideration for subsidiary's shares	-	7,754	-	-	8,432
Conversion of debentures into convertible debentures	-	564	-	-	593
Realization of investment in affiliate	-	9,656	-	9,656	-

(1) See Note 2.

(2) Adjusted to the NIS of December 2003.

(3) See Note 3g.

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 June 30, 2004, and for the six 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

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	%				
Index in Israel	1.4	(0.5)	1.5	(1.3)	(1.9)
Index in U.S.	2.9	1.6	1.2	(0.3)	1.9
Index in Canada	1.9	1.4	1.2	(0.6)	2.0
Exchange rate of one U.S. dollar	2.7	(9.0)	(0.7)	(8.0)	(7.6)
Exchange rate of one Canadian dollar	(1.9)	5.9	(3.5)	(0.5)	13.5
Exchange rate of one Euro	(1.2)	(0.8)	(1.3)	(3.5)	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

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 its evaluation, 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 2 million in the amortization of goodwill in the consolidated financial statements during the six months period ended June 30, 2004 (the effect on the Company's net income is approximately NIS 1 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 reviews the new Standard however, at this time, it is unable to estimate the effect of the Standard on the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION

- a. On January 27, 2004, once Maalot - the Israeli Rating Company, raised the rating for the Company's debentures to AA-, the Company made the following securities offerings to institutional investors as follows:
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 under a prospectus a new series of debentures (debentures 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 (debentures A) by approximately NIS 155 million, of which NIS 25 million were sold 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, 1.3 million stock options (series 7) of the Company were exercised into 1.3 million shares of the Company for the total consideration of approximately NIS 22.1 million. Subsequent to the balance sheet date, additional 1.9 million options were exercised into 1.9 million shares for the total consideration of approximately NIS 32 million. About 6 thousand stock options (series 7) which were not exercised by July 22, 2004, the last exercise day, expired.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (cont.)

- 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 180 million). As a result of the issuance of shares, as above, the exercise of stock options into FCR shares and the issuance of FCR shares in return for interest on FCR convertible debentures, the Company recorded in the reported period a gain amounting to approximately NIS 10.5 million from decrease in its holding.
- e. In March and April 2004, FCR's remuneration committee approved the issuance of 120,000 restricted shares to FRC's CEO (who acts also as the Company's President) 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. During the reported period, the Company acquired 37 million shares of Citycon Oyj. ("Citycon") thereby conferring a holding of 35% of the share capital of Citycon (about 36.3% of the share capital net of shares held by Citycon) in consideration of NIS 374.7 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 President.

The financial statements of Citycon, which are attached to these statements, include financial statements prepared according to generally accepted accounting principles in Finland, as published on August 11, 2004, as well as an appendix, which includes financial statements prepared according to international accounting financial standards and the adjustments required in order to present the financial statements in accordance with these standards, as published on August 31, 2004.

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 were prepared in accordance with international accounting financial standards.

Citycon is a Finnish public company which focuses on the field of income producing properties in Finland. Its properties portfolio as of the balance sheet date 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.

- g. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- ADDITIONAL INFORMATION (cont.)

- h. 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%.

NOTE 4:- SUBSEQUENT EVENTS

- a. At the end of August 2004, FCR effected 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 and that after the eve of 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 effected a private placement to the Company (through its wholly owned subsidiary) and to another related party in FCR 2 million shares (of which 1.56 million shares to the Company) at the price of C\$ 16 per share, for the total consideration of approximately C\$ 32 million.

- b. In August 2004, the Company's wholly owned subsidiary exercised the remaining stock options it owned into 1.3 million shares of FCR with an investment of approximately C\$ 16 million.
- c. In August 2004, in the context of purchase of EQY shares which the Company performs from time to time and in the ordinary course of its operation, the Company purchased 130,000 of EQY shares from its chairman of the Board and 1,250 of EQY shares from the Company's President at the price of \$ 19.08 per share, which was 1% lower than 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 will apply the Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements), 1996 in the accounting for this transaction.
- d. In August 2004, the Company declared a dividend of NIS 0.19 per share payable in September 2004. The record date for the entitlement to the dividend is September 13, 2004.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- GEOGRAPHIC INFORMATION

