

GAZIT-GLOBE (1982) LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2002

ADJUSTED TO THE NIS OF DECEMBER 2002

INDEX

	<u>Page</u>
Auditors' Report	2
Balance Sheets - Consolidated and the Company	3 - 6
Statements of Income - Consolidated and the Company	7 - 8
Statements of Changes in Shareholders' Equity	9
Statements of Cash Flows - Consolidated and the Company	10 - 16
Notes to Financial Statements	17 - 74
Appendix to Financial Statements - List of Group Companies	75

AUDITORS' REPORT**To the shareholders of****GAZIT-GLOBE (1982) LTD.**

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 2002 and 2001 and the consolidated balance sheets as of such dates and the related statements of income, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 93.4% and 96.1% of total consolidated assets as of December 31, 2002 and 2001, respectively, and whose revenues included in consolidation constitute approximately 98%, 99.6% and 99.5% of total consolidated rental income for the years ended December 31, 2002, 2001 and 2000, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2002 and 2001, and the results of operations, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2002, in conformity with generally accepted accounting principles. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel
March 23, 2003**KOST FORER & GABBAY**
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of December 2002**

	Note	December 31,	
		2002	2001
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	289,119	227,769
Short-term investments	4	81,618	167,905
Tenants	5	45,368	39,974
Accounts receivable	6	81,345	59,568
Loans to partners and to former partners	7	45,831	62,415
Properties held for sale	11	43,928	-
		<u>587,209</u>	<u>557,631</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	8j	34,594	-
Long-term investments	9	97,475	88,940
Long-term loans	10	84,499	70,726
		<u>216,568</u>	<u>159,666</u>
FIXED ASSETS:			
Cost	11	6,946,162	6,090,198
Less - accumulated depreciation		<u>337,757</u>	<u>230,071</u>
		<u>6,608,405</u>	<u>5,860,127</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	12	<u>157,684</u>	<u>131,913</u>
		<u><u>7,569,866</u></u>	<u><u>6,709,337</u></u>

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

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of December 2002**

	Note	December 31,	
		2002	2001
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	369,608	358,642
Trade payables	14	62,839	38,802
Other accounts payable	15	139,540	111,695
Dividend declared	16	-	19,638
		<u>571,987</u>	<u>528,777</u>
LONG-TERM LIABILITIES:			
Debentures	17	288,506	260,350
Liabilities to financial institutions and others	19	4,003,691	3,714,806
Tenants' security deposits	20	140,000	149,269
Accrued severance pay	21	856	804
Deferred taxes	22	741	535
		<u>4,433,794</u>	<u>4,125,764</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	18	<u>723,158</u>	<u>753,261</u>
MINORITY INTEREST		<u>934,208</u>	<u>593,271</u>
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	<u>906,719</u>	<u>708,264</u>
		<u><u>7,569,866</u></u>	<u><u>6,709,337</u></u>

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

March 23, 2003

Date of approval of the
financial statements

Chaim Katzmann
Chairman of the Board

Dori Segal
Managing Director

BALANCE SHEETS - THE COMPANY**Adjusted to the NIS of December 2002**

	<u>Note</u>	<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>
		<u>Adjusted NIS in thousands</u>	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	93,263	29,306
Short-term investments	4	285	3,655
Accounts receivable	6	4,925	6,690
		<u>98,473</u>	<u>39,651</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	1,378,806	1,042,473
Long-term investments	9	29,985	31,170
Long-term loans	10	141	149
		<u>1,408,932</u>	<u>1,073,792</u>
FIXED ASSETS:			
Cost	11	2,828	2,377
Less - accumulated depreciation		<u>786</u>	<u>548</u>
		<u>2,042</u>	<u>1,829</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	12	<u>6,059</u>	<u>3,670</u>
		<u><u>1,515,506</u></u>	<u><u>1,118,942</u></u>

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

BALANCE SHEETS - THE COMPANY**Adjusted to the NIS of December 2002**

	<u>Note</u>	<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>
		<u>Adjusted NIS in thousands</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	17,304	29,391
Trade payables	14	304	392
Other accounts payable	15	17,466	11,011
Dividend declared	16	-	19,638
		<u>35,074</u>	<u>60,432</u>
LONG-TERM LIABILITIES:			
Debentures	17	411,866	188,353
Liabilities to financial institutions and others	19	161,758	161,813
Accrued severance pay	21	89	80
		<u>573,713</u>	<u>350,246</u>
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	<u>906,719</u>	<u>708,264</u>
		<u>1,515,506</u>	<u>1,118,942</u>

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

March 23, 2003

Date of approval of the
financial statements

Chaim Katzmann
Chairman of the Board

Dori Segal
Managing Director

CONSOLIDATED STATEMENTS OF INCOME**Adjusted to the NIS of December 2002**

	Note	Year ended December 31,		
		2002	2001	2000
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Rental income	27	902,356	721,290	386,468
Other income	28	75,553	94,154	76,200
		<u>977,909</u>	<u>815,444</u>	<u>462,668</u>
Costs and expenses:				
Property operating expenses	29	308,891	245,949	129,462
Rental property Depreciation		116,043	100,908	51,859
General and administrative	30	82,512	59,986	37,834
Financial, net	31	175,594	238,839	111,861
Other expenses	32	46,767	16,659	8,950
		<u>729,807</u>	<u>662,341</u>	<u>339,966</u>
Income before taxes on income		248,102	153,103	122,702
Taxes on income	22	18,251	18,748	13,148
Income after taxes on income		229,851	134,355	109,554
Equity in earnings of affiliates	8j	3,314	-	-
Minority interest in earnings of subsidiaries		(127,021)	(48,044)	(28,016)
Equity of former shareholders in earnings of newly consolidated subsidiary	1b(3)a	-	-	(9,016)
Net income for the year		<u>106,144</u>	<u>86,311</u>	<u>72,522</u>
Net earning per NIS 1 par value of Common shares (in adjusted NIS):				
Basic earnings	33	<u>1.48</u>	<u>1.61</u>	<u>1.65</u>

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

STATEMENTS OF INCOME - THE COMPANY

Adjusted to the NIS of December 2002

	Note	Year ended December 31,		
		2002	2001	2000
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		129,536	70,375	55,898
Other income	28	7,863	24,935	38,982
Financial, net	31	-	1,260	-
		<u>137,399</u>	<u>96,570</u>	<u>94,880</u>
Costs and expenses:				
General and administrative	30	7,932	6,431	3,611
Financial, net	31	11,850	-	15,773
Other expenses	32	7,517	32	13
		<u>27,299</u>	<u>6,463</u>	<u>19,397</u>
Income before taxes on income		110,100	90,107	75,483
Taxes on income	22e	3,956	3,796	2,961
Net income for the year		<u>106,144</u>	<u>86,311</u>	<u>72,522</u>
Net earning per NIS 1 par value of Common shares (in adjusted NIS):				
Basic earnings	33	<u>1.48</u>	<u>1.61</u>	<u>1.65</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of December 2002

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Dividend declared	Less - shares held by the Company	Less - loans for acquisition of shares (*)	Total
Adjusted NIS in thousands									
Balance at January 1, 2000	87,758	233,636	1,735	10,845	(60,992)	-	-	-	272,982
Issuance of share capital, net	7,480	78,749	-	-	-	-	(13,170)	-	73,059
Conversion of debentures into shares	2,636	25,615	-	-	-	-	-	-	28,251
Exercise of stock options into shares	5,151	42,471	-	-	-	-	(6,472)	-	41,150
Sale of shares by subsidiary	-	3,580	-	-	-	-	18,968	-	22,548
Reimbursement of issuance expenses	-	704	-	-	-	-	-	-	704
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,202	-	-	-	-	1,202
Net income for the year	-	-	-	-	72,522	-	-	-	72,522
Dividend paid	-	-	-	-	(13,548)	-	-	-	(13,548)
Dividend declared	-	-	-	-	(7,380)	-	-	-	(7,380)
Balance as of December 31, 2000	103,025	384,755	1,735	12,047	(9,398)	-	(674)	-	491,490
Issuance of share capital, net	7,959	99,427	-	-	-	-	(19,052)	-	88,334
Conversion of debentures into shares	92	988	-	-	-	-	-	-	1,080
Exercise of stock options into shares	2,736	22,097	-	-	-	-	-	-	24,833
Sale of shares by subsidiary	-	(744)	-	-	-	-	15,947	-	15,203
Foreign currency translation adjustments for foreign autonomous units	-	-	-	45,047	-	-	-	-	45,047
Net income for the year	-	-	-	-	86,311	-	-	-	86,311
Dividend paid	-	-	-	-	(24,396)	-	-	-	(24,396)
Dividend declared	-	-	-	-	(19,638)	-	-	-	(19,638)
Balance as of December 31, 2001	113,812	506,523	1,735	57,094	32,879	-	(3,779)	-	708,264
Issuance of share capital, net	6,316	81,835	-	-	-	-	-	(8,300)	79,851
Exercise of stock options into shares	9,517	135,124	-	-	-	-	(107,922)	-	36,719
Sale of shares by the Company	-	299	-	-	-	-	3,120	(2,071)	1,348
Foreign currency translation adjustments for foreign autonomous units	-	-	-	6,047	-	-	-	-	6,047
Net income for the year	-	-	-	-	106,144	-	-	-	106,144
Dividend paid	-	-	-	-	(31,654)	-	-	-	(31,654)
Dividend declared	-	-	-	-	(11,591)	11,591	-	-	-
Balance as of December 31, 2002	129,645	723,781	1,735	63,141	95,778	11,591	(108,581)	(10,371)	906,719

*) As for loans to related parties in the Company for acquisition purchase of shares, see Note 24(g).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the year	106,144	86,311	72,522
Adjustments to reconcile net income to net cash provided by operating activities (a)	120,689	1,723	13,405
Net cash provided by operating activities	226,833	88,034	85,927
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated subsidiaries (b)	-	(169,121)	(485,498)
Investment in subsidiary and in jointly controlled entity	(13,005)	(20,922)	(23,674)
Investments in fixed assets	(973,085)	(492,859)	(235,251)
Loans granted to (repaid by) partners and former partners	17,137	(9,817)	-
Proceeds from sale of real estate	144,542	151,971	65,318
Long-term loans granted	(10,063)	(11,561)	(65,137)
Repayment of long-term loans granted	4,956	20,228	60,231
Short-term investments, net	27,743	92,896	(64,068)
Purchase of marketable securities and long-term investments	(197,683)	(116,794)	(199,758)
Proceeds from realization of long-term investments	233,912	185,275	234,940
Proceeds from sale of real estate to former minority in subsidiary	-	-	2,748
Net cash used in investing activities	(765,546)	(370,704)	(710,149)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
<u>Cash flows from financing activities:</u>			
Issuance of share capital, net	79,851	88,334	73,059
Exercise of stock options into shares	36,719	24,833	41,150
Sale of shares by the Company and subsidiary	1,348	15,203	22,548
Reimbursement of issuance expenses	-	-	704
Issuance of shares to minorities in subsidiary, net	284,392	99,263	47,462
Deferred charges in respect of raising loans and debentures	(26,666)	(12,081)	(19,749)
Dividend paid	(51,292)	(31,776)	(13,548)
Dividend paid to minorities in subsidiary	(84,658)	(29,416)	(21,839)
Receipt of long-term loans	1,002,104	1,374,463	779,775
Repayment of long-term loans	(521,930)	(1,024,219)	(166,549)
Redemption of debentures	(19,097)	(28,869)	-
Early redemption of debentures and convertible debentures	(129,236)	(202,277)	(49,624)
Sale of Company's debentures by subsidiaries	560	-	7,800
Short-term bank credit, net	(137,571)	10,299	(3,362)
Issuance of debentures and convertible debentures	157,081	103,156	11,984
Increase in tenants' security deposits	1,898	6,445	-
Net cash provided by financing activities	<u>593,503</u>	<u>393,358</u>	<u>709,811</u>
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	<u>6,560</u>	<u>6,492</u>	<u>(1,692)</u>
Increase in cash and cash equivalents	61,350	117,180	83,897
Cash and cash equivalents at the beginning of the year	<u>227,769</u>	<u>110,589</u>	<u>26,692</u>
Cash and cash equivalents at the end of the year	<u><u>289,119</u></u>	<u><u>227,769</u></u>	<u><u>110,589</u></u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Gain from realization and revaluation of marketable securities, net	(25,634)	(73,688)	(38,449)
Minority interest in earnings of subsidiaries	127,021	48,044	28,016
Equity in earnings of affiliates net of dividend received	86	-	-
Depreciation	116,404	101,243	51,859
Deferred taxes, net	(5,390)	(4,083)	(891)
Gain from early redemption of debentures and convertible debentures	(8,359)	(38,973)	(10,263)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(151,376)	(57,018)	(56,626)
Write-down of long-term investments	45,324	1,947	-
Amortization of other assets and deferred charges	14,817	12,407	24,342
Gain from sale of fixed assets	(28,457)	(240)	(3,165)
Increase in accrued severance pay	52	137	30
Gain from issuance to third party and related party	(1,121)	(4,930)	(2,641)
Changes in asset and liability items:			
Decrease (increase) in tenants and other accounts receivable	(11,048)	6,887	17,238
Increase in trade payables and other accounts payable	46,173	13,961	3,642
Increase (decrease) in tenants' security deposits	2,197	(3,971)	313
	<u>120,689</u>	<u>1,723</u>	<u>13,405</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
(b) <u>Investment in newly consolidated subsidiaries:</u> <u>(Note 1b2, 1b3 and 1b4)</u>			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	-	(28,420)	(58,569)
Current liabilities	-	21,067	144,980
	-	(7,353)	86,411
Fixed assets, long-term investments and loans (mainly real estate)	-	(666,528)	(3,506,703)
Other assets	-	(56)	(141,171)
Long-term liabilities	-	364,068	2,975,481
	-	(302,516)	(672,393)
Minority interest	-	118,543	100,484
Investment balance in newly consolidated subsidiary	-	22,205	-
	-	(169,121)	(485,498)
(c) <u>Significant non-cash operations:</u>			
Dividend declared	-	19,638	7,380
Issuance of shares in subsidiary to minorities and related party against long-term loans	7,330	23,475	-
Purchase of fixed assets against liabilities	5,005	-	31,950
Purchase of fixed assets in consideration for subsidiary's shares	2,452	-	-
Purchase of jointly controlled entity	-	-	15,555
Sale of real estate to former minority in subsidiary	-	-	18,839
Conversion of convertible debentures into Company shares	-	1,080	28,251
Conversion of debentures into convertible debentures	26,007	-	-
Sale of real estate against receivables	18,474	-	-
Sale of Company shares held by it to employees against long-term loans	2,071	-	-

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

STATEMENTS OF CASH FLOWS - THE COMPANY**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the year	106,144	86,311	72,522
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	<u>(111,240)</u>	<u>(87,437)</u>	<u>(50,955)</u>
Net cash provided by (used in) operating activities	<u>(5,096)</u>	<u>(1,126)</u>	<u>21,567</u>
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated subsidiary	-	-	(91,249)
Investment in subsidiaries and jointly controlled entity	(67,201)	(15,741)	(47,565)
Loans granted to subsidiaries, net	(134,912)	(155,062)	(151,585)
Investments in fixed assets	(540)	(711)	(1,466)
Sale (purchase) of marketable securities and short-term deposits, net	15,617	30,138	(15,460)
Purchase of marketable securities and long-term investments	(44,265)	(51,481)	(39,594)
Proceeds from sale of long-term marketable securities	27,813	133,441	81,776
Repayment (grant) of long-term loans	12	(8,713)	60
Proceeds from sale of fixed assets	<u>-</u>	<u>124</u>	<u>113</u>
Net cash used in investing activities	<u>(203,476)</u>	<u>(68,005)</u>	<u>(264,970)</u>