	Six months ended June 30, 2004 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	521,986	340,178	15,186	877,350
Segment results	303,514	162,822	824	467,160
	Six months ended June 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	372,794	229,401	8,555	610,750
Segment results	215,199	109,792	524	325,515
	Three months ended June 30, 2004 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Reported NIS in thousands			
Rental income	273,183	176,085	7,662	456,930
Segment results	158,903	84,744	171	243,818
	Three months ended June 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	196,816	116,734	4,210	317,760
Segment results	113,767	56,117	174	170,058
	Year ended December 31, 2003 (audited)			
	U.S.	Canada	Israel	Total - consolidated
	Adjusted NIS in thousands			
Rental income	854,484	529,069	17,633	1,401,186
Segment results	482,063	262,415	1,429	745,907

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**Citycon Oyj,
Financial results Q2, 2004**

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

We have reviewed the consolidated balance sheet of Citycon Oyj as of June 30, 2004, the related consolidated statements of operations for the six-month period ended June 30, 2004, and the related consolidated statements of cash flows for the three-month period ended June 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, August 11, 2004

Ari Ahti
Authorized Public Accountant

Jaakko Nyman
Authorized Public Accountant

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CITYCON OYJ STOCK EXCHANGE BULLETIN 11 AUGUST 2004 10.00a.m.

CITYCON'S INTERIM REPORT 1 JANUARY–30 JUNE 2004

- Profit before extraordinary items and taxes rose to EUR 11.6 million (EUR 9.9 million)
- Turnover increased to EUR 44.1 million (EUR 38.7 million)
- Earnings per share increased to EUR 0.08 (EUR 0.07)
- Demand for retail premises and occupancy rates continued to be strong during the period
- Citycon started a process to assess business opportunities in the Scandinavian and Baltic countries

Key figures

	1–6 2004	1–6 2003	1–12 2003
Turnover, EUR million	44.1	38.7	78.1
Operating profit, EUR million	24.5	21.6	43.3
% of turnover	55.5	55.8	55.5
Profit before extraordinary items and taxes, EUR million	11.6	9.9	19.1
Profit, EUR million	8.4	7.1	14.3
Earnings per share, EUR	0.08	0.07	0.14
Earnings per share, diluted, EUR	0.08	0.07	0.14
Equity per share, EUR	1.95	1.94	2.01
P/E (price/earnings) ratio	12	8	11
Return on equity (ROE), %	8.5	7.3	7.1
Return on equity including minority interest, %	5.6	5.0	4.9
Return on investment (ROI), %	6.1	6.0	5.8
Equity ratio, %	44.5	48.3	44.9
Equity ratio with capital loan not counted as part of shareholders' equity, %	36.2	39.1	36.7
Gearing, %	170.8	148.5	163.1
Net rental income, %	8.5	8.4	8.5
Occupancy rate, %	97.1	97.1	97.3
Personnel at the end of period	41	36	34

Trend in the business environment

According to Statistics Finland, retail sales grew by 5.8 per cent in the period from December 2003 to February 2004 and the growth rate in the period March-May 2004 was 4.7 per cent. Department store trade grew by 6.3 and 3.4 per cent in these periods.

Strong retail sales kept up healthy demand for retail premises and vacancy rates remained low, particularly in the Helsinki Metropolitan Area and Finland's other major cities.

Interest rates in the euro zone continued to be at historical lows, although euro interest rates rose during the period.

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 644.2 million). Citycon owned 16 shopping centres, which comprised 58.8 per cent of the company's property portfolio book value, and 130 supermarket and shop properties, which comprised 41.2 per cent of the book value of the company's property portfolio. At the end of the period, in terms of balance sheet values, 46.7 per cent of the properties were in the Helsinki Metropolitan Area, 35.5 per cent were in other major Finnish cities and 17.7 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 Scandinavian and the Baltic countries. At the same time, the company will continue the implementation of its strategy of expanding its core business in Finland. Based on the outcome of the assessment process, the Board will later consider amending the geographical scope of its strategy. Citycon will continue, in accordance with its strategy, to focus on retail premises in Finland, mainly in the Helsinki Metropolitan Area and the biggest regional centres.

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 182 leases, of which 79 came with the acquisition of Torikeskus in Seinäjoki. At the end of the period, Citycon had a total of 1,465 leases with roughly 860 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 (97.1%).

Trend in portfolio of leases by division

	1-6 2004	1-6 2003	1-12 2003
Shopping centres			
Number of leases signed during the period, total	137	62	151
Total area of leases signed, sq.m.	16,601	7,076	16,399
Occupancy rate at the end of period, %	97.6	97.6	97.6
Average length of lease portfolio at the end of period, years	2.8	3.1	3.0
Supermarkets and shops			
Number of leases signed during the period, total	45	22	51
Total area of leases signed, sq.m.	17,702	5,308	9,806
Occupancy rate at the end of period, %	96.5	96.6	96.8
Average length of lease portfolio at the end of period, years	4.4	4.6	4.4

CITYCON

Rental income

The net rental income of Citycon's leasing business during the period totalled EUR 30.7 million (EUR 27.1 million). The average net rental yield of the properties owned by the company was 8.5 per cent (8.4%).

Shopping centres accounted for 54.9 per cent of the net rental income (49.6%) and supermarkets and shops accounted for 45.1 per cent (50.4%). Of net income, roughly 47.4 per cent was generated by properties in the Helsinki Metropolitan Area, 34.2 per cent by properties in other major Finnish cities, and roughly 18.4 per cent by other properties in Finland.

Trend in rental income by division

	1-6 2004	1-6 2003	1-12 2003
Shopping centres			
Gross rental income, EUR million	23.0	17.9	36.5
Net rental income, EUR million	16.8	13.4	27.5
Net rental yield, %	7.9*	7.9	8.1*
Supermarkets and shops			
Gross rental income, EUR million	18.3	18.2	36.5
Net rental income, EUR million	13.9	13.6	27.2
Net rental yield, %	9.2	8.9	8.9

* Figures include uncompleted projects

Investments and development projects

Citycon's gross investments amounted to EUR 12.7 million (EUR 0.9 million). Gross investments include the acquisition of a new shopping centre, Torikeskus in Seinäjoki, for EUR 7.1 million, and EUR 5.6 million for business development projects.

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

During the second quarter, Citycon continued work on an extension to the IsoKarhu shopping centre in Pori. The extension will be completed in the third quarter and will have a positive effect on income during the fourth quarter of the year. Refurbishment at the Jyväskeskus shopping centre in Jyväskylä was completed in May 2004, which gave rental income an immediate boost. The combined total of the investments in IsoKarhu and Jyväskeskus is roughly EUR 12.0 million. The 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.

The Supermarkets and Shops Division invested EUR 0.2 million in a property on Laajavuorenkuja in Vantaa during the second quarter, which will boost rental income in the third quarter. The division continued a revamp of the Länsikeskus property in Espoo and the development of a shopping centre in the Hervanta district of Tampere.

The Property Development Division continued the planning of development projects for Citycon's retail sites together with the other divisions as well as investigating the commercial

CITYCON

framework for new shopping centres in the Helsinki Metropolitan Area and in the Tampere and Turku market zones.

Divestments

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

Turnover and profit

During the period, Citycon's turnover increased to EUR 44.1 million (EUR 38.7 million). Operating profit increased to EUR 24.5 million (EUR 21.6 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 93,6 per cent (93,4 %) of turnover.

Balance sheet and financing

The Group's financing situation remained good during the period. The balance sheet total was EUR 834.2 million (EUR 742.7 million), of which cash and cash equivalents were EUR 4.8 million (EUR 12.1 million). At the end of the period, Citycon had a total of EUR 460.9 million (EUR 381.7 million) of liabilities. Interest-bearing liabilities increased by EUR 5.7 million during the period to EUR 517.7 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 5.2 per cent (5.4 %). The average loan period, weighted according to the principals of the loans, was roughly 4.1 years (5.0 years), and the average interest-rate fixing period was 3.9 years (4.4 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, the previous twelve months' profit before interest expenses, taxes and depreciation to net financial expenses was 2.1 (2.1). The Group's equity ratio was 44.5 per cent (48.3%). If the capital loan is not included in shareholders' equity, the equity ratio was 36.2 per cent (39.1%).