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

STATEMENTS OF CASH FLOWS - THE COMPANY**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
<u>Cash flows from financing activities:</u>			
Issuance of share capital, net	79,851	88,334	73,059
Exercise of stock options into Company shares	36,719	24,833	41,150
Sale of shares by the Company and subsidiary, net	1,348	15,203	22,548
Reimbursement of issuance expenses	-	-	704
Deferred charges in respect of raising loans and debentures	(3,456)	(3,626)	(196)
Dividend paid	(51,292)	(31,776)	(13,548)
Receipt of long-term loans	79,601	158,056	131,196
Loan received from jointly controlled entity	-	1,362	41,295
Repayment of long-term loans	(73,408)	(230,895)	(78,686)
Short-term bank credit, net	(3,142)	132	(5,162)
Issuance of convertible debentures	-	-	11,983
Issuance of debentures	266,498	103,154	-
Early redemption of debentures	(41,091)	-	-
Redemption of debentures	(19,099)	(27,987)	-
Net cash provided by financing activities	<u>272,529</u>	<u>96,790</u>	<u>224,343</u>
Increase (decrease) in cash and cash equivalents	63,957	27,659	(19,060)
Cash and cash equivalents at the beginning of the year	<u>29,306</u>	<u>1,647</u>	<u>20,707</u>
Cash and cash equivalents at the end of the year	<u><u>93,263</u></u>	<u><u>29,306</u></u>	<u><u>1,647</u></u>

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

STATEMENTS OF CASH FLOWS - THE COMPANY**Adjusted to the NIS of December 2002**

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Write-down of long-term investments	7,517	-	-
Gain from marketable securities, net	(2,241)	(22,059)	(15,444)
Equity in earnings of subsidiaries net of dividend received	(123,662)	(64,729)	(50,424)
Depreciation	327	311	174
Adjustment differences on monetary assets and long-term monetary liabilities, net	(1,829)	2,103	13,124
Amortization of other assets and deferred charges	828	364	70
Loss from early redemption of debentures	799	-	-
Increase in accrued severance pay	9	24	3
Loss (gain) from issuance to third party	(1,832)	32	(379)
Loss from sale of fixed assets	-	27	-
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	2,004	(2,915)	(902)
Increase (decrease) in trade payables and other accounts payable	6,840	(595)	2,823
	<u>(111,240)</u>	<u>(87,437)</u>	<u>(50,955)</u>
(b) <u>Significant non-cash operations:</u>			
Dividend declared	-	19,638	7,380
Conversion of convertible debentures into Company shares	-	1,080	28,251
Purchase of jointly controlled entity	-	-	15,555
Sale of Company shares held by it to employees against long-term loans	2,071	-	-

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Definitions:

- | | | |
|---------------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Company | - | Gazit-Globe (1982) Ltd. |
| The parent company | - | Gazit Inc. ("Gazit") through its subsidiary. |
| Subsidiaries | - | companies over which the Company exercises control (as defined in Statement 57) and whose accounts are consolidated with those of the Company. |
| Jointly controlled entity | - | a company owned by various entities that have a contractual consent for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method. |
| Affiliates | - | companies that are not subsidiaries and over which the Company has significant influence. The Company's investment therein is included using the equity method of accounting. |
| Investees | - | subsidiaries, the jointly controlled entity and affiliates. |
| The Group | - | the Company and its investees, as detailed in the accompanying Appendix. |
| Related parties | - | as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel and as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993. |

b. The Company and its activity:

1. The Company is engaged, through its subsidiaries, in acquiring, developing and managing income-producing properties in North America. Since October 2000, the Company is also engaged, through a jointly controlled entity, in establishing and managing senior citizen residence centers in Israel.
2. Investment in Equity One Inc. ("EQY"):
 - a) Since the end of 1994, the Company commenced to invest, directly and indirectly, in EQY, an American company which specializes in the acquisition and management of income producing properties in the U.S., whose shares are listed for trade on the New York Stock Exchange from 1998. As of the balance sheet date, the Company holds, directly and indirectly, approximately 49.6% of the share capital of EQY (approximately 59.9% in control).

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

- b) In October 2000, EQY signed an agreement with Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") for a private placement in stages of 2,950 thousand shares of EQY (approximately 20% of EQY shares at the date of closing) at a price of \$ 10.875 per share.

In 2000 and 2001, EQY allocated to Alony-Hetz the shares according to the above agreement.

As for a shareholders agreement between the Company and Alony-Hetz, see Note 23.

- c) In September 2001, EQY acquired the wholly owned subsidiary of First Capital Realty Inc. ("CEFUS") which is the owner of properties in the U.S. in return for the allocation of 10.5 million of EQY shares.
- d) In September 2001, EQY acquired United Investors Realty Trust ("UIRT") (an income producing real estate company type REIT that is listed for trade on NASDAQ) in share and cash transaction. The net value of the transaction was estimated at approximately \$ 66 million, whereby half was paid in cash and the other half in EQY shares. Following a compromising settlement which was signed in December 2002, in connection with a claim filed against UIRT prior to its acquisition by EQY, the Company carried to cost of investment additional \$ 2 million payable according to the compromising settlement.
- e) During the reported year, EQY raised in private placements, public issuance, dividends reinvestment plan ("DRIP") and other raisings approximately \$ 69.4 million, of which \$ 16.8 million were received from the Company and its wholly owned subsidiaries (including FCR). In connection with these issuances and the issuance of shares in FCR (see 3 below), the Company recorded a gain from the decrease in the holding rate in the amount of approximately NIS 1 million.
- f) In October 2002, EQY signed an agreement for the acquisition of IRT Property Company ("IRT") in shares and cash transaction, in consideration of approximately \$ 426 million. On February 12, 2003, the acquisition transaction was closed.

IRT is a public company type REIT for tax purposes whose shares are listed for trade on the New York Stock Exchange and which owns 90 commercial centers in South-East U.S.

According to the acquisition agreement, each IRT shareholder was entitled to receive per each IRT share it owns \$ 12.15 in cash or 0.9 shares of EQY, provided that the cash component of the consideration is not more than 50% of the aggregate consideration of the transaction.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

In practice, in consideration of 57% of IRT shares, EQY paid through its shares, and the balance was paid in cash (approximately \$ 180 million).

Simultaneously with the engagement, and for its financing, EQY has signed an agreement whereby on the date of closing EQY issued shares to its three principal shareholders - the Company, FCR and Alony-Hetz approximately 6.9 million shares, of which the Company acquired 62%, FCR - 15% and Alony-Hetz - 23% of said issued shares at the price of \$ 13.5 per share.

After closing, the Company holds directly and through its wholly owned subsidiaries in approximately 24% of EQY's share capital and the subsidiary, FCR, holds Approximately 20.7% of EQY's share capital. According to a shareholders agreement between the Company and Alony-Hetz (see Note 23), the Company will continue to appoint the majority of the members of EQY Board and to consolidate the accounts of EQY. According to generally accepted accounting principles for exchange of assets transactions, the Company will not record an accounting gain as a result of the decrease in its holdings in EQY.

Following are principle financial data of the financial statements of IRT as of December 31, 2002:

	U.S. dollars in thousands
Fixed assets, net	564,997
Total balance sheet	593,436
Liabilities to financial institutions and others	151,988
Debentures	149,803
Rental income	90,125
Property operating expenses	23,486
Rental property Depreciation	15,494

3. Investment in First Capital Reality Inc. (formerly: Centrefund) ("FCR"):
 - a) In August 2000, the Company completed a procedure of a tender offer in which it acquired via a wholly owned Canadian subsidiary ("Gazit 97"), 72% of FCR shares. Together with additional shares, which were acquired during trade on the stock exchange prior to completing this process, Gazit 97's shareholding reached approximately 84% of the share capital of FCR.

FCR is a Canadian income producing real estate company, which is listed for trade on the Toronto Stock Exchange.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

In October 2000, an agreement was signed between Gazit 97 and a company owned by Alony-Hetz, whereby, among others, Gazit 97 sold approximately 16% of FCR shares to Alony-Hetz at terms identical to those of the tender offer. Following this transaction, Gazit 97's shareholding in FCR declined to approximately 68%.

As for a shareholders agreement between the Company and a wholly owned subsidiary of Alony-Hetz, see Note 23.

The aggregate acquisition cost (without the portion sold to Alony-Hetz) amounted to approximately NIS 414 million.

FCR's financial statements were consolidated with the financial statements of the Company commencing July 1, 2000. Gains amounting to approximately NIS 9,016 thousand which were accumulated from the date of consolidation until the effective date of the acquisition (gains attributed to former shareholders) were presented under a separate item in the statement of income for 2000, "Equity of former shareholders in earnings of newly consolidated subsidiary".

- b) In March 2002, FCR published a prospectus for the issuance of options exercisable into FCR shares until 2008, by way of rights issued to its shareholders, so that anyone who holds in 1.25 of FCR shares may acquire one option at CD 0.05. The exercise increment per each option was determined at CD 11.8.

The Company acquired 8,662 thousand options of the 12,301 thousand options issued by FCR.

During 2002, the Company exercised approximately 1,263 thousand traded options into FCR shares for the investment of approximately CD 16 million (approximately NIS 48.3 million).

- c) In May 2002, Gazit 97 entered into a transaction with FCR, whereby FCR acquired all of the issued capital of a wholly owned subsidiary of Gazit 97, which owns eight income-producing properties in Quebec, Canada, in consideration of CD 31.6 million. Said consideration was paid through CD 28,156 thousand par value of convertible debentures (series D) of FCR valued at CD 24.2 million (CD 84.34 per CD 100 par value of debentures, including accrued interest) and 601,630 shares valued at CD 7.4 million (CD 12.30 per share). In addition, FCR received from Gazit 97 the right to issue it additional convertible debentures (series D) at same terms valued at CD 5 million, which was realized at the end of May 2002.

Following this transaction, right after the closing, the Company's shareholdings in FCR increased to 69.3%.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

- d) During 2002, FCR issued approximately 1.2 million shares in return for three semi-annual payments of interest on convertible debentures (series C and series D) in the amount of approximately CD 14.1 million (approximately NIS 42.3 million), and this in accordance with the right conferred to FCR under the terms of the debentures.

Gazit 97, which holds convertible debentures of FCR has received about 540 thousand shares in return for receipt of interest in the amount of approximately CD 6.3 million (approximately NIS 18.9 million).

- e) Following the exercise of traded options by the Company and other shareholders, issuance of shares in return for payment of interest on convertible debentures of FCR and other issuances, the Company's shareholdings in FCR decreased from 69.3% (upon closing, as described in section c. above) to approximately 67.9% at the end of the year.

4. Investment in Mishkanot Clal (1982) Ltd. ("Mishkanot Clal"):

In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the acquisition of shares and a private placement, 49% of the share capital of Mishkanot Clal (1982) Ltd. ("Mishkanot Clal") in return for the net consideration of approximately NIS 66 million. During May 2001, the Company acquired additional 1% of the shares of Mishkanot Clal in consideration of approximately NIS 2 million, thereby increasing its shareholdings in Mishkanot Clal to 50%.

Mishkanot Clal is engaged in the construction and management of senior citizen residence centers in Israel.

Mishkanot Clal's financial statements were consolidated by the proportionate consolidation method commencing October 1, 2000 upon the closing of the acquisition transaction.

5. Dividend distribution policy:

In November 1998, the Company's Board decided that it will publish during the fourth quarter of each year, the amount of the minimal dividend to be paid in each of the four quarters following the quarter in which the aforesaid notice was made.

The aforesaid is subject to sufficient amounts appropriate for distribution at the relevant dates and subject to the provisions of any law relevant to the distribution of a dividend and to the decisions that the Company is entitled to make, including with respect to another designation of its income and the changing of this policy.

In December 2002, the Company's Board decided to distribute a dividend of at least 68 agorot per share (17 agorot per share per quarter) for 2003.

6. As for public issuances and private placements by the Company during the reported year, see Note 24.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are as follows:

a. Adjusted financial statements:

1. The Company and its Israeli subsidiaries maintain their current accounting records in nominal NIS. In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a stable purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2002, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2003 (115.1 points on the average basis of 1998 = 100).

As for foreign subsidiaries whose financial statements are prepared in the currency of the countries in which they operate, see c. below.

2. The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets, which have been adjusted according to the changes in the general purchasing power of the currency.
3. The term "cost" in these financial statements signifies cost in adjusted NIS, unless otherwise indicated.
4. A summary of the Company's nominal data is presented in Note 37.

b. Principles of adjustment:

1. Balance sheet:

- a) Non-monetary items (items whose amounts in the balance sheet reflect their nominal amounts upon acquisition or incurrence - see below) have been adjusted on the basis of the changes in the Israeli CPI since their acquisition or incurrence.

The following items have been treated as non-monetary items: prepaid expenses, fixed assets and the related accumulated depreciation, long-term investments, other assets and deferred charges, net and capital accounts and additional paid-in capital derived from cash received from shareholders.

- b) The book value of the investments in subsidiaries is determined on the basis of the adjusted financial statements of these companies.
- c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2002 in their nominal amounts (comparative data have been adjusted to the December 2002 Israeli CPI).

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. Statement of income:

- a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.
- b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.
- c) The components of the statement of income relating to provisions and accruals included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined on the basis of the changes in the balances of the related balance sheet items after their relative cash flows are taken into account.
- d) Current tax expenses on income include the erosion in the value of the payments from the date of payment to the balance sheet date.
- e) The equity and the minority interest in the results of operations of subsidiaries is determined on the basis of the adjusted financial statements of these companies.
- f) The financing item reflects real financial income or expenses, including the erosion of monetary items during the reported year.

3. Statement of changes in shareholders' equity:

The dividend that was declared and actually paid during the reported year was adjusted on the basis of the Israeli CPI upon actual payment date. The dividend that was declared until the date of the approval of the financial statements and is designated to be distributed out of the current year's earnings and was not paid as of the balance sheet date was included without adjustment. The erosion of the dividend that was declared in the previous year and actually paid in the reported year is included among the statement of changes in shareholders' equity.

c. Financial statements of foreign subsidiaries that are prepared in foreign currency:

For the presentation of the Company's investment in foreign subsidiaries, which were classified as autonomous units (as the term implies in interpretation 8 to Opinion 36 of the Institute of Certified Public Accountants in Israel), and for the inclusion of those units' data in the consolidated statements, the financial statements of these subsidiaries were translated according to the principles determined in that interpretation. Prior to the translation, the financial statements of these subsidiaries were adjusted to the accounting principles applied by the Group and to the changes in the purchasing power of the currency of the countries in which they operate.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

Following are the main principles determined in interpretation 8 which refer to autonomous units:

- All the items in the subsidiary's financial statements, including the statement of income items, were translated into Israeli currency at the exchange rate prevailing at balance sheet date.
- The Group's investments in the subsidiary were adjusted to the changes in the general purchasing power of the Israeli currency in the reported year.
- Differences resulting from this treatment are carried to a separate item within shareholders' equity ("Foreign currency translation adjustments for foreign autonomous units").
- The erosion of loans which were received for the direct financing of the investment in the autonomous units and which are stated in or linked to the respective currency in which the financial statements of that unit were prepared with the addition of the erosion of loans in relation to the changes in the purchasing power of that currency and erosion of monetary balances which have the nature of investment in these units, are also carried to the above item within shareholders' equity.

As for data pertaining to the changes in the consumer price index in those countries in which the Group has autonomous units (U.S. and Canada), see q. below.

d. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. In addition, these statements include the proportionate share in the amounts of assets, liabilities, revenues and expenses of the jointly controlled entities, which are consolidated using the proportionate consolidation method based on the shareholding in these companies. Intercompany transactions and balances among the companies whose accounts have been fully or proportionally consolidated, have been eliminated in the consolidated financial statements. Company's shares that were acquired by the Company or by subsidiaries are presented using the treasury stock method.

e. Classification of the statement of income:

The Group's activities, the nature of its revenues and expenses and the Company's structure require classifications of the statement of income items according to the one stage method and not according to the order prescribed in the Securities Regulations (Preparation of Annual Financial Statements), 1993, and this in accordance with the qualification determined in these regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

f. Cash equivalents:

Cash equivalents include deposits in banks for immediate withdrawal and deposits in banks for which the period up to their redemption, at the time of investment therein, is not over three months and which are not restricted by charges.

g. Marketable securities:

1. Marketable securities invested for the short-term and available for sale in the immediate term are presented at market value as of balance sheet date in accordance with Opinion 44 of the Institute of Certified Public Accountants in Israel. Changes in their value are carried to the statement of income among financing.
2. Marketable securities invested to maturity are presented at cost net of a provision for impairment in value if the decline in value is of a permanent nature.

h. Allowance for doubtful accounts:

The allowance is principally determined in respect of specific debts whose collection, in the opinion of the management of the companies, is doubtful.

i. Fixed assets:

1. Fixed assets are stated at cost. Provision for impairment loss is provided when the carrying amount of the asset exceeds the amount to be recovered through use of the asset. Financial expenses related to the financing of the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.
2. Improvements, renovations and material reconditioning are carried to cost whereas current maintenance and repair expenses are expensed as incurred.
3. Depreciation is calculated using the straight-line method at annual rates that are deemed adequate to depreciate the assets over their estimated useful lives, as follows:

	<u>%</u>	
Buildings for lease	2 - 4	(mainly 2% and 2.5%)
Office furniture and equipment	14 - 33	
Motor vehicles	15	
Improvements in buildings for rent *)	2 - 20	(mainly 7%)

*) Improvements in buildings for rent are depreciated at the shorter of the estimated useful period of those properties or the term of the respective rent agreement.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Investments in investees:

The Company's investments in subsidiaries are presented using the equity method of accounting, i.e. the investments are presented at cost plus the equity in the net operating results of those companies or other changes in their shareholders' equity since their acquisition or establishment.