Net financial expenses rose to EUR 12.9 million (EUR 11.7 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.

Citycon will issue further information on the effect of the IAS/IFRS standards in a separate bulletin on 31 August 2004.

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Personnel

At the end of the period, the Citycon Group had a total of 41 (36) employees, of whom 31 (29) were employed by the parent company.

Shares and shareholders

Citycon's share capital as at 30 June 2004 was EUR 142,800,108.30 and the number of shares was 105,777,858. 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 94.0 million shares and EUR 176.2 million. The high price quoted during the period was EUR 2.15 and the low was EUR 1.52. The weighted average price for the period was EUR 1.87 and the closing price of the period was EUR 2.04. The company's market capitalisation at the end of the period was EUR 207.9 million (EUR 110.1 million), after deducting the portion of treasury shares from the total.

Shareholdings

At the end of the period, Citycon had a total of 1,268 registered shareholders. The registered shareholders held 60.2 million shares, so they had 56.9 per cent of the shares and voting rights. Nominee-registered shareholders had 45.6 million shares, which is 43.1 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 3.7 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 June 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.

The members of Citycon Oyj's Board of Directors held a total of 66,453 shares on 30 June 2004, which was 0.06 per cent of the company's total shares and voting rights. Citycon's CEO held 100,000 shares and 1,650,000 stock options as well as the other members of the Corporate Management Committee held a total of 3,000 shares and 971,670 stock options on 30 June 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 and the use thereof

Citycon's annual general meeting of 15 March 2004 authorised the Board of Directors to decide whether to increase the share capital by means of a new issues of shares and to decide on the acquisition and conveyance of treasury shares. The authorisations will be valid for one year following the decision made by the AGM. At the end of the review period, no part of the authorisations had been utilised.

Citycon Oyj decided on 16 April 2004 to apply for the listing of the 1999 A/B warrants on the main list of the Helsinki Exchanges. The warrants have been included on the main list of the Helsinki

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Exchanges since 23 April 2004. The details of the listing of the warrants can be found in the stock exchange bulletin issued by Citycon on 16 April 2004.

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.

The complete terms of the stock options issued by the annual general meeting can be found in the stock exchange bulletin issued by the company on 26 May 2004.

Events after the end of the review period

An extraordinary general meeting of the company held on 10 August 2004 decided, in accordance with a proposal from the Board of Directors' Nomination Committee, to increase the number of the Board members from seven to eight within the limits set in the company's articles of association. In addition, the extraordinary general meeting decided to augment the Board's expertise in the international property business by electing American citizen Dor Segal on a proposal from the Nomination Committee. Segal is the President and CEO of First Capital Realty Inc. and the President of Gazit-Globe (1982) Ltd. His membership will be in effect until the next annual general meeting.

Outlook for the future

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

Helsinki, 11 August 2004
Citycon Oyj
Board of Directors

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Consolidated income statement

EUR million	1-6 2004	1-6 2003	1-12 2003
Turnover	44.1	38.7	78.1
Other income	0.1	-0.1	-0.5
Expenses			
Materials and services	11.7	9.2	18.7
Salaries and social expenses	1.4	1.3	2.6
Depreciation and impairments	3.8	3.2	6.5
Rents and maintenance charges	1.5	2.1	4.1
Share of associated companies' profit	0.2	0.2	0.4
Other expenses of business operations	1.1	0.9	1.9
Expenses, total	19.7	16.9	34.3
Operating profit	24.5	21.6	43.3
Financial income and expenses	-12.9	-11.7	-24.2
Profit before extraordinary items and taxes	11.6	9.9	19.1
Taxes	-3.3	-2.7	-4.9
Profit	8.4	7.1	14.3

Consolidated balance sheet

EUR million	1-6 2004	1-6 2003	1-12 2003
Assets			
Non-current assets			
Intangible assets	4.8	4.1	4.5
Tangible assets	740.0	621.3	729.1
Investments			
Holdings in associated companies	55.4	74.9	55.5
Treasury shares	4.7	4.2	4.7
Other investments	21.4	22.3	23.1
Investments, total	81.5	101.4	83.3
Non-current assets, total	826.3	726.8	816.9
Current assets			
Short-term receivables	3.1	3.7	3.4
Cash and cash equivalents	4.8	12.1	15.1
Current assets, total	7.9	15.8	18.5
Assets, total	834.2	742.7	835.3

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Liabilities and shareholders' equity			
Shareholders' equity			
Share capital	142.8	142.8	142.8
Share premium fund	28.3	28.3	28.3
Treasury share reserve	4.7	4.2	4.7
Other funds	6.6	6.6	6.6
Retained profits	13.0	13.0	13.0
Profit	8.4	7.1	14.3
Capital loan	68.5	68.5	68.5
Shareholders' equity, total	272.1	270.4	278.0
Minority interest	101.2	90.6	99.8
Liabilities			
Long-term liabilities	426.5	371.7	428.3
Short-term liabilities	34.4	10.0	29.2
Liabilities, total	460.9	381.7	457.5
Liabilities and shareholders' equity, total	834.2	742.7	835.3
Gross investment in non-current assets	12.7	0.9	84.2
% of turnover	28.9	2.4	107.9
Depreciation and impairments	3.8	3.2	6.5
Personnel, average	40	33	33

Cash flow statement

EUR million	1-6 2004	1-6 2003	1-12 2003
Operating activities			
Profit before extraordinary items	11.6	9.9	19.1
Adjustments:			
Depreciation	3.8	3.2	6.5
Financial income and expenses	12.9	11.7	24.2
Other adjustments	0.1	0.3	0.9
Cash flow before change in working capital	28.4	25.1	50.8
Change in working capital	0.4	1.2	0.0
Cash flow from operating activities before financial items and taxes	28.8	26.3	50.7
Interest paid and payments for other financial expenses of operating activities	-15.6	-14.5	-24.1
Dividend and interest received from business operations	0.4	0.2	0.5
Taxes paid	-2.3	-2.2	-4.7
Cash flow from operating activities (A)	11.4	9.8	22.4

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Investing activities			
Investments in tangible and intangible assets	-6.2	-0.7	-4.9
Shares in subsidiaries purchased	-7.6	0.0	-77.1
Shares in subsidiaries sold	0.7	0.2	1.4
Shares in associated companies purchased	0.0	-0.2	-0.8
Shares in associated companies sold	0.0	0.5	1.6
Other items	0.0	0.1	0.1
Cash flow from investing activities (B)	-13.1	-0.1	-79.7
Financial activities			
Withdrawals of short-term loans	8.1	0.0	2.1
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)	-8.6	-9.3	60.6
Increase(+) / decrease (-) in cash and cash equivalents (A+B+C)	-10.3	0.4	3.3
Cash and cash equivalents at the beginning of period	15.1	11.7	11.7
Cash and cash equivalents at the end of period	4.8	12.2	15.1

Key financial figures

	1-6 2004	1-6 2003	1-12 2003
Earnings per share, EUR	0.08	0.07	0.14
Equity per share, EUR	1.95	1.94	2.01
Return on equity (ROE), %	8.5	7.3	7.1
Return on equity, including minority interest, %	5.6	5.0	4.9
Return on investment (ROI), %	6.1	6.0	5.8
Equity ratio, %	44.5	48.3	44.9
Equity ratio with capital loan not counted as part of shareholders' equity, %	36.2	39.1	36.7

Treasury shares

25.11.1999-30.6.2004	1-6 2004	1-6 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, %	3.7	3.7	3.7
Share of voting rights, %	3.7	3.7	3.7
Acquisition cost, EUR million	4.7	4.7	4.7

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

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Consolidated contingent liabilities

EUR million	1-6 2004	1-6 2003	1-12 2003
Mortgages on land and buildings	362.3	337.2	338.4
Group company shares pledged	76.9	0.0	78.4
Other pledged shares	76.8	97.0	76.7
Other pledges given	0.6	1.4	3.2