Excess of investment costs over carrying values upon the dates of acquisition ("initial difference") to which the provisions of the Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements) 1996, do apply, is presented according to the principles prescribed in those regulations meaning, as an addition to or disposal from the shareholders' equity, as appropriate.

The initial difference attributed to buildings is presented among fixed assets in the consolidated financial statements, and is amortized over the remaining depreciation period of the real estate to which they are attributed, up to 50 years.

The initial difference attributed to land is also presented in the consolidated financial statements among fixed assets and is not depreciated.

The initial difference attributed to monetary assets and liabilities and to commitments is presented among these items and is amortized according to their realization.

The initial difference which is not attributed to certain assets and to which the aforesaid regulations do not apply, is carried to goodwill which is presented in the consolidated financial statements among other assets, and is amortized over a period of 10 years in equal annual amounts.

As for deferred taxes, see l. below.

k. Other assets and deferred charges, net:

Deferred charges which originate from raising long-term loans and debentures are amortized using the straight-line method over the period of the loans which ranges between 5 - 30 years, taking into account the outstanding balance in each year end.

L. Deferred taxes:

1. Deferred taxes are computed in respect of temporary differences between the amounts included in the adjusted statements and the amounts to be considered for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel).
2. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to be released to the statement of income, as known on the date the financial statements were prepared.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's intention to hold these investments. Similarly, deferred taxes that may be incurred in the event of distribution of earnings by certain investees as dividends have not been taken into account in computing deferred taxes since the Company's policy is not to initiate distribution of dividend from these companies that involves an additional tax liability.
4. The Company records deferred tax assets on the basis of the Company's management estimate as to the likelihood of the utilization of the benefit.

m. Revenue recognition from rental income and management fees:

Revenues from rental income and management fees are recognized as accrued, over the contractual period or as the management services are performed.

n. Revenue recognition from entrance fees and forfeiture of deposits:

Receipts from entrance fees are carried equally to the statement of income, over a period of 10 years beginning with the date on which the tenant enters the apartment.

Revenues from the forfeiture of deposits that were received from tenants are carried to the statement of income as incurred.

o. Debentures and convertible debentures:

Convertible debentures are included on the basis of the probability of conversion, in accordance with criteria set forth in Statement 53 of the Institute of Certified Public Accountants in Israel. In the event that the conversion is not foreseeable, the debentures are included as a liability at their liability value; in the event that conversion is likely, the debentures are stated among long-term liabilities and shareholders' equity at the greater of their liability value or capital value.

Discount created upon the issuance of convertible debentures is amortized using the straight-line method over the term of the debentures.

Acquisition of debentures convertible into subsidiary's shares by the Company:

The difference created between the cost of the acquisition of the debentures by the Company and their carrying value in the books of the subsidiary that issued in the past these debentures, is included in the statement of income or in a balance sheet item on the basis of the probability of conversion (in accordance with criteria set forth in Statement 53 of the Institute of Certified Public Accountants in Israel) of the debentures into shares at the time when they were acquired by the Company. When the probability of conversion is low, the difference is carried as gain or loss on early redemption and is included in the consolidated statement of income among financing. When the probability of conversion is high, the difference is carried as surplus acquisition cost.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

Since 2002, the Company acts according to the Securities Authority's staff position whereby if the Company acquires additional convertible debentures of the subsidiary, the above difference shall be deferred and recognized as a gain only when the debentures be converted or redeemed.

p. Derivative financial instruments:

The results of forward transactions for hedging the liabilities, which the Company undertook to repay in foreign currency in connection with additional investments in subsidiaries, are deferred until such investments are made and constitute part of the cost of the investments made.

q. Exchange rates and linkage basis:

- Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rates published by the Bank of Israel on the balance sheet date.
- Assets and liabilities linked to the Israeli CPI are included according to the relevant index for each asset or liability.
- Exchange rate and linkage differences are carried to the statement of income as incurred.
- The following are details of the index in Israel, U.S. and Canada and the exchanges rates of the U.S. dollar and the Canadian dollar:

	Consumer Price Index			Exchange rate of \$ 1 of	
	Israel	U.S. Points *)	Canada	U.S.	Canada
				NIS	
As of:					
December 31, 2002	115.1	180.9	120.4	4.737	3.0013
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
December 31, 1999	106.6	168.3	111.5	4.153	2.8568
Increase (decrease) in:					
					%
2002	6.5	2.4	3.9	7.3	8.1
2001	1.4	1.6	0.7	9.3	3.2
2000	-	3.4	3.2	(2.7)	(5.8)

*) According to the index for the month ending on balance sheet date on an average basis of:

Israel - 1998 = 100
 U.S. - 1984 = 100
 Canada - 1992 = 100.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Earnings per share:

Earnings per share are computed in accordance with Opinion 55 of the Institute of Certified Public Accountants in Israel.

s. Fair value of financial instruments:

The Group's financial instruments include mainly non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, deposits in banks, marketable securities, tenants, other accounts receivable and long-term loans granted; non-derivative liabilities include short-term and long-term credit from banks and others, trade payables and other accounts payable). The fair value of these financial instruments is generally equivalent to or approximates the value in which they are presented in the financial statements.

As for derivative financial instruments, see p. above.

t. Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

u. Implementation of new accounting standards and their impact on the financial statements:

1. During October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 with respect to the discontinuation of the adjustment of financial statements, and Accounting Standard No. 13 with respect to the effect of the changes in the exchange rates for foreign currencies. In December 2002, Accounting Standard No. 17 was published with respect to the deferral of the implementation of Accounting Standards No. 12 and No. 13 until January 1, 2004.

According to Standards No. 12 and No. 17, which deals with the discontinued adjustment of financial statements, financial statements will discontinue to be adjusted for inflation in Israel commencing January 1, 2004. Until December 31, 2003, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

In accordance with the provisions of Accounting Standard No. 13 and No. 17 prescribe principles with respect to the effect of the changes in the exchange rates for foreign currency. These Standards replaces clarification No. 8 and clarification No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which are void with the discontinuation of the adjustment of financial statements. The Standards deal with the translation of transactions in foreign currency and the translation of financial statements of foreign operations in order to integrate them into the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those implemented to date. Accounting Standard No. 13 will apply to financial statements for periods beginning after December 31, 2003.

Management is of the opinion that the discontinuance of adjusting financial statements to the Israeli CPI in environment of positive inflation, without regulating additional Standards that influence the results of income producing real estate companies, will have a significant negative effect on the reported accounting results of the Company beginning with the year of application of the Standard.

2. In August 2002, the Israel Accounting Standards Board published Accounting Standard No. 14 with respect to fiscal reporting for interim periods.

The purpose of this Standard, which deals with fiscal reporting for interim periods, is to determine the minimum content for financial reporting for interim periods, as well as to determine the recognition and measurement principles in financial statements for interim periods. In addition, the interim financial statements will, for the first time, include condensed segmental information similar to the information included in the annual financial statements. This Accounting Standard, which is based on International Accounting Standard No. 34, "Financial Reporting for Interim Periods", replaces Opinion No. 43 of the Institute of Certified Public Accountants in Israel that deals with financial statements for interim periods and Opinion No. 60 that deals with the amendment of Opinion No. 43 with respect to the cancellation of the obligation to include information regarding nominal data in financial statements for interim periods. This Standard will apply in respect to financial statements for periods beginning on or after January 1, 2003.

In February 2003, Accounting Standard No. 15 was published with respect to the impairment of assets

This Standard, which deals with the impairment of assets, is based on International Accounting Standard No. 36, and prescribes the accounting principles in the case of a decline/elimination of the decline, in the value of a company's assets, including investments in investees that are not subsidiaries, goodwill arising from the acquisition of subsidiaries and fair value adjustments. This Standard will apply with respect to financial statements for periods beginning on or after January 1, 2003.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

The transitional guidelines in the Standard prescribe that losses due to an impairment of assets, which derive from the application of this Accounting Standard, will be recognized in the pre-tax income. The aforesaid will not apply in the case of a loss from the impairment of an asset that was not recognized in the past only due to the fact that the total undiscounted expected future net cash flow exceeds the book value. The latter will be carried to the statement of operations under the item "Cumulative effect of change in accounting principle for the beginning of the year".

Management does not anticipate that the new Standards, as discussed above, will have a significant effect on its results of operations, financial position and cash flows.

NOTE 3:- CASH AND CASH EQUIVALENTS

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Cash and deposits for immediate withdrawal	-	109,552	-	1,249
Short-term deposits	289,119	118,217	93,263	28,057
	<u>289,119</u>	<u>227,769</u>	<u>93,263</u>	<u>29,306</u>

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value (1)	29,689	135,508	285	3,655
Deposits in dollars (2)	21,955	19,375	-	-
Restricted cash (3)	29,974	13,022	-	-
	<u>81,618</u>	<u>167,905</u>	<u>285</u>	<u>3,655</u>

- (1) Mainly investment in shares of income producing properties companies in the U.S. and Canada.
- (2) Deposits for the examination of investments in real estate and other deposits. These deposits, primarily, do not bear interest.
- (3) Cash designated to secure various liabilities of subsidiaries. The restriction is expected to end in the course of the coming year.

NOTES TO FINANCIAL STATEMENTS

NOTE 5:- TENANTS

a. Composition:

	Consolidated	
	December 31,	
	2002	2001
	Adjusted NIS	
	in thousands	
Open accounts	50,078	45,999
Less - allowance for doubtful accounts	4,710	6,025
	<u>45,368</u>	<u>39,974</u>

b. As for major lessees in subsidiaries, see Note 27.

NOTE 6:- ACCOUNTS RECEIVABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Dividend and interest receivable	635	432	-	-
Government authorities (1)	15,104	16,983	394	347
Related parties (2)	142	1,864	-	-
Loan to jointly controlled entity	243	1,663	-	-
Prepaid expenses	45,710	34,843	4,434	6,234
Employees	3,144	903	-	-
Receivables for sale of properties	11,781	-	-	-
Others	4,586	2,880	97	109
	<u>81,345</u>	<u>59,568</u>	<u>4,925</u>	<u>6,690</u>

(1) Mainly for municipal taxes.

(2) The balance includes current maturities of loan to the Company's CEO (see Note 10a2). In 2001, the balance included also a loan which EQY provided to its and the Company's chairman whose repayment date was extended until 2006, see Note 10a2.

NOTES TO FINANCIAL STATEMENTS

NOTE 7:- LOANS TO PARTNERS AND TO FORMER PARTNERS

Loans which FCR and EQY provided to partners and to former partners in property development companies for their share in financing the development of the properties of these companies.

The loans are in U.S. dollars and in Canadian dollars, in accordance with the location of the property, and bear average interest of 10%. The loans are secured by the partners' rights to the properties. According to the partnership agreement and the agreement of loans to partners and former partners, these loans are intended to be repaid by December 2003.

NOTE 8:- INVESTMENTS IN INVESTEEES

a. Composition:

	<u>The Company</u>	
	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS</u>	
	<u>in thousands</u>	
1. Investments in subsidiaries:		
Cost of shares	459,330	390,297
Capital reserves on investments in subsidiaries	(32,868)	(32,868)
Equity in post-acquisition earnings	302,991	170,049
Dividend received from subsidiaries	(34,481)	(28,607)
Foreign currency translation adjustments for foreign autonomous units	77,672	73,408
	<u>772,644</u>	<u>572,279</u>
2. Investments in jointly controlled entity *):		
Cost of shares	110,543	110,543
Equity in post-acquisition losses	(11,235)	(7,828)
	<u>99,308</u>	<u>102,715</u>
Loans **)	<u>506,854</u>	<u>367,479</u>
	<u><u>1,378,806</u></u>	<u><u>1,042,473</u></u>

*) See g and h below.

**) As of December 31, 2002, the loans are in U.S. dollars and in Canadian dollars and bear interest of Libor + 2% to 6.5% (for subsidiaries in the U.S. and Israel) and 8.5% or Libor + 2.5%, whichever is higher (for a subsidiary in Canada). The principal and the interest are repayable upon the earlier of five years from the date of receipt of loan or at the Company's request in the occurrence of certain events.

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES (cont.)

- b. The investment, directly and indirectly, in EQY, which is listed for trade on the New York Stock Exchange:

	December 31, 2002		December 31, 2001	
	Carrying amount *	Market value	Carrying amount *	Market value
Adjusted NIS in thousands				
Shares	951,947	1,082,111	814,203	1,030,934

*) Including excess of cost over book value acquired.

As of the balance sheet date, the Company holds, directly and indirectly, Approximately 49.6% (49.3% assuming full dilution) of the share capital of EQY (see Note 1b2).

- c. The stock options of EQY as of the balance sheet date are as follows:

Series	Exercise increment per share *	Expiration date	Total number in units **
Options issued to employees and managers	\$ 9.9 - \$ 13.44	2006 - 2012	(***) 959,750

*) The price for an EQY share as of the balance sheet date is \$ 13.35. As of the balance sheet date, EQY has 34,540 thousand issued shares

***) Including all of the stock options that were issued to employees, as well as the 419 thousand stock options, which have not yet gained the minimal length required for their vesting rights.

****) In the context of the employment contract between the Company's chairman of the Board and EQY, EQY has undertaken to issue him additional options in the coming years, see Note 34(1).

	The Company	
	December 31,	
	2002	2001
Adjusted NIS in thousands		
d. Dividend directly received by the Company from EQY during the reported year	5,874	5,469

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES (cont.)

- e. The indirect investment in FCR that is listed for trade on the Toronto Stock Exchange:

	December 31, 2002		December 31, 2001	
	Carrying amount *	Market value	Carrying amount *	Market value
Adjusted NIS in thousands				
Shares and traded options	563,375	500,195	462,741	400,671

*) Including excess of cost over book value acquired.

The Company holds, through a subsidiary, Approximately 67.9% (54.9% assuming full dilution) of the share capital of FCR (see Note 1b3).

- f. The stock options of FCR as of the balance sheet date are as follows:

Series	Exercise increment per share *	Expiration date	Total number in units *
Options to employees of the property management company	CD 13.82	2008	(** 425,000)
Options to former controlling shareholders in FCR and others	CD 13.53	2010	1,000,000
Options to employees and managers	CD 12.43	2012	(** 774,500)
Traded options	CD 11.8	2008	10,428,213

As for FCR debentures that are redeemable into FCR shares, see Note 18.

*) The price for FCR share as of the balance sheet date is CD 12.15. As of the balance sheet date, FCR has 19,143 thousand issued shares

***) Including all of the stock options which were issued to employees and managers of FCR and the property management company, as well as the 652 thousand stock options which have not yet gained the minimal length required for their vesting rights (including issuance to the Company's chairman of the Board and CEO, see Note 34).

- g. Investment in jointly controlled entity that was consolidated using the proportionate consolidation method:

	December 31,	
	2002	2001
Adjusted NIS in thousands		
Current assets	1,858	4,575
Non-current assets	143,073	167,083
Current liabilities	17,575	30,115
Long-term liabilities	97,354	109,696

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES (cont.)