Group's derivatives

EUR million	30.6.2004		30.6.2003		31.12.2003	
	Par values	Fair values	Par values	Fair values	Par values	Fair values
Interest-rate derivatives						
Interest-rate swaps						
Maturing in 2004			50.0	-1.7		
Maturing in 2007	78.2	0.6	78.2	-0.3	78.2	1.1
Maturing in 2008	50.0	-1.3			50.0	-1.3
Maturing in 2009	129.6	-5.0	66.0	-7.4	91.0	-5.4
Maturing in 2010	83.0	-5.5	83.0	-8.7	83.0	-5.8
Total	340.8	-11.1	277.2	-18.1	302.2	-11.4
Interest-rate options						
Interest-rate caps purchased						
Maturing in 2004	53.8		53.8		53.8	
Total	53.8		53.8		53.8	

The fair values for derivatives describe their value if all agreements had been closed at the market price of the end of period. Derivatives have been used for hedging the loan portfolio. The accrued interest for the period included in the derivatives' fair values, being EUR 0,8 million (EUR 0,4 million) has been booked in interest expenses.

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

Accounting principles

The accounting principles applied in the annual financial statements as of 31 December 2003 are applied in these financial statements.

Financial reporting

Citycon Oyj will publish its interim report for January-September on 21 October 2004. Further information for investors can be seen on Citycon's website, www.citycon.fi.

Press conference

The company will hold a press conference and briefing for analysts today, Wednesday 11 August 2004, starting at 2 p.m. at Citycon Oyj's business premises at Pohjoisesplanadi 35 AB. CEO Petri Olkinuora will report on business and profit during the review period and on the outlook for the future. The presentation material will be available after the conference on Citycon's website.

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Helsinki Exchanges

Main media

www.citycon.fi

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

We have reviewed the consolidated balance sheet of Citycon Oyj as of June 30, 2004, the related consolidated statements of operations for the six-month period ended June 30, 2004, and the related consolidated statements of cash flows for the three-month period ended June 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, August 11, 2004

Ari Ahti

Authorized Public Accountant

Jaakko Nyman

Authorized Public Accountant

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Citycon Oyj,

**PRELIMINARY INFORMATION OF TRANSITION TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
(IFRS)**

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

We have reviewed the preliminary opening balance as of January 1 2004 and the preliminary comparative information for the first and second quarters of 2004, which have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are the responsibility of the 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 review, nothing has come to our attention that causes us to believe that the preliminary opening balance sheet as of January 1 2004 and the preliminary comparative information for the first and second quarters of 2004 do not include the major adjustments between Finnish Accounting Standards and IFRS.

Helsinki, August 31, 2004

Ari Ahti

Authorized Public Accountant

Jaakko Nyman

Authorized Public Accountant

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STOCK EXCHANGE BULLETIN 31 AUGUST 2004 10.15 A.M.

PRELIMINARY INFORMATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Citycon will report its financial statements for the financial year 2005 according to International Financial Reporting Standards (IFRS). The purpose of this release is to present the major impacts of the transition from Finnish Accounting Standards (FAS) to IFRS.

This release covers the preliminary opening IFRS balance as of 1 January 2004 and the preliminary comparative information for the first and second quarters of 2004. For the third quarter of 2004 the comparative IFRS figures will be reported in connection with the FAS interim financial reporting and for the full year 2004 in connection of the year-end reporting. The final reconciliation required by IFRS 1 (First-time adoption of IFRS) will be presented in the interim report for the first quarter of 2005 as Citycon starts reporting according to IFRS for the first time.

The opening IFRS balance sheet and the comparative information for the first and second quarters have been prepared in accordance with the latest versions of IFRS. The note -column refers to the additional information explained in the separate section. A summary of Citycon's most significant IFRS accounting principles is included in this release.

The figures are unaudited.