	Year ended December 31,	
	2002	2001
	Adjusted NIS in thousands	
Revenues	15,295	17,903
Expenses	17,146	25,183
h. Goodwill included in the investment in jointly controlled entity:		
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Goodwill created upon acquisition	15,439	15,439
Amortized goodwill	2,807	1,176
	12,632	14,263

i. As for the charge placed on part of the subsidiaries' shares as collateral for the Group's liabilities, see Note 25.

j. Investments in affiliates - consolidated:

Investment in affiliates represents EQY's investments in 50% of three companies each of which is the owner of an income producing property. Additionally, this item includes the holdings of Mishkanot Clal Ltd. in 33% of a protected tenancy project in Nordia.

The Company's share in the investment in the assets of these companies (mainly fixed assets) amounts to approximately NIS 164.3 million. The Company's share in the liabilities of these companies amounts to approximately NIS 129.7 million.

NOTES TO FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Long-term deposits (1)	18,826	18,744	15,136	869
Marketable securities presented at cost (2):				
Shares of companies in Israel	14,849	30,301	14,849	30,301
Shares of companies in the United States and Canada (3)	63,800	39,895	-	-
	78,649	70,196	14,849	30,301
	97,475	88,940	29,985	31,170

- (1) A deposit of NIS 14,325 thousand is unrestricted deposit, which was deposited with an Israeli bank and which bears interest of 1.6%. According to the agreement with the bank, as long as the deposit is maintained, the interest rate on loans, which were provided by the bank to the Company's employees, CEO and secretary in order to acquire the Company's shares issued to them, shall be 2%. If the deposit is withdrawn, the interest rate on these loans shall be as the interest rate in the market. The balance of the deposits was granted to the providers of the mortgages in order to secure the performance of renovations in the mortgaged properties as to maintain their value.
- (2) The market value of these shares as of the balance sheet date is approximately NIS 87 million (in 2001 - approximately NIS 80 million).
- (3) Mainly shares traded on the New York Stock Exchange (NYSE) and on the Toronto Stock Exchange (TSX).

NOTE 10:- LONG-TERM LOANS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Employees (1)	18,781	13,299	141	149
Related parties (2)	15,049	13,682	-	-
Loan provided by a jointly controlled entity (3)	18,251	20,066	-	-
Loans to jointly controlled entities	3,989	375	-	-
Others (4)	28,429	23,304	-	-
	84,499	70,726	141	149

NOTES TO FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM LOANS (cont.)

- (1) Consolidated - mainly loans in U.S. dollars for which the weighted interest rate is 5.1%.

The Company - the loans are in NIS, linked to the Israeli CPI and bear annual interest of 4%.

- (2) The composition as of December 31, 2002 is as follows:
- (a) A loan amounting to \$ 2,880 thousand that EQY provided to the Company's chairman of the Board in September 2001 for exercising stock options issued to him by EQY, within the framework of employee stock option plan. The loan bears interest of 5%, payable quarterly, and matures within 5 years.
 - (b) A loan amounting to \$ 297 thousand that EQY provided to the Company's chairman of the Board in June 1999 for exercising stock options (series C) issued to him by EQY. The loan bears annual interest of 6.35%, payable quarterly, and matures in December 2006 (the original repayment date, December 2002, was changed in the context of a new employment contract of the Company's chairman of the Board in EQY, see Note 34(1)) and is secured by a charge on EQY shares deriving from the exercise.
 - (c) A loan amounting to \$ 80 thousand which a subsidiary provided to the Company's CEO (a controlling shareholders by virtue of his holdings in Gazit and a director in the Company) in August 1997 for relocating, within the framework of his position, to Canada. The loan bears interest of Libor + 1% payable quarterly and matures in eight quarterly payments beginning October 1, 2001. As of December 31, 2002, all the loan balance is presented among the caption "Accounts receivable". In January 2003, the Company's CEO repaid the outstanding loan amount.
- (3) A loan that Mishkanot Clal provided to Azorim. The loan is linked to the Israeli CPI and bears annual interest of 4%.
- (4) Loans provided by FCR and EQY for the sale of fixed assets and loans provided to companies and other entities. The loans are in Canadian dollars and U.S. dollars, primarily bear interest of 8% - 10% and mature from 2004 to 2021.

NOTES TO FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM LOANS (cont.)

b. Maturity dates:

	<u>Consolidated</u> <u>December 31,</u> <u>2002</u>	<u>The Company</u> <u>December 31,</u> <u>2002</u>
	<u>Adjusted NIS in thousands</u>	
Second year	6,750	-
Third year	-	-
Fourth year	47,575	-
Fifth year	7,267	-
Sixth year and thereafter	526	-
Maturity date was not yet determined	22,381	141
	<u>84,499</u>	<u>141</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS

a. Consolidated:

	Fixed assets - abroad (1)	Fixed assets - Israel (1)	Total
	Adjusted NIS in thousands		
Cost:			
Balance at January 1, 2002	5,846,231	243,967	6,090,198
Foreign currency translation adjustments for foreign autonomous units	239,345	-	239,345
Purchases during the year	980,765	4,695	985,460
Disposals during the year	(158,212)	-	(158,212)
Disposals for affiliates (2)	(142,423)	(23,138)	(165,561)
Properties held for sale (3)	(45,068)	-	(45,068)
Balance at December 31, 2002	<u>6,720,638</u>	<u>225,524</u>	<u>6,946,162</u>
Accumulated depreciation:			
Balance at January 1, 2002	213,825	16,246	230,071
Foreign currency translation adjustments for foreign autonomous units	8,754	-	8,754
Additions during the year	111,340	5,064	116,404
Disposals during the year	(8,190)	-	(8,190)
Disposals for affiliates (2)	(7,082)	(1,060)	(8,142)
Properties held for sale (3)	(1,140)	-	(1,140)
Balance at December 31, 2002	<u>317,507</u>	<u>20,250</u>	<u>337,757</u>
Depreciated cost at December 31, 2002	<u><u>6,403,131</u></u>	<u><u>205,274</u></u>	<u><u>6,608,405</u></u>
Depreciated cost at December 31, 2001	<u><u>5,632,406</u></u>	<u><u>227,721</u></u>	<u><u>5,860,127</u></u>

(1) Mainly real estate.

(2) See Note 8j.

(3) All three properties which were designated for sale were sold at the beginning of 2003.

NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS (cont.)

b. The Company:

	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>			
Cost:				
Balance at January 1, 2002	495	747	1,135	2,377
Additions during the year	111	177	252	540
Disposals during the year	-	(89)	-	(89)
Balance at December 31, 2002	<u>606</u>	<u>835</u>	<u>1,387</u>	<u>2,828</u>
Accumulated depreciation:				
Balance at January 1, 2002	57	360	131	548
Additions during the year	92	104	131	327
Disposal during the year	-	(89)	-	(89)
Balance at December 31, 2002	<u>149</u>	<u>375</u>	<u>262</u>	<u>786</u>
Depreciated cost at December 31, 2002	<u>457</u>	<u>460</u>	<u>1,125</u>	<u>2,042</u>
Depreciated cost at December 31, 2001	<u>438</u>	<u>387</u>	<u>1,004</u>	<u>1,829</u>

c. Axces of cost over book value acquired attributed to real estate:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Foreign</u>	<u>In Israel</u>	<u>Foreign</u>	<u>In Israel</u>
	<u>Adjusted NIS in thousands</u>			
Balance of axces of cost over book value acquired attributed to real estate	<u>201,006</u>	<u>50,797</u>	<u>222,536</u>	<u>50,797</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS (cont.)

d. Rights to real estate:

The ownership rights to land in the U.S. and Canada are registered in the names of the subsidiaries according to the registration regulations in their respective countries of residence.

Subsidiaries own land in Israel under capitalized lease amounting to approximately NIS 32,497 thousand (As of December 31, 2001 - NIS 48,400 thousand). The lease periods terminate between 2011 to 2050. The subsidiaries have an option to lease the land for additional 49 years.

As for charges, see Note 25.

e. In 2002, financial expenses of NIS 24,739 thousand were capitalized to real estate under development, in 2001 - NIS 14,925 thousand were capitalized and in 2000 - NIS 14,491 thousand.

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Cost:				
Deferred selling expenses (1)	911	1,699	-	-
Expenses related to raising long-term loans and debentures and other expenses	88,984	63,397	6,799	4,319
Goodwill (2)	15,439	15,439	-	-
	<u>105,334</u>	<u>80,535</u>	<u>6,799</u>	<u>4,319</u>
Accumulated amortization:				
Deferred selling expenses (1)	342	210	-	-
Expenses related to raising long-term loans and debentures and other expenses	21,794	16,818	740	649
Goodwill (2)	2,807	1,176	-	-
	<u>24,943</u>	<u>18,204</u>	<u>740</u>	<u>649</u>
	80,391	62,331	6,059	3,670
Deferred taxes, see Note 22d	<u>77,293</u>	<u>69,582</u>	<u>-</u>	<u>-</u>
	<u>157,684</u>	<u>131,913</u>	<u>6,059</u>	<u>3,670</u>

(1) Expenses for selling protected residential units in a jointly controlled entity.

(2) Goodwill created upon the acquisition of Mishkanot Clal, see Note 2j.

NOTES TO FINANCIAL STATEMENTS

NOTE 13:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition:

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Short-term credit from banks (b)	2,839	22,814	23	3,165
Current maturities of long-term liabilities (Note 19)	304,144	309,602	-	-
Current maturities of debentures (Note 17)	62,625	26,226	17,281	26,226
	<u>369,608</u>	<u>358,642</u>	<u>17,304</u>	<u>29,391</u>

b. Linkage terms and interest rates of short-term credit from banks:

	<u>Weighted interest rate December 31, 2002 %</u>	<u>Consolidated</u>		<u>The Company</u>	
		<u>December 31,</u>		<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
		<u>Adjusted NIS in thousands</u>			
In NIS	10.9	2,839	16,183	23	3,165
In U.S. dollar	-	-	6,631	-	-
		<u>2,839</u>	<u>22,814</u>	<u>23</u>	<u>3,165</u>

c. To secure the credit it received, the Company recorded a charge on certain assets, see Note 25.

NOTE 14:- TRADE PAYABLES

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Open accounts	62,592	38,312	80	159
Notes payable	247	490	224	233
	<u>62,839</u>	<u>38,802</u>	<u>304</u>	<u>392</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 15:- OTHER ACCOUNTS PAYABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Interest payable	40,686	38,173	12,292	-
Current maturity of deposits and entrance fees from tenants (see Note 20)	9,958	10,909	-	-
Government authorities (1)	61,804	48,664	1,151	1,114
Revenues received in advance from tenants	8,427	4,143	-	-
Investee	-	-	3,211	9,293
Unrealized gain	-	-	456	456
Employees	8,699	5,887	356	148
Payables for acquisition of real estate and investments	5,005	-	-	-
Dividend declared by a subsidiary	4,961	3,919	-	-
	139,540	111,695	17,466	11,011

(1) Mainly for municipal taxes.

NOTE 16:- DIVIDEND DECLARED

In December 2001, the Company declared an interim dividend for 2001 in the amount of NIS 8,999 thousand. The dividend was paid at the beginning of January 2002. As of December 31, 2001, the caption also includes dividend that was declared in March 2002 in the amount of NIS 10,639 thousand and which was paid in April 2002.

As for dividend declared subsequent to the balance sheet date, see Note 35b.

As for the dividend distribution policy, see Note 1b5.

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Debentures (series D), see b below	54,250	111,948	54,250	111,948
Less - discount	2,407	6,538	2,407	7,045
	51,843	105,410	51,843	104,903
Less - current maturities	17,281	26,226	17,281	26,226
	34,562	79,184	34,562	78,677
Non-marketable debentures, see c below	120,372	119,319	120,372	119,319
Less - discount	8,972	9,643	8,972	9,643
	111,400	109,676	111,400	109,676
Non-marketable debentures, see d below	82,773	-	82,773	-
Debentures (series A), see e below	62,130	-	192,762	-
Less - discount	2,359	-	9,631	-
	59,771	-	183,131	-
Debentures of FCR, see f below	45,731	72,288	-	-
Less - discount	387	798	-	-
	45,344	71,490	-	-
Less - current maturities	45,344	-	-	-
	-	71,490	-	-
	<u>288,506</u>	<u>260,350</u>	<u>411,866</u>	<u>188,353</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES (cont.)

- b. In the context of agreements signed between the Company and Gazit Group in August 1998 and April 1999, the Company assumed the liabilities in respect of debentures (series D) that were issued to the public by Gazit, towards Gazit and the debenture holders.

The series included NIS 96,498,200 par value of registered debentures, redeemable in five equal annual payments beginning in December 2001, bearing annual interest payable every three months at the rate of Libor for dollar deposits for a period of 3 months + 0.5% per year and are linked (principal and interest) to the representative exchange rate of the dollar (base exchange rate of \$ 1 = NIS 3.23).

As of December 31, 2002, the Company redeemed 60% of the outstanding amount of debentures by payment of annual principal and by acquisition of debentures (series D) in the course of trade on the stock exchange and delisting them and, as a result, about 1,214 thousand of EQY shares which were pledged in favor of the debenture holders were released.

Similarly, as of the balance sheet date, the Company holds in about 1,632 thousand par value of debentures (series D) that it acquired and which were not yet delisted.

As for collaterals in order to secure said debentures, see Note 25b.

- c. In January 2001, the Company issued non-marketable debentures in the approximate amount of NIS 102.4 million to two provident funds. The debentures are linked to the Israeli CPI, bear interest that reflects a gross annual yield of 8.25% and are redeemable in the years 2006 - 2015.

In a transaction with a bank in Israel, the Company changed the linkage basis for part of the debentures in the amount of \$ 20 million to the U.S. dollar at an additional cost of 0.2% per year.

- d. In February 2002, the Company issued to institutional investors NIS 82.8 million of non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest of 5.65%. The redemption of the debentures is in 8 equal annual payments beginning in 2005.
- e. In May 2002, the Company issued to the public, among others, 140 million par value of debentures (series A), of which approximately NIS 77 thousand par value were issued to the Company's wholly owned subsidiary. In November 2002, this subsidiary exercised stock options (series A) into NIS 57 million par value of debentures (series A). The outstanding stock options (series A) that were not exercised expired. As of the balance sheet date, NIS 197 million par value of debentures (series A) are outstanding (approximately NIS 133 million par value are held by the Company's wholly owned subsidiary). The debentures are linked to the U.S. dollar (base exchange rate of \$ 1 = NIS 4.84), redeemable in 11 equal annual payments beginning in June 2007 and bear interest of 6.5%.
- f. The remaining debentures amounting to CD 15,057 thousand par value were issued by FCR in consideration of their par value and they bear interest of 7.5% payable twice a year. The debentures are redeemable in December 2003.

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES (cont.)

In the consolidated financial statements, the debentures are presented less discount which was computed upon the acquisition of FCR, taking into account the interest rates common at the date of acquisition, in order to present the debentures at their fair value.

As for collaterals in order to secure said debentures, see Note 25b.

NOTE 18:- CONVERTIBLE DEBENTURES

Convertible debentures redeemable into subsidiary's shares ("the debentures"):

Four series of debentures which FCR issued in an aggregate of CD 416,439 thousand par value (including issuance of convertible debentures (series D), as discussed in Note 1(3)b and the exchange of ordinary debenture into convertible debentures (series D), as discussed below) are convertible into FCR shares and bear interest as detailed below, payable semi-annually. FCR is entitled to enforce the conversion of the debentures at the determined dates. The conversion ratio in this case will be determined according to the share price on the Stock Exchange during the period prior to the conversion multiplied by the rate of 95%. (In respect to two of the series, FCR is entitled to pay also the accrued interest in shares, at terms identical to the terms for the repayment of the principal of the debentures. During the reported year, FCR realized its aforementioned right, see Note 1b3d.) In view of the aforesaid, these debentures were presented under a separate item among long-term liabilities and minority interest.

In November 2002, FCR offered the holders of its ordinary debentures (see Note 17f) for which the final redemption date is in December 2003, to exchange these debentures with convertible debentures (series D) at the ratio of 1.25 debenture (series D) per one ordinary debenture. In the overall, holders Approximately 22.3 million par value of ordinary debentures (of a total of approximately 37.4 million par value of ordinary debentures of which approximately 15.4 million par value of ordinary debentures were owned by Gazit 97) responded to the offer and, as a result of this offer, FCR issued approximately 27.8 million par value of new debentures (series D).