Preliminary summary of effects of IFRS on shareholders' equity on as per 1 January 2004

EUR million

Shareholders' equity FAS 31 Dec. 2003	278.0
IAS 40 Change in valuation of investment properties	+16.0
IAS 39 Change in values of interest rate derivatives	-10.9
IAS 32 Reclassification of treasury shares	-4.7
IAS 32 Reclassification of capital loan	-68.5
IAS 12 Change in deferred tax assets and liabilities	-7.7
Shareholders' equity IFRS 1 Jan. 2004	202.2

Key financial figures

	FAS Q1	IFRS Q1	FAS Q2	IFRS Q2	FAS Q2 Cum.	IFRS Q2 Cum.
Earnings per share, EUR	0.04	0.08	0.04	0.06	0.08	0.14
Earnings per share, diluted, EUR	0.04	0.08	0.04	0.06	0.08	0.14
Equity per share, EUR	1.91	1.88	1.95	1.99	1.95	1.99
Return on equity (ROE), %	8.4	17.5	8.6	12.7	8.5	14.8
Return on investment (ROI), %	6.0	7.6	6.2	7.7	6.1	7.7
Equity ratio, %, note g	35.6	25.6	36.2	27.1	36.2	27.1

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Preliminary IFRS opening balance sheet reconciliation as of 1 January 2004

EUR million	Note	FAS 31 Dec. 2003	IFRS change	Prel. IFRS 1 Jan. 2004
Assets				
Non-current assets				
Intangible assets		4.5	-4.3	0.2
Tangible assets		729.0	-727.6	1.5
Investment properties	a		726.3	726.3
Investments				
Holdings in associated companies	b	55.5	-55.5	
Treasury shares	c	4.7	-4.7	
Other investments		23.1	-21.8	1.3
Investments, total		83.3	-82.0	1.3
Deferred tax assets	d			
Non-current assets, total		816.9	-87.6	729.3
Current assets				
Short-term receivables		3.4	-0.5	2.9
Cash and cash equivalents		15.1	-0.4	14.7
Current assets, total		18.5	-0.9	17.5
Assets, total		835.3	-88.5	746.8
Liabilities and shareholders' equity				
Equity attributable to equity holders of the parent				
Share capital		142.8		142.8
Share premium fund		28.3		28.3
Treasury share fund	c	4.7	-4.7	
Treasury shares	c		-4.7	-4.7
Fair value reserve	e		-7.7	-7.7
Other funds		6.6		6.6
Retained profits	a, b, d	13.0	9.7	22.7
Profit		14.3		14.3
Capital loan	f	68.5	-68.5	
Shareholders' equity, total		278.0	-75.8	202.2
Minority interest		99.8	-99.8	
Liabilities				
Long-term liabilities	f	428.3	79.4	507.8
Deferred tax liability	d		7.7	7.7
Long-term liabilities, total		428.3	87.1	515.5
Short-term liabilities		29.2		29.2

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Short-term liabilities, total		29.2		29.2
Liabilities, total		457.5	87.1	544.6
Liabilities and shareholders' equity, total		835.3	-88.5	746.8

Preliminary IFRS Q1 2004 comparison

Income statement

EUR million	Note	FAS Q1	Change Q1	Prel. IFRS Q1
Turnover		21.9	-0.9	21.0
Other income				
Change in value of investment property	a			
Expenses				
Depreciation and impairments		1.8	-1.8	
Share of associated companies' profit	b	0.1	-0.1	
Other expenses		7.8	-0.7	7.1
Operating profit		12.2	1.7	13.9
Net financial expenses		6.5		6.5
Profit before taxes		5.7	1.7	7.4
Taxes	d	-1.6	2.6	1.0
Profit		4.1	4.3	8.4
Earnings per share, EUR		0.04	0.04	0.08
Earnings per share, diluted, EUR		0.04	0.04	0.08

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Preliminary IFRS Q2 2004 comparison Income statement

EUR million	Note	FAS Q2	Change Q2	Prel. IFRS Q2	FAS Q2 Cum.	Change Q2 Cum.	Prel. IFRS Q2 Cum.
Turnover		22.1	-0.9	21.2	44.0	-1.8	42.2
Other income		0.1	-0.1		0.1	-0.1	
Change in value of investment property	a						
Expenses							
Depreciation and impairments		2.0	-2.0		3.8	-3.8	
Share of associated companies profit	b				0.2	-0.2	
Other expenses		7.9	-0.3	7.6	15.7	-1.0	14.7
Operating profit		12.3	1.3	13.6	24.5	3.0	27.5
Net financial expenses		6.4		6.4	12.9		12.9
Profit before and taxes		5.9	1.3	7.2	11.6	3.0	14.6
Taxes	d	-1.7	0.9	-0.8	-3.3	3.5	0.2
Profit		4.2	2.2	6.3	8.4	6.2	14.6
Earnings per share, EUR		0.04	0.02	0.06	0.08	0.06	0.14
Earnings per share, diluted, EUR		0.04	0.02	0.06	0.08	0.06	0.14