As of the balance sheet date, the Company's subsidiary holds in approximately CD 169.3 million par value of FCR convertible debentures (40.6% of the issued amount). The majority of the convertible debentures, which are held by the subsidiary, are pledged as a security for the credit received in connection with their acquisition by a bank in Israel.

As a result of the acquisition of the above convertible debentures, the Company recorded in 2000 and 2001 gross gain on early redemption in the amount of approximately NIS 10.2 million and NIS 39 million, respectively (approximately NIS 3.9 million and NIS 19.2 million net, respectively, after provision for tax and minority interest).

NOTES TO FINANCIAL STATEMENTS

NOTE 18:- CONVERTIBLE DEBENTURES (cont.)

In the context of a bank financing agreement for the acquisition of the debentures, as aforementioned, the Company granted to a bank in Israel an option to acquire 10% of the debentures it holds at cost instead of a payment of a greater interest. In September 2002, the Company forfeited said option and an option granted to the bank, in December 2002, to acquire FCR shares, in the aggregate of NIS 4.2 million. As a result of the above, the Company carried to the statement of income the deferred gain from early redemption of debentures in 2000 and 2001, which was recorded in its books. The total net gain recorded in respect of forfeiture of options and carrying deferred gain, as aforementioned, totaled approximately NIS 2.6 million.

In 2002 the Company did not record the gain from early redemption of debentures derived upon the acquisition of convertible debentures, see Note 20.

In the consolidated financial statements, the debentures are presented less debentures acquired by the subsidiary and less discount which was computed upon the acquisition of FCR, taking into account the interest rates common at the date of acquisition, in order to present the debentures at their fair value.

Below are details of the composition and terms of the convertible debentures as of December 31, 2002:

<u>First redemption date **</u>	<u>Redemption date</u>	<u>Interest rate</u>	<u>Conversion price per share *)</u>	<u>Consolidated Balance</u>
		<u>%</u>	<u>In CD</u>	<u>Adjusted NIS in thousands</u>
30.11.2002	30.11.2006	8.5	14.98	127,732
31.1.2003	31.1.2007	7.875	16.43	181,672
28.2.2004	28.2.2008	7.0	22.71	200,576
30.6.2004	30.6.2008	7.25	24.40	235,923
				745,903
				22,745
				<u>723,158</u>

*) The price for an FCR share as of the balance sheet date is CD 12.15.

***) The first date on which FCR is entitled to convert the debentures into FCR shares (see above).

NOTES TO FINANCIAL STATEMENTS

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31,					2001
	2002					
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. \$	Total	
	Adjusted NIS in thousands					Total
Banks	7,714	117,503	604,364	711,217	1,440,798	1,416,338
Other financial institutions	-	-	1,364,623	1,456,667	2,821,290	2,547,531
Loan from jointly controlled entity	18,290	-	-	-	18,290	18,477
Liability to sellers of properties	-	-	-	18,327	18,327	18,193
Other liabilities (1)	-	-	9,130	-	9,130	23,869
	26,004	117,503	1,978,117	2,186,211	4,307,835	4,024,408
Less - current maturities	-	-	233,426	70,718	304,144	309,602
	<u>26,004</u>	<u>117,503</u>	<u>1,744,691</u>	<u>2,115,493</u>	<u>4,003,691</u>	<u>3,714,806</u>
Weighted interest rate (%)	<u>4.0</u>	<u>9.8</u>	<u>6.2</u>	<u>5.9</u>	<u>6.1</u>	<u>6.3</u>

(1) Including unrealized gain, long-term interest and commitment for future engagement.

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2002				
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. \$	Total
	Adjusted NIS in thousands				
First year - current maturities	-	-	233,426	70,718	304,144
Second year	1,102	6,650	78,856	178,577	265,185
Third year	1,102	6,650	62,940	281,477	352,169
Fourth year	1,102	6,650	484,003	228,401	720,156
Fifth year	1,102	6,650	217,282	294,288	519,322
Sixth year and thereafter	3,306	19,949	892,480	1,114,423	2,030,158
Maturity date was not yet determined	18,290	70,954	9,130	18,327	116,701
	<u>26,004</u>	<u>117,503</u>	<u>1,744,691</u>	<u>2,115,493</u>	<u>4,003,691</u>
	<u>26,004</u>	<u>117,503</u>	<u>1,978,117</u>	<u>2,186,211</u>	<u>4,307,835</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

b. The Company:

1. Composition:

	December 31,			2001
	2002			
	In NIS - linked to CPI	In NIS - unlinked	Total	
Adjusted NIS in thousands				
Banks	7,714	117,503	125,217	124,856
Loan from jointly controlled entity	36,541	-	36,541	36,957
	<u>44,255</u>	<u>117,503</u>	<u>161,758</u>	<u>161,813</u>
Weighted interest rate (%)	<u>4.0</u>	<u>9.8</u>	<u>8.2</u>	<u>7.6</u>

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2002		
	In NIS - linked to CPI	In NIS - unlinked	Total
	Adjusted NIS in thousands		
Second year	1,102	6,650	7,752
Third year	1,102	6,650	7,752
Fourth year	1,102	6,650	7,752
Fifth year	1,102	6,650	7,752
Sixth year and thereafter	3,306	19,949	23,255
Maturity date was not yet determined	36,541	70,954	107,495
	<u>44,255</u>	<u>117,503</u>	<u>161,758</u>

c. To secure the above loans, the subsidiaries recorded charges on specific assets, see Note 25.

NOTES TO FINANCIAL STATEMENTS

NOTE 20:- TENANTS' SECURITY DEPOSITS

	<u>Consolidated</u>	
	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS</u>	
	<u>in thousands</u>	
Deposits from tenants (1)	<u>25,160</u>	<u>22,690</u>
Deposits and entrance fees from tenants (2)	124,798	137,488
Less - current maturity (3)	<u>9,958</u>	<u>10,909</u>
	<u>114,840</u>	<u>126,579</u>
	<u>140,000</u>	<u>149,269</u>

- (1) Deposits from tenants are received to secure their fulfillment of the terms of the rental agreements. The deposit is refunded to the tenants at its dollar value at the end of the rental period.
- (2) Mishkanot Clal and tenants signed on agreements to occupy residential units in existing buildings. In addition, potential tenants purchased options to occupy residential units in the future, in accordance with the terms specified in the agreements that were reached with them.
- (3) The amounts carried to the statement of income in the coming year in respect to forfeiture of deposits and amounts available for refunds to tenants in respect to the cancellation of agreements and options, as per the estimate of the management of Mishkanot Clal are included under the caption "Other accounts payable" among current liabilities.
- (4) In order to secure the commitment of Mishkanot Clal to the tenants, Mishkanot Clal has undertaken to provide a bank guarantee to certain tenants, if they so demand, and the cost of the guarantees shall be borne by the tenants. This commitment is not to exceed approximately NIS 37.5 million (the Company's share is approximately NIS 18.8 million). As of the balance sheet date, the tenants in Mishkanot Clal did not realize this right, except for a guarantee of NIS 5.6 million (the Company's share is approximately NIS 0.93 million).

NOTES TO FINANCIAL STATEMENTS

NOTE 21:- ACCRUED SEVERANCE PAY

The liabilities of the Company and its Israeli subsidiaries for severance pay are computed on the basis of the employees most recent salary as of the balance sheet date and in accordance with the Severance Pay Law and are fully covered by current payments to insurance companies in respect of managers' insurance policies and severance pay funds as well as by the balance sheet accrual.

The liabilities of the subsidiaries in the U.S. and Canada, under the law prevailing in these countries, are covered, on a regular basis, by payments for social security, medical insurance, unemployment insurance and by payments which the employee bears (such as: insurance fees for disability insurance). Additional payments for sick leave, severance pay, vacation and etc. are at these subsidiaries' discretion, unless otherwise indicated in a specific employment contract.

The amounts accrued in managers' insurance policies, in other insurance policies and provident funds on behalf of the employees and the related liability are not reflected in the balance sheet since the funds are not under the control and management of the Company and the subsidiaries.

The payments to insurance companies and to provident funds and the other current payments as well as the balance sheet accrual fully cover the Group's liability for severance pay.

NOTE 22:- TAXES ON INCOME

a. Taxation in Israel:

In accordance with the Income Tax (Inflationary Adjustments) Law, 1985, the results for tax purposes are measured in real terms, based on the changes in the Israeli CPI.

b. Taxation in the United States:

Since January 1, 1995, EQY does not record taxes on income in its statements because its tax status in the U.S. has been changed to a REIT, in effect from the above date. The implication of this status is that its income is tax-exempt, it is required to distribute at least 90% of the earnings and subject their recipient to tax.

In the opinion of Company management, EQY operates as REIT as of the date of these financial statements. If EQY is not recognized as REIT, it will be subject to corporate tax at rates common in the U.S. (up to 35%) and similarly, in this case, earnings (gross) distributed to the shareholders of EQY as dividends will be subject to tax at the rate of 12.5% and, in certain cases, to tax at the rate of 25%.

The other Group members in the U.S. are subject to corporate tax at rates common in the U.S. (up to 35%).

c. Taxation in Canada:

The taxable income of the Group companies is subject to tax at rates varying between 33% to 43%, depending on the source of income.

NOTES TO FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (cont.)

d. Deferred taxes, net:

Composition and change in deferred taxes as presented in the consolidated balance sheet are as follows:

	<u>Depreciable fixed assets</u>	<u>Carryforward tax losses</u>	<u>Other</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>			
Balance as of January 1, 2001	(56,885)	68,342	39,541	50,998
Acquisition of shares in jointly controlled entity shares	-	170	-	170
Foreign currency translation adjustments for foreign autonomous units and other differences	(2,274)	638	369	(1,267)
Amounts carried to statement of income	65,091	(20,563)	(40,445)	4,083
Transfer of CEFUS assets to EQY (see Note 1b2c)	15,063	-	-	15,063
Balance as of December 31, 2001	20,995	48,587	(535)	69,047
Foreign currency translation adjustments for foreign autonomous units and other differences	2,508	(756)	363	2,115
Amounts carried to statement of income	30,777	(19,687)	(5,700)	5,390
Balance as of December 31, 2002	<u>54,280</u>	<u>28,144</u>	<u>(5,872)</u>	<u>(1) 76,552</u>

- (1) Of this balance, NIS 72,293 thousand (December 31, 2001 - NIS 69,582 thousand) is presented in the balance sheet among "Other assets" and the balance, NIS 741 thousand (December 31, 2001 - NIS 535 thousand) is presented in the balance sheet among "Long-term liabilities".

The deferred taxes are computed at tax rates varying between 36% and 43% (the tax rates expected to be in effect at the time of reversal).

e. Taxes on income included in the statements of income:

Composition:

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>					
Current taxes (1)	23,641	22,831	14,039	3,956	3,796	2,961
Deferred taxes	(5,390)	(4,083)	(891)	-	-	-
	<u>18,251</u>	<u>18,748</u>	<u>13,148</u>	<u>3,956</u>	<u>3,796</u>	<u>2,961</u>

- (1) The Company - including mainly withholding tax of 30% on dividend paid to the Company by EQY and withholding tax on interest paid to the Company by other foreign subsidiaries. Consolidated - including, in addition to the aforementioned, current tax expenses in respect of the activities of foreign subsidiaries.

The provision for current taxes is computed at tax rates between 34% and 36%.

NOTES TO FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (cont.)

- f. The Company has operating loss carryforward for tax purposes estimated at about NIS 39.6 million (2001 - NIS 21.8 million). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other temporary differences.
- g. The Company and its subsidiaries in Israel have received assessments considered as final up to and including the fiscal year of 1997.
- h. Below is a reconciliation between the tax expense assuming that all the income was taxed at the regular tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Consolidated		
	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
Income before taxes on income	248,102	153,103	122,702
Statutory tax rate	36%	36%	36%
Tax expense computed at the statutory tax rate	89,317	55,117	44,172
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Income subject to other special tax rates	(5,156)	(2,603)	(7,943)
Increase (decrease) in taxes resulting from incurrence (utilization) of losses for tax purposes for which deferred taxes were not provided	6,943	(4,796)	3,229
Tax on minority interest in earnings of investee type REIT	(30,768)	(8,076)	(8,344)
Adjustment for CPI of statements of foreign investees	(49,791)	(10,055)	(17,354)
Tax difference applicable on income of foreign companies and other differences	7,706	(10,839)	(612)
Taxes on income	18,251	18,748	13,148

NOTES TO FINANCIAL STATEMENTS

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

1. Shareholders agreement between the Company and Alony-Hetz in connection with EQY:

In October 2000, concurrently with an agreement for the issuance of shares which was signed between Alony-Hetz and EQY (see Note 1b2), the Company and Alony-Hetz signed on a shareholders agreement (which was amended in December 2001 and in October 2002) in which it is determined that the Company supports the nomination of one representative of Alony-Hetz for EQY Board as long as Alony-Hetz holds in at least 3% of EQY share capital (fully diluted) and, simultaneously, Alony-Hetz has undertaken to support the nomination of all of the Company's representatives for EQY Board (to date, 10 members serve in EQY Board). Additionally, the agreement stipulates provisions as to the participating right of Alony-Hetz in the sale of EQY shares in the event of sale of shares, as above, by the Company (with certain exceptions to this right) and also provisions as to the Company's right to compel Alony-Hetz to participate in the sale of its shares in EQY under certain conditions, in the event of sale of shares, as above, by the Company.

Further, it was stated in the agreement that as long as the Company (and its subsidiaries) and Alony-Hetz hold in the majority of the shares in EQY and Alony-Hetz holds in at least 3% of EQY share capital, then Alony-Hetz shall not take certain actions as elaborated in the agreement which embody interference in the way EQY is managed or an attempt to takeover, and all without prejudice the rights of nomination of directors recommended by it, as aforementioned.

The shareholders agreement is in effect at the earlier of the following dates: 10 years or at the time when Alony-Hetz holdings in EQY shares is below 3% of the issued share capital of EQY, or at the time when the Company's holdings in EQY shares, directly and indirectly, are below 20%.

2. Shareholders agreement between the Company and Alony-Hetz in connection with FCR:

In October 2000, in furtherance to the sell of FCR shares to Alony-Hetz, as described in Note 1b3, the Company and Alony-Hetz (and their subsidiaries) signed on a shareholders agreement (which was amended in February 2001) in which the Company has undertaken to support the nomination of two representatives of Alony-Hetz for FCR Board, and if the number of FCR shares held by Alony-Hetz and the rate which they constitute be below that stated in the agreement, Alony-Hetz will have the right to nominate one member for FCR Board (this right is also conditioned upon the fulfillment of minimal raff of holdings in FCR share capital). Simultaneously, Alony-Hetz has undertaken to support the nomination of the Company's representatives for the remaining members of FCR Board, that will be comprised of no more than 15 members (to date, 9 members serve in FCR Board).

NOTES TO FINANCIAL STATEMENTS

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

Additionally, the agreement stipulates provisions as to the participating right of Alony-Hetz in the sale of FCR shares in the event of sale of shares, as above, by the Company (with certain exceptions to this right) and also provisions as to the Company's right to compel Alony-Hetz to participate in the sale of its shares in FCR under certain conditions, in the event of sale of shares, as above, by the Company.

Further, it was stated in the agreement that if one of the parties acquires additional securities of FCR (shares, debentures and other securities) then (subject to certain exceptions) the buyer will offer the other party to acquire a relative share in these securities at the purchase terms as effected by the buyer.

Alony-Hetz has undertaken that it will not interfere and affect the way FCR is managed, except for in the context of its rights to nominate directors, as aforementioned, and that it will not act alone or with others to takeover FCR.

The shareholders agreement is in effect at the earlier of the following dates: 10 years or at the time when Alony-Hetz holdings in FCR shares are below 5% of the issued share capital of FCR.

3. As for commitments with related parties, see Note 34.

b. Guarantees:

FCR is a guarantor for loans from various parties to its jointly controlled entities, which are engaged the development of properties, in the amount of approximately NIS 29.1 million (CD 9.7 million).

In addition, FCR provided bank guarantees in the ordinary course of its business in the amount of approximately NIS 25.5 million (CD 8.5 million).

To secure various commitments to third parties, EQY provided a bank guarantee in the amount of approximately NIS 5.3 million (\$ 1.1 million).

EQY is a guarantor for a loan to an affiliate, which is the owner of an income producing property, in the amount of approximately NIS 71 million (\$ 15 million).