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Preliminary IFRS Q1, Q2 2004 comparison

Balance sheet

EUR million	Note	FAS 31 Mar. 04	Change	Prel. IFRS 31 Mar. 04	FAS 30 Jun. 04	Change	Prel. IFRS 30 Jun. 04
Assets							
Non-current assets							
Intangible assets		4.7	-4.3	0.4	4.8	-4.4	0.4
Tangible assets		739.4	-738.0	1.3	740.0	-738.9	1.1
Investment properties	a		735.4	735.4		737.5	737.5
Investments							
Holdings in associated companies	b	55.4	-55.4		55.4	-55.4	
Treasury shares	c	4.7	-4.7		4.7	-4.7	
Other investments		21.4	-21.4		21.4	-20.2	1.2
Investments, total		81.5	-81.5		81.5	-80.3	1.2
Deferred tax asset	d						
Non current assets, total		825.6	-88.4	737.1	826.3	-86.0	740.3
Current assets							
Short-term receivables		3.6	-0.5	3.1	3.1	-0.5	2.7
Cash and cash equivalents		7.2	-0.5	6.7	4.8	-0.5	4.3
Current assets, total		10.8	-1.0	9.8	7.9	-1.0	7.0
Assets, total		836.4	-89.5	746.9	834.2	-87.0	747.2
Liabilities and shareholders' equity							
Equity attributable to equity holders of the parent							
Share capital		142.8		142.8	142.8		142.8
Share premium fund		28.3		28.3	28.3		28.3
Treasury share fund	c	4.7	-4.7		4.7	-4.7	
Treasury shares	c		-4.7	-4.7		-4.7	-4.7
Fair value reserve	e		-12.4	-12.4		-7.6	-7.6
Other funds		6.6		6.6	6.6		6.6
Retained profits	a, b, d	13.0	9.6	22.6	13.0	9.6	22.6
Profit		4.1	4.3	8.4	8.4	6.2	14.6
Capital loan	f	68.5	-68.5		68.5	-68.5	
Shareholders' equity, total		267.8	-76.3	191.5	272.1	-69.5	202.6
Minority interest		101.2	-101.2		101.2	-101.2	

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Liabilities							
Long term liabilities	f	433.1	85.1	518.2	426.5	79.0	505.5
Deferred tax liability	d		3.1	3.1		4.8	4.8
Long term liabilities, total		433.1	88.2	521.3	426.5	83.8	510.3
Short-term liabilities		34.1	-0.1	34.0	34.4	-0.1	34.3
Short-term liabilities, total		34.1	-0.1	34.0	34.4	-0.1	34.3
Liabilities, total		467.3	88.0	555.3	460.9	83.7	544.6
Liabilities and shareholders' equity, total		836.4	-89.5	746.9	834.2	-87.0	747.2

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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			-4.7			-4.7
Profit					8.4	8.4
Total recognised income and expense			-4.7		8.4	3.6
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			4.8			4.8
Profit					6.3	6.3
Total recognised income and expense			4.8		6.3	11.1
IFRS Balance 30 Jun. 2004	142.8	34.8	-7.6	-4.7	37.3	202.6

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.

Notes to the preliminary opening IFRS balance sheet reconciliation and comparative financial information for Q1 and Q2 in 2004

- a) 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.
- b) Consolidation principles of mutual real estate companies have been changed.
- c) Own shares held by the parent company are not presented in assets, but are deducted from equity.
- d) Deferred taxes have been recognised for all temporary differences according to IAS 12 Income Taxes.

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- e) 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.
- f) Capital loan has been classified as a liability in the IFRS balance sheet.
- g) The covenant calculation used in the financial agreements will remain the same.

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

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.

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.

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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.

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, 31 August 2004

Citycon Oyj
Board of Directors

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