As for guarantees of a jointly controlled entity, see Note 20(4).

c. Contingent liabilities:

1. A jointly controlled entity and its subsidiaries were issued assessments in the issue of VAT for imputed interest, property tax and purchase tax. The Company estimates that the above assessments will not have a material effect on the monetary results of the Company.

NOTES TO FINANCIAL STATEMENTS

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

2. Part of the mortgages on EQY properties contain restrictions as to the transfer of ownership in EQY in absence of the lender consent. It may be that such restrictions were violated due to former issuances of shares in EQY and they may be violated due to issuances in the future, if such will exist. The violation of the provisions, as aforementioned, may constitute a cause for the acceleration of the repayments of the loans. As of December 31, 2002, the overall amount for loans that may be affected as a result of said issuances is placed at approximately \$ 59 million. EQY is acting to receive consent and/or relevant modifications to the loan agreements with said lenders. Based on its negotiations with various lenders and based on market conditions and other factors, EQY estimates that either the consent of the lenders will be received or that the maturity of the loans will not be accelerated and, accordingly, this matter will not have an effect on its results and financial position.

d. Legal claims:

Several negligence claims are pending against subsidiaries in respect of damages caused in their shopping centers. The Company estimates that all the aforementioned claims are covered by the insurance policies of these companies.

In the opinion of the management of these companies, based on the opinion of their legal counsel, there is no exposure in respect of these claims and, accordingly, no provisions were made in the financial statements.

NOTE 24:- SHAREHOLDERS' EQUITY

a. Composition:

	December 31, 2002		December 31, 2001	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	200,000,000	*) 74,765,581	200,000,000	52,846,822

*) Of which, NIS 6,583,464 par value of shares are held by the Company and by its wholly owned subsidiary.

b. The Common shares of NIS 1 par value confer upon their holders the right to receive dividends, the right to receive a stock dividend and the right to receive the Company's assets in the event of liquidation whether voluntary or in any other manner. Each share confers one voting right. The shares are traded on the Tel Aviv Stock Exchange.

NOTES TO FINANCIAL STATEMENTS

NOTE 24:- SHAREHOLDERS' EQUITY (cont.)

The Company has approximately 7,750 thousand options (series 4), of which 642 thousand options (series 4) are held by the Company. Each stock option (series 4) is exercisable into 1.2418 shares in exchange for NIS 13.6, linked to the dollar (base exchange rate of \$ 1 = NIS 4.15) until February 20, 2004. In any case, the exercise price will not be below NIS 13.6.

- c. In March 2002, the Company issued stock dividend to its shareholders so that each shareholder who held at the date of record in 9 shares of the Company received, at no consideration, share of the Company as stock dividend. The Company issued a total of approximately 6.3 million shares as stock dividend.
- d. In February 2002, the Company issued, through a private placement, 3,442,720 shares of the Company, of which 200,000 shares were issued to Gmul Investment Ltd. and 1,721,360 shares were issued to Gazit Israel Ltd., the Company's parent company. In the aggregate, the Company rose in this issuance approximately NIS 53 million, net.
- e. Pursuant to a stock option award plan, which was approved by the shareholders' meeting in March 2002, 125 thousand options were issued at that month to the Company Board's members who do not hold in other positions in the Company, at no consideration. Each option is exercisable into 1.1111 shares of the Company from the first to the fifth anniversaries of the date of grant for an exercise increment of NIS 15.45, linked to the Israeli CPI and subject to adjustment of dividend that is paid by the Company and to the benefit components in right issuances.
- f. In May 2002, under a prospectus, the Company issued, among others, by a rights offer to its shareholders, 2,081,707 shares in consideration of approximately NIS 26.9 million. In November and December 2002, 9,534,958 stock options, which were issued under said prospectus, were exercised in consideration of approximately NIS 144.2 million, of which approximately NIS 107.5 million were received from the Company's wholly owned subsidiary. The outstanding stock options, which were not exercised, expired.
- g. In August 2002, 425 thousand shares were issued to the Company's CEO (who serves also as a director in the Company) for the total consideration of approximately NIS 5.9 million (NIS 13.88 per share). Additionally, 180 thousand shares were issued to the Company's secretary (who serves also as a director in the Company) in consideration of approximately NIS 2.4 million (NIS 13.38 per share).

For financing the acquisition, a banking institution extended to the optionees a loan for a period of up to 5 years. The loan is principally linked to the Israeli CPI and bears interest of 2%. The Company provided adequate collaterals to the banking institution in order to secure the loan, and the optionees placed a charge on the issued shares in favor of the Company's wholly owned subsidiary.

- h. During the reported year, the Company sold about 78 thousand shares that were held by it in consideration of approximately NIS 1.3 million.

NOTES TO FINANCIAL STATEMENTS

NOTE 25:- CHARGES (ASSETS PLEDGED)

- a. As collateral for most of the Group's liabilities, its rights to various real estate assets were mortgaged. In addition, charges were placed on part of the shares of subsidiaries and of other companies that are held by the Group companies.

The balances of the secured liabilities are as follows:

	Consolidated	
	December 31,	
	2002	2001
	Adjusted NIS	
	in thousands	
Short-term loans and credit	2,839	22,814
Long-term liabilities (including current maturities)	4,269,210	3,982,060
Debentures (including current maturities) (b below)	97,187	176,900
	<u>4,369,236</u>	<u>4,181,774</u>

- b. As collateral for the liability in respect of NIS 38,624 thousand par value of debentures (series D) of the parent company, assumed by the Company towards the parent company and the holders of these debentures (see Note 17b), the Company placed a senior in priority fixed charge in favor of the trustee of those debentures on an income producing property known as "Gazit-Globe House" in Tel Aviv in the amount of \$ 9 million and on 1,398 thousand of EQY Common shares which are held by a subsidiary.

In Addition, FCR provided a second in priority charge on certain of its properties as collateral for the outstanding liability in respect of CD 15,057 thousand par value of debentures of FCR.

NOTES TO FINANCIAL STATEMENTS

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2002				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	446	173,802	114,868	3	289,119
Short-term investments	-	41,776	10,153	-	51,929
Tenants and accounts receivable	1,635	61,978	17,390	-	81,003
Loans to partners and to former partners	-	12,321	33,510	-	45,831
Long-term investments	15,136	3,690	-	-	18,826
Long-term loans	22,381	48,042	14,076	-	84,499
	<u>39,598</u>	<u>341,609</u>	<u>189,997</u>	<u>3</u>	<u>571,207</u>
Liabilities:					
Short-term credit from banks and others	-	-	-	2,839	2,839
Trade payables and other accounts payable	3,479	67,598	102,649	10,268	183,994
Debentures	101,170	204,616	45,345	-	351,131
Liabilities to financial institutions and others	26,004	2,186,211	1,978,117	117,503	4,307,835
Tenants' security deposits	9,077	136,289	4,592	-	149,958
Accrued severance pay	-	-	-	856	856
Convertible debentures redeemable for subsidiary's shares	-	-	723,158	-	723,158
	<u>139,730</u>	<u>2,594,714</u>	<u>2,853,861</u>	<u>131,466</u>	<u>5,719,771</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES (cont.)

b. The Company:

	December 31, 2002				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	92,661	600	2	93,263
Accounts receivable	491	-	-	-	491
Investments in investees	108,372	212,667	185,815	-	506,854
Long-term investments	15,136	-	-	-	15,136
Long-term loans	141	-	-	-	141
	<u>124,140</u>	<u>305,328</u>	<u>186,415</u>	<u>2</u>	<u>615,885</u>
Liabilities:					
Short-term credit from banks and others	-	-	-	23	23
Trade payables and other accounts payable	3,211	-	-	14,559	17,770
Debentures	101,170	327,977	-	-	429,147
Liabilities to financial institutions and others	44,255	-	-	117,503	161,758
Accrued severance pay	-	-	-	89	89
	<u>148,636</u>	<u>327,977</u>	<u>-</u>	<u>132,174</u>	<u>608,787</u>

NOTE 27:- REVENUES FROM RENTAL OF BUILDINGS - MAJOR CUSTOMERS

	Year ended December 31,		
	(* 2002	2001	2000
	Adjusted NIS in thousands		
Lessee A	-	38,798	19,472
Lessee B	-	18,755	15,516
Others	902,356	663,737	351,480
	<u>902,356</u>	<u>721,290</u>	<u>386,468</u>

*) In 2002, the Company has no single lessee who accounts for more than 5% of total revenues from rental of buildings.

NOTES TO FINANCIAL STATEMENTS

NOTE 28:- OTHER INCOME

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Gain from investments in marketable securities	25,634	73,688	38,449	2,241	22,059	15,444
Income from dividend	11,740	14,330	31,736	1,170	-	21,374
Gain from issuance to third party, net and to related party, net	1,121	4,930	2,641	1,832	-	379
Capital gain	(*35,694)	240	3,165	-	658	-
Management fees from related company and third parties	1,321	929	209	2,577	2,181	1,785
Oil and gas explorations, net and others (**)	43	37	-	43	37	-
	<u>75,553</u>	<u>94,154</u>	<u>76,200</u>	<u>7,863</u>	<u>24,935</u>	<u>38,982</u>

*) Including a partial waive of mortgage on property in the amount of NIS 7,237 thousand.

***) The Company has rights to oil wells Star 29 and Star 30 at the participation rate of 10%, as well as rights to drilling to Emuna 1, drilling in search of oil, at the participation rate of 4%. All of the Company's investments in oil and gas producing wells, as described above, were written down in full, primarily in 1996.

The Company did not make any significant investments in the oil and gas exploration sector during the six years ending December 31, 2002. At this time, the Company does not have any specific plans to invest in this sector.

NOTE 29:- OPERATING EXPENSES OF PROPERTIES FOR RENT

	Consolidated		
	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
Salaries and related expenses	22,665	13,330	5,005
Fees and taxes on properties	144,588	131,318	68,399
Maintenance and repairs	60,472	42,894	29,749
Utilities	28,420	18,736	9,544
Insurance and security expenses	15,647	11,298	6,147
Others	37,099	28,373	10,618
	<u>308,891</u>	<u>245,949</u>	<u>129,462</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 30:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Salaries and management fees *)	52,138	30,656	19,654	5,079	3,959	1,732
Professional fees	10,834	8,975	5,709	2,126	2,044	1,075
Depreciation	361	552	476	327	(* 311	174
Amortization of goodwill	1,631	987	188	-	-	-
Others (including office and office maintenance)	17,548	18,816	11,807	400	(* 117	630
	<u>82,512</u>	<u>59,986</u>	<u>37,834</u>	<u>7,932</u>	<u>6,431</u>	<u>3,611</u>

*) As for salaries and management fees to related parties, see Note 34.

NOTE 31:- FINANCIAL INCOME (EXPENSES), NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Financial expenses for debentures	18,381	16,158	10,317	16,262	11,181	7,027
Financial expenses for convertible debentures	28,356	55,952	29,387	-	15	663
Financial expenses for liabilities to financial institutions and others	161,024	216,475	98,549	4,755	7,885	18,292
Loss (gain) from early redemption of debentures (*)	(8,359)	(38,973)	(10,263)	799	-	-
Other financial (income) expenses (**)	931	4,152	(1,638)	(9,966)	(20,341)	(10,209)
Less - expenses carried to cost of fixed assets	24,739	14,925	14,491	-	-	-
	<u>175,594</u>	<u>238,839</u>	<u>111,861</u>	<u>11,850</u>	<u>(1,260)</u>	<u>15,773</u>

*) See Note 18.

***) In the Company - primarily financial income from subsidiaries.

NOTES TO FINANCIAL STATEMENTS

NOTE 32:- OTHER EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Provision for impairment in value of long-term investments	45,324	-	-	7,517	-	-
Activity and provision for impairment in value of Internet ventures in the real estate sector	1,443	9,407	8,938	-	-	-
Expenses related to early repayment of mortgage	-	7,252	-	-	-	-
Loss from issuance to third party, net	-	-	-	-	32	-
Oil and gas explorations, net (*)	-	-	12	-	-	13
	<u>46,767</u>	<u>16,659</u>	<u>8,950</u>	<u>7,517</u>	<u>32</u>	<u>13</u>

*) See Note 28.

NOTE 33:- EARNINGS PER SHARE

Below are details pertaining to the number of shares and income used in the computation of earnings per share:

	Year ended December 31,					
	2002		2001		2000	
	Weighted number of shares	Income	Weighted number of shares	Income	Weighted number of shares	Income (loss)
	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands
Number of shares and net income according to the statement of income	65,290	106,144	53,774	86,311	45,918	72,522
Effect of convertible securities whose conversion is likely	8,826	3,907	-	-	-	3,497
Number of shares and basic net income	<u>74,116</u>	<u>110,051</u>	<u>53,774</u>	<u>86,311</u>	<u>45,918</u>	<u>76,019</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Financial income for loans to related parties (1)	779	588	443	-	-	-
Management fees from the parent company	220	218	209	230	218	208
Management fees from subsidiaries	-	-	-	2,322	1,525	1,577
Financial income for balances with subsidiaries, net	-	-	-	22,212	30,428	20,305

(1) The loans and their terms are detailed in Note 10(2).

b. Other expenses and payments:

	Consolidated					
	Year ended December 31,					
	2002		2001		2000	
Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	
Directors' fees	5	308	5	294	5	315
Salaries and related expenses	3	17,347	3	14,893	3	11,005

	The Company					
	Year ended December 31,					
	2002		2001		2000	
Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	
Directors' fees	5	308	5	294	5	315
Salaries and related expenses	1	818	1	728	1	512

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

- (1) In July 2002, EQY entered into an updated employment contract with its chairman of the Board and CEO, who serves also as the chairman in the Company and who is a related party in the Company. The aforementioned contract is for a period of five years beginning in 2002 (the contract renews automatically in each year).

According to the contract, the related party is entitled to an annual base salary of \$ 430 thousand, which is updated annually at the greater of the rate of the increase in the Consumer Price Index in the U.S., or 6%.

The contract also stipulates the related party's entitlement to an annual cash bonus, taking into account the fulfillment of annual targets to be determined by EQY remuneration committee and, in case 50% or less of the predetermined targets are met, the related party shall not be entitled to any bonus whereas the maximal possible amount of bonus according to this criteria equals to 130% of the aforementioned base salary if EQY doubles the performances determined by the remuneration committee. The related party shall be entitled to convert the bonus (or part of it) into EQY shares to be issued to him at 85% of the market price.

In addition, according to the contract, 850 thousand options exercisable into EQY shares would be issued to the related party. Approximately 300 thousand stock options were issued in 2002 for an exercise increment of \$ 13.25 per share and the remainder will be issued in 2003 and 2004 for an exercise price that reflects the weighted market price for the shares at the eve of the issuance of the options. The options are exercisable ratably so that 170,000 may be exercised at the end of each calendar year and, in any case, they will expire at the end of the tenth anniversary. Additionally, according to the contract, the related party would be issued, at no consideration, approximately 103 thousand EQY shares that are capped, and the entitlement to those shares will be formed in five equal parts at the beginning of each employment year from 2003.

Further, the contract refers to the various payments to which the related party would be entitled upon the termination of the contract (which are the result of the base salary and the last bonus) and these amounts vary correspondingly with the circumstances of termination (dismissal with cause or without cause, non-renewal of the term of the contract, resignation due to change in EQY shareholding, resignation of other reasons or termination of employment due to sickness or inability).

Furthermore, the chairman of the Company's Board is entitled to an annual salary from the Company (through a wholly owned subsidiary) at cost of \$ 136 thousand since October 2001 (updated annually at the greater of the rate of the inflation in the U.S. or 6%). Since July 1998, the chairman is also entitled to a bonus at the rate of 5% of the pre-tax adjusted to the Consumer Price Index income of the Company. The above individual is also entitled to life insurance policy at the scope of \$ 1 million whose family members are its beneficiaries.

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

The Company's CEO is entitled to an annual salary from the Company (through a wholly owned subsidiary) at cost of \$ 153 thousand since October 2001 (updated annually at the greater of the rate of the inflation in the U.S. or 6%). The Company's CEO is also entitled to a bonus at the rate of 2% of the pre-tax income of the Company. The above individual is also entitled to life insurance policy at the scope of \$ 2 million whose family members are its beneficiaries.

The contracts with the above related parties contain certain provisions, in the event that their employment at the Company and the subsidiaries is terminated.

In October 2001, FCR entered into an employment contract with the Company's CEO (who serves also as CEO in FCR), whereby beginning that month, the CEO is entitled to an annual base salary of CD 400 thousand. The above individual is also entitled to annual grants and participation in the Company's compensation plans, at the discretion of FCR Board.

At the same date, FCR also entered into an employment contract with the chairman of the Company's Board (who serves also as the chairman of FCR Board), whereby beginning that month, the Company's chairman is entitled to an annual base salary of CD 150 thousand. The above individual is also entitled to 50% of the grants and participation in compensation plans to be received by the Company's CEO.

The contracts with the above-related parties contain certain provisions, in the event that their employment at FCR is terminated.

c. Balances:

As for balances with related parties, see Notes 6, 10 and 24.

d. Convertible securities and shares - EQY and FCR:

Within the framework of employee stock option plan in EQY, the chairman of the Company's Board was granted an option for the purchase approximately 288 thousand EQY shares at approximately \$ 10 per share.

In September 2001, the above options were exercised into shares. EQY provided to the Company's chairman a loan for exercising the options, see Note 10(2)b.

In January 2002, FCR issued at no consideration approximately 775 thousand options to officers and employees at FCR, which are exercisable until January 2012 at an exercise price of CD 12.43 per share. In the context of the issuance, the Company's CEO and the Company's chairman received 200 thousand and 100 thousand options, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a. As for the closing of the transaction for the acquisition of IRT in February 2003, see Note 1b2f.
- b. In February 2003, the Company declared on a dividend of NIS 0.17 per share payable at the beginning of April 2003. The record date for the entitlement to the dividend is March 16, 2003.

This dividend was not netted from shareholders' equity in the financial statements for 2002, in accordance with Accounting Standard No. 7 published by the Israel Accounting Standards Board.

NOTE 36:- GEOGRAPHIC INFORMATION

The Company and the Group companies operate in three major geographical areas: United States, Canada and Israel.

	Year ended December 31, 2002			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total revenues	495,736	388,831	17,789	902,356
Segment results	278,749	198,370	303	477,422
General and administrative expenses				82,512
Operating income				394,910
Financial expenses, net				175,594
Other income, net				28,786
Income before taxes on income				248,102
Taxes on income				18,251
Income after taxes on income				229,851
Equity in earnings of affiliates				3,314
Minority interest in earnings of subsidiaries				127,021
Net income for the year				106,144

NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2001			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total revenues	387,417	315,144	18,729	721,290
Segment results	209,466	164,400	567	374,433
General and administrative expenses				59,986
Operating income				314,447
Financial expenses, net				238,839
Other income net of other expenses				77,495
Income before taxes on income				153,103
Taxes on income				18,748
Income after taxes on income				134,355
Minority interest in earnings of subsidiaries				48,044
Net income for the year				86,311

NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2000			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total revenues	234,003	145,714	6,751	386,468
Segment results	130,299	72,789	2,059	205,147
General and administrative expenses				37,834
Operating income				167,313
Financial expenses, net				111,861
Other income net of other expenses				67,250
Income before taxes on income				122,702
Taxes on income				13,148
Income after taxes on income				109,554
Minority interest in earnings of subsidiaries				28,016
Equity of former shareholders in earnings of newly consolidated subsidiary				9,016
Net income for the year				72,522

NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

Additional information:

	December 31, 2002			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Segment assets	<u>3,415,057</u>	<u>3,076,590</u>	<u>218,687</u>	6,710,334
Corporate assets - unallocated				<u>859,532</u>
Total consolidated assets				<u>7,569,866</u>
Segment liabilities	<u>75,689</u>	<u>102,676</u>	<u>24,014</u>	202,379
Corporate liabilities - unallocated				<u>5,526,560</u>
Total consolidated liabilities				<u>5,728,939</u>
	December 31, 2001			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	<u>3,342,521</u>	<u>2,289,392</u>	<u>228,214</u>	5,860,127
Corporate assets - unallocated				<u>849,210</u>
Total consolidated assets				<u>6,709,337</u>
Segment liabilities	<u>48,192</u>	<u>91,216</u>	<u>19,318</u>	158,726
Corporate liabilities - unallocated				<u>5,249,076</u>
Total consolidated liabilities				<u>5,407,802</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE

a. Balance sheets - the Company:

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>NIS in thousands</u>	
ASSETS		
Current assets	<u>98,473</u>	<u>37,240</u>
Long-term investments and loans *)	<u>1,017,116</u>	<u>788,979</u>
Fixed assets, net	<u>1,897</u>	<u>1,666</u>
Other assets and deferred charges, net	<u>5,765</u>	<u>3,399</u>
	<u><u>1,123,251</u></u>	<u><u>831,284</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	<u>34,882</u>	<u>56,594</u>
Long-term liabilities	<u>573,713</u>	<u>328,944</u>
Shareholders' equity	<u>514,656</u>	<u>445,746</u>
	<u><u>1,123,251</u></u>	<u><u>831,284</u></u>

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method. Accordingly, earnings of the subsidiaries are not included in these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

b. Statements of operations - the Company:

	Year ended December 31,		
	2002	2001	2000
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	(* -	(* -	(* -
Other income	9,631	29,312	36,006
Financial, net	-	346	-
	<u>9,631</u>	<u>29,658</u>	<u>36,006</u>
Costs and expenses:			
General and administrative	7,809	6,016	3,337
Other expenses	3,158	-	-
Financial, net	9,408	-	15,187
	<u>20,375</u>	<u>6,016</u>	<u>18,524</u>
Income (loss) before taxes on income	(10,744)	23,642	17,482
Taxes on income	3,906	3,548	2,738
Net income (loss) for the year	<u>(*(14,650)</u>	<u>(* 20,094</u>	<u>(* 14,744</u>

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method. Accordingly, earnings of the subsidiaries are not included in these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Dividend declared	Less - shares held by the Company	Less - loans for acquisition of shares	Total
	NIS in thousands							
Balance at January 1, 2000	24,864	131,857	36,172	4,285	-	-	-	197,178
Issuance of share capital, net	6,904	72,912	-	-	-	(12,157)	-	67,659
Conversion of debentures into shares	2,434	23,645	-	-	-	-	-	26,079
Exercise of stock options into shares	4,775	39,383	-	-	-	(6,000)	-	38,158
Issuance of stock dividend	3,811	-	-	(3,811)	-	-	-	-
Sale of shares by subsidiary	-	3,310	-	-	-	17,543	-	20,853
Reimbursement of issuance expenses	-	650	-	-	-	-	-	650
Net income for the year	-	-	-	14,744	-	-	-	14,744
Dividend paid	-	-	-	(12,547)	-	-	-	(12,547)
Dividend declared	-	-	-	(6,835)	-	-	-	(6,835)
Balance as of December 31, 2000	42,788	271,757	36,172	(4,164)	-	(614)	-	345,939
Issuance of share capital, net	7,411	92,033	-	-	-	-	-	99,444
Conversion of debentures into shares	84	920	-	-	-	-	-	1,004
Exercise of stock options into shares	2,564	20,695	-	-	-	-	-	23,259
Acquisition of shares by subsidiary, net	-	-	-	-	-	(2,862)	-	(2,862)
Net income for the year	-	-	-	20,094	-	-	-	20,094
Dividend paid	-	-	-	(22,688)	-	-	-	(22,688)
Dividend declared	-	-	-	(18,444)	-	-	-	(18,444)
Balance as of December 31, 2001	52,847	385,405	36,172	(25,202)	-	(3,476)	-	445,746
Issuance of share capital, net	6,130	79,436	-	-	-	-	(8,362)	77,204
Exercise of stock options into shares	9,535	135,413	-	-	-	(108,203)	-	36,745
Issuance of stock dividend	6,254	-	-	(6,254)	-	-	-	-
Sale of shares by the Company	-	387	-	-	-	2,914	(2,009)	1,292
Loss for the year	-	-	-	(14,650)	-	-	-	(14,650)
Dividend paid	-	-	-	(31,681)	-	-	-	(31,681)
Dividend declared	-	-	-	(11,591)	11,591	-	-	-
Balance as of December 31, 2002	74,766	600,641	36,172	(89,378)	11,591	(108,765)	(10,371)	514,656

APPENDIX TO FINANCIAL STATEMENTS

List of companies of the Group as of December 31, 2002 (1)

	Percentage of ownership as of December 31, 2002		Country of registration
		%	
Equity One Inc.	49.6	***) (2)	U.S.
First Capital Reality Inc.	67.9	**) (3)	Canada
Mishkanot Clal (1982) Ltd.	50	*) (4)	Israel
Golden Equity	92.36	***)	U.S.
Hashalom Boulevard House Ltd.	100	**)	Israel
M.G.N USA Inc.	100	***)	U.S.
Gazit (1995) Inc.	100	**)	U.S.
Gazit Group USA Inc.	100	**)	U.S.
M.G.N America Inc.	100	**)	U.S.
Gazit Senior Care Inc.	100	**)	U.S.
Gazit (1997) Inc.	100	***)	U.S.
Golden Oak Inc.	100	*)	Cayman Islands
Hollywood Properties Ltd.	100	*)	Cayman Islands
Dinerib 53 Ltd.	100	**)	Israel
Dinerib 51 Ltd.	100	**)	Israel
Gazit Globe Israel Ltd.	100	*)	Israel
Dinerib 52 Ltd.	100	**)	Israel
Automart (founded by Gazit Financing Group) Ltd. (Previously: Gazit B.C. Ltd.)	100	**)	Israel

*) Held directly by the Company.

**) Held through subsidiaries.

***) Held directly and through subsidiaries.

(1) The list does not include companies held by EQY, FCR and Mishkanot Clal.

(2) See Notes 1b2 and 8b - d.

(3) See Notes 1b3 and 8e - f.

(4) See Notes 1b4 and 8g.

GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders **For the year ended December 31, 2002**

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – “the Company”) is honored to present the financial statements of the Company and its consolidated subsidiaries for the year ended December 31, 2002:

1. A. General

The Company is a property investment company engaged – directly and through its subsidiaries – in the acquisition, development, and management of properties in the USA, Canada, and Israel. The Company focuses mainly on supermarket-anchored shopping centers. In addition, the Company pursues business opportunities in the acquisition of companies engaged in its areas of activity and/or in synergetic businesses.

The Company also invests from time to time in securities, mainly of other publicly traded real estate companies in the USA, Canada and Israel.

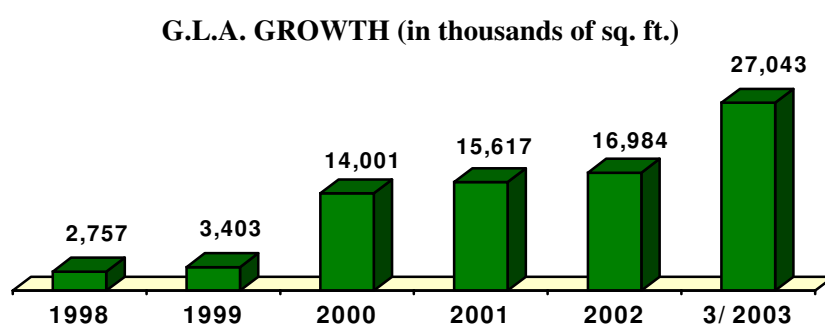
B. Growth Strategy in a Stable Business

The Company's business strategy is characterized mainly by:

- Investment in economically and politically stable countries.
- Investment in properties, mainly supermarket-anchored shopping centers, which are considered “recession proof”, compared to other real estate.
- Operation in areas characterized by high barriers to entry.
- Operation through local subsidiaries, which are run by experienced management, headed by the Company’s principal officers.
- Proactive property management aimed at ongoing value maintenance enhancement.
- Growth through acquisition and development of commercial properties.
- Pursuing acquisition and merger opportunities with real estate companies engaged in the Company's area of activity.

C. The Company's Properties

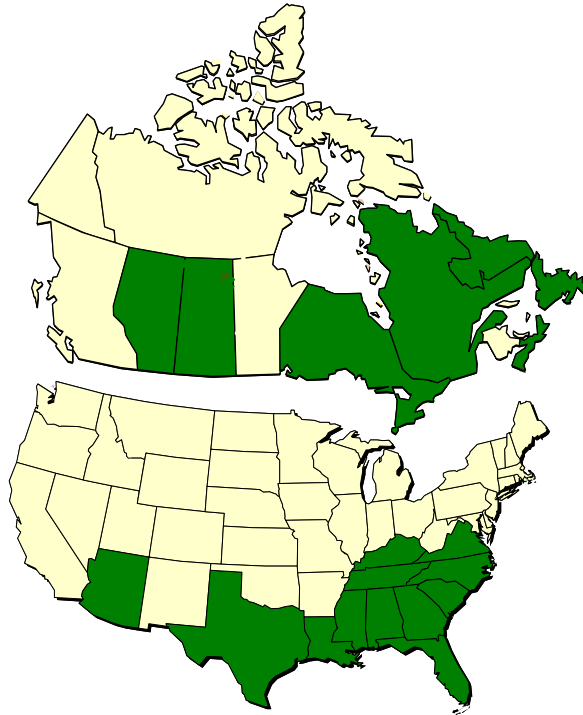
As of the date of the financial statements (subsequent to completing the acquisition of IRT Property Company ("IRT") by Equity One Inc. ("EQY") – see section 6A below, the Company owns 243 properties with a Gross Leasable Area ("G.L.A.") of some 27 million square feet, as well as 3 properties that are jointly-owned and 7 additional properties under development. These properties have a book value of NIS 10.6 billion and generate annual rental income of NIS 1.4 billion (gross annual rent calculated for the properties currently owned at the exchange rate on the date of publishing these financial statements). The Company also owns 50% of a senior living company.



In the USA, the Company operates mainly through EQY, which is traded on the NYSE and is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and through First Capital Realty Inc. ("FCR"), 45% of EQY. EQY operates primarily in the south eastern states of the USA, mainly in Florida, Texas and Georgia. It owns 175 properties, with a G.L.A. of 18.3 million square feet, as well as 3 properties that are jointly-owned and 5 additional properties under development. Generally, the anchor tenants of EQY's properties are national and regional chains.

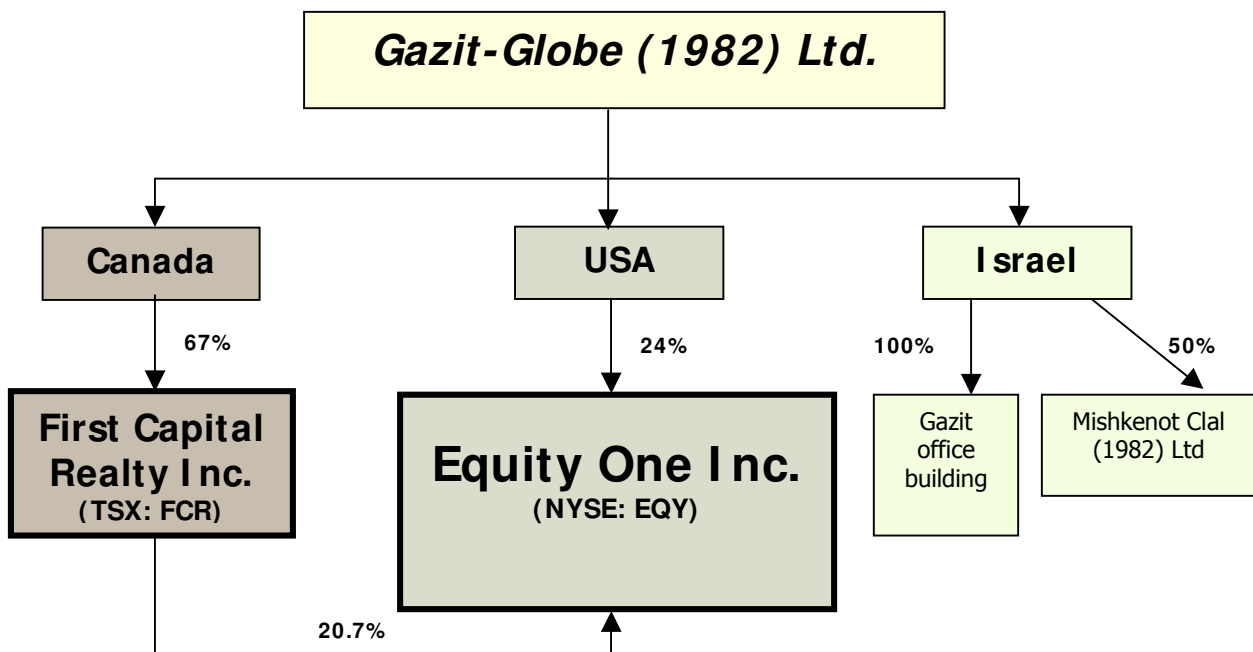
Operations in Canada are carried out through FCR, a public company traded on the Toronto Stock Exchange (TSX). As of the date of the financial statements, the Company owns 67% of FCR. FCR operates mainly in the Canadian provinces of Ontario, Quebec and Alberta owning 67 properties with a total G.L.A. of approximately 8.6 million square feet, as well as 2 additional properties under development. The anchor tenants of FCR's properties are national and regional chains. As stated above, FCR is a shareholder in EQY, holding 20.7% of the latter's stock.

The Regions (Marked - ■) in North America Where the Company Operates are Shown on the Following Map:



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

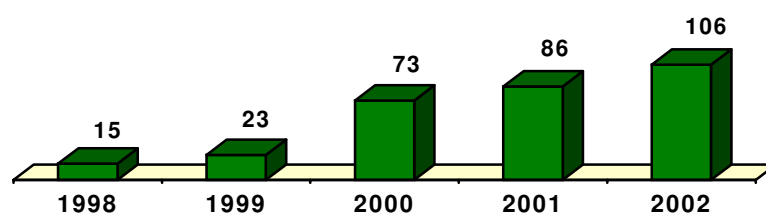
D. The Company’s Major Holdings (Ownership Percentages are as of the Date of the Financial Statements):



E. 2002 Key Points

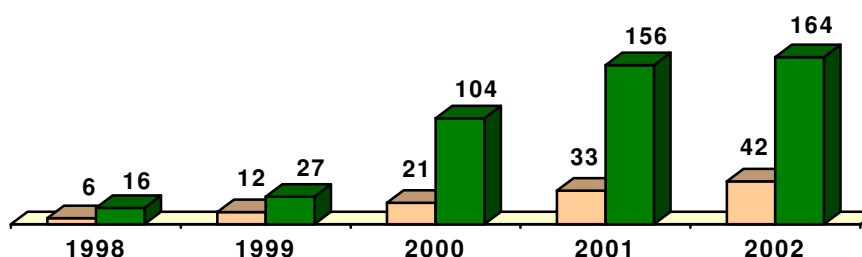
- This year, net income amounted to NIS 106.1 million, NIS 1.48 per share, as compared with net income of NIS 86.3 million, NIS 1.61 per share, for 2001.
- The Group's consolidated pre-tax income totalled NIS 248.1 million, as compared to NIS 153.1 million in 2001, reflecting a 62% increase.

NET INCOME GROWTH (in NIS millions)



- F.F.O. (see section 3) for the year amounted to NIS 163.7 million, NIS 2.21 per share, compared to NIS 156.1 million, NIS 2.9 per share, for 2001. The reduction in F.F.O. per share is mainly due to the additional capital raised during 2002, which has significantly increased shareholders' equity and reduced the leverage of the company.
- The per share data for 2002 includes the dilution effect of stock options, while the comparative data for 2001 does not include this effect.

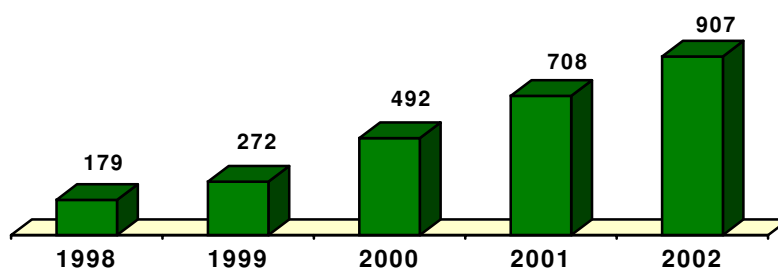
F.F.O.GROWTH ■ AND DIVIDEND DISTRIBUTED □ (in NIS millions)



- Rental income, at NIS 902.4 million, grew in 2002 by 25% compared to 2001, mainly due to the purchase of additional properties and the acquisition of UIRT at the end of the third quarter last year.

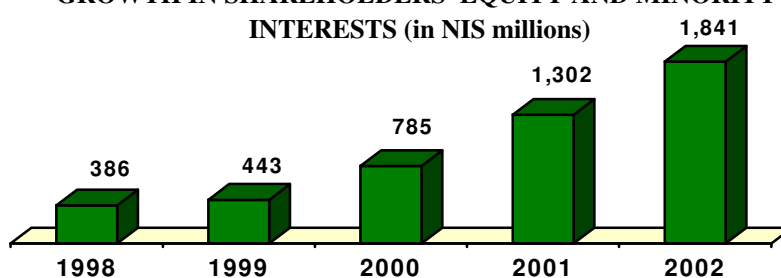
- Cash inflows from operating activities totalled NIS 226.8 million for 2002, compared to NIS 88 million for 2001, an increase of 158%.
- The Company's investment portfolio yielded a loss of NIS 7.7 million in 2002 (primarily from writing down the value of investments in traded securities that are presented as long-term investments), compared to net gains of NIS 74.2 million and NIS 61.3 million in 2001 and 2000, respectively.
- Inflation in the USA and Canada during 2002 was higher than average (2.4% in the USA and 3.9% in Canada), while in 2001 it was lower than average (1.5% in the USA and 0.7% in Canada). As a result, financing expenses (in real terms) were lower in 2002 than in 2001.
- As of December 31, 2002, shareholders' equity per share (of NIS 1 par value) amounted to NIS 13.3, compared to NIS 12.12 as of December 31, 2001. Taking into account the dividend that was paid by the Company during the year, the shareholders' equity per share grew by 15% during 2002.

GROWTH IN SHAREHOLDERS' EQUITY (in NIS millions)



- Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 1.84 billion, representing 24.3% of the total assets, compared to NIS 1.3 billion at the end of the previous year, which represented 19.4% of the total assets.

GROWTH IN SHAREHOLDERS' EQUITY AND MINORITY INTERESTS (in NIS millions)



- During 2002, the company, EQY and FCR raised in excess of NIS 402 million from public offerings of their shares (including NIS 68.6 million from the Company's parent company). In 2001, NIS 228 million was raised.

F. Fourth Quarter 2002 Key Points

- Net income for the fourth quarter of the year amounted to NIS 2.4 million, compared with net income of NIS 12.1 million in the same quarter last year.
- F.F.O. for the fourth quarter of the year amounted to NIS 17.9 million, NIS 0.23 per share, compared to NIS 9.1 million, NIS 0.16 per share, for the same quarter last year.
- Cash flows from operating activities totalled NIS 74.3 million for the fourth quarter of the year, compared to NIS 14.3 million for the same quarter last year.
- There was almost no inflation in the USA and Canada during the fourth quarter of the year, compared to the three previous quarters of the year. As a result, the Company's financing expenses (in real terms) were higher in the fourth quarter of the year.
- The Company's investment portfolio yielded a net loss of NIS 4.6 million in the fourth quarter of the year (primarily from writing down the value of investments in traded securities that are presented as long-term investments), compared to a net gain of NIS 21.7 million in the same quarter last year.

2. The Company and its Business Environment – Key Events and Changes During the Reporting Year

General

During the reporting year, the Group invested NIS 973 million in the acquisition of 18 new properties and in the development, redevelopment and expansion of various other properties as detailed below. The effect of these investments on the operating results will be reflected in full in 2003.

A. Property Transactions

1. During 2002, EQY acquired 8 properties, with a total G.L.A. in excess of 500 thousand square feet, and a plot of land for future development. The total consideration for these acquisitions amounted to NIS 315 million.
2. During 2002, FCR acquired 10 properties, with a total G.L.A. in excess of 1.3 million square feet, and 4 plots of land for future development. The total consideration for these acquisitions amounted to NIS 358 million.
3. During 2002, EQY and FCR developed new properties and improved existing properties at a total cost of NIS 300 million.
4. During 2002, EQY sold 8 properties, with a total G.L.A. of some 540 thousand square feet, and 2 undeveloped plots. The total proceeds from these sales amounted to NIS 137 million. The net gain recognized by the Company from these sales amounted to NIS 13.6 million.
5. During 2002, FCR sold part of a property, with a G.L.A. of some 90 thousand square feet, and also a plot of land adjacent to an existing property. The total proceeds from these sales amounted to NIS 26 million. The net gain recognized by the Company from these sales amounted to NIS 0.8 million.
6. During 2002, EQY increased its monthly average rental income from US\$ 0.82 per square foot to US\$ 0.86 per square foot, successfully renewed 251 leases, on which the average rent increased to US\$ 1.03 per square foot (an increase of 4.3%), and signed 195 new leases at an average monthly rental of US\$ 1.03 per square foot. The net cash inflows from the same properties increased by 4.4%, compared to 2001.

EQY's properties had an average occupancy rate of 88.9% at December 31, 2002.

7. During 2002, FCR maintained its monthly average basic rental income at C\$ 1.05 per square foot, successfully renewed leases on a total G.L.A. of some 300 thousand square feet, which are expected to generate rents of some C\$ 4.2 million in 2003 (similar to the rents they generated in 2002), and signed new leases on a total G.L.A. of some 250 thousand square feet, which are expected to generate additional rents of some C\$ 4.6 million in 2003. The net cash inflows from the same properties increased by 2.5%, compared to 2001.

FCR's properties had an average occupancy rate of 92% at December 31, 2002 and, in 2003, FCR expects that this percentage will rise further still, once the redevelopment of several properties is completed.

B. Additional Investments

As of December 31, 2002, the Company's investments in marketable securities, mainly in the USA and Canada (excluding subsidiaries), total NIS 109 million (compared to NIS 206 million as of December 31, 2001).

The investment in these securities, part of which is presented as short-term investments and part as long-term investments, is primarily in companies whose principal activity is similar to and/ or synergetic with that of the subsidiaries, and includes an investment in the shares of IRT (see section 6A below) in the amount of NIS 19 million. For the year ended December 31, 2002, the investment portfolio yielded a net loss of NIS 7.7 million (after taking into account allowances made for impairment to the value of the investments) compared to net gains of NIS 74.2 million and NIS 61.3 million for 2001 and 2000, respectively.

As of the date of the financial statements, the market value of these investments was not significantly different from their carrying value.

C. Acquisition of FCR Debentures by the Company in the Reported Year

During the reporting year, the Company – through a wholly-owned Canadian subsidiary (hereinafter – “Gazit 97”) – acquired on the Toronto Stock Exchange (TSX) convertible debentures of FCR with a nominal value of some C\$ 29.6 million, at a cost of NIS 85 million. During 2001, the Company acquired debentures of FCR with a nominal value of some C\$ 85 million, at a cost of NIS 202 million and, as a result, recognized a gross gain of NIS 39 million (of which the Company's net share amounted to NIS 19.2 million).

As from 2002, the Company is adopting the treatment recommended by the Securities Authority's staff, whereby – upon the acquisition of the subsidiary's convertible debentures by the Company - any difference between the cost of the debentures and their book value is deferred and will be recognized as a gain or loss only when those debentures are redeemed or converted.

Within the framework of the bank financing agreement for the acquisition of the debentures referred to above, the Company – instead of paying higher interest - granted an Israeli bank an option to acquire 10% of its debenture holdings at their cost price. In September 2002, the Company redeemed this option for a consideration of NIS 4.2 million (and at the same time also redeemed an option granted to the bank in 2000 for the acquisition of FCR shares). Consequently, the Company recorded in its books in 2000 and 2001 a deferred gain from the early redemption of the debentures amounting to NIS 6.6 million. The amount of the net gain taken to income in respect of the above totalled NIS 2.6 million.

In November 2002, FCR made an offer to the holders of its ordinary debentures (Series DB), whose final redemption date falls in December 2003, to exchange these debentures for convertible debentures (Series D), on the basis of 1.25 debentures (Series D) for each ordinary debenture. Of the total nominal value of C\$ 37.4 million, holders of ordinary debentures with a nominal value of some C\$ 22.3 million (including Gazit 97 that held debentures with a nominal value of some C\$ 15.4 million) accepted the offer, and FCR accordingly issued new debentures (Series D) with a nominal value of some C\$ 27.8 million.

D. Transfer of Company's Canadian Properties to FCR

In May 2002, Gazit 97 and FCR entered into an agreement pursuant to which FCR acquired all the issued share capital of a wholly-owned subsidiary of Gazit 97, which owned 8 properties in Quebec, Canada, for a consideration of C\$ 31.6 million. C\$ 24.2 million of the above consideration was paid by way of issuing convertible debentures (Series D) of FCR with a nominal value of C\$ 28.2 million (priced at C\$ 84.34 per C\$ 100 of nominal value); the balance of the consideration was paid by way of issuing 602,000 shares valued at C\$ 7.4 million (priced at C\$ 12.30 per share).

E. Capital Raised by the Company

During 2002, within through a private placement (in February 2002) and a public offering (in May 2002) of shares and warrants options (Series 6) for shares, the Company issued and sold some 8.5 million shares for a consideration of NIS 118 million.

In addition, a wholly-owned subsidiary of the Company exercised warrants options (Series 5), which were issued within the framework of the above public offering, into some 6.5 million of the Company's shares.

F. Capital Raised by EQY

During 2002, EQY issued some 5.8 million shares for a consideration of US\$ 68.5 million (NIS 324.5 million) through a private placement, a public offering, a dividend reinvestment program ("DRIP") and other means of raising capital. In the above issues and in the dividend reinvestment program, the Company and FCR acquired some 1.4 million shares of EQY at a cost of US\$ 18.3 million (NIS 86.7 million).

As a result of the above issues, the direct and indirect percentage of ownership in EQY held by the Company has decreased from 55.4% to 49.6%. The Company has recognized a gain of some NIS 1 million from the dilution of its holding in EQY.

G. Private Placement of Unlisted Debentures

In February 2002, the Company issued debentures (that have not been listed for trade) to institutional investors with a nominal value of NIS 77.5 million. The average term of these debentures is 6.5 years (see note 17 to the financial statements).

H. Public Offering of Debentures

In May 2002, the Company made a public offering of NIS 140 million (par value) debentures (Series A), with a maturity of 10 years, and 700 thousand option (Series A), which are convertible into NIS 70 million (par value) debentures (Series A).

A wholly-owned subsidiary of the Company acquired 55% of the total issuance and also acquired – through stock exchange transactions - a further 184 thousand option warrants (Series A). After exercising the options, the subsidiary holds NIS 133 million (par value) debentures (Series A), out of the total of NIS 197 million (par value) debentures (Series A) issued. In total, the Company raised a net amount of NIS 62 million (see note 17 to the financial statements).

I. Capital Raised by FCR

1. In March 2002, FCR made a rights issue to its shareholders of 12.3 million option warrants for FCR shares, exercisable through 2008.

The exercise price for each warrant has been set at C\$ 11.8. At the time of issue, the Company purchased some 8,662 thousand warrants.

During 2002, the Company exercised some 1,362 thousand option warrants into FCR shares for a consideration of C\$ 16.1 million, while other parties exercised some 511 thousand option warrants into FCR shares for a consideration of C\$ 6 million. In total, FCR raised C\$ 22.1 million from the exercise of the above option warrants during 2002.

2. During 2002, FCR issued some 1.2 million shares substitute three semi annual interest payments on convertible debentures (Series C and Series D), in the amount of C\$ 14.1 million (NIS 42.3 million). The decision to make these issues was approved by FCR and they were made in accordance with the terms of the debenture.

Gazit 97, which is a holder of FCR's convertible debentures, received some 540 thousand shares, instead of receiving interest in the amount of C\$ 6.3 million (NIS 18.9 million).

J. Issue of Shares to Officers of the Company

In July 2002, the Company approved in general meeting the issue of shares to its CEO and the Company Secretary (who also serves as a director of the Company). In August 2002, the Company's CEO was allotted 425,000 shares for a consideration of NIS 5.9 million (NIS 13.88 per share) and the Company Secretary was allotted 180,000 shares for a consideration of NIS 2.4 million (NIS 13.38 per share). The acquisition of the above shares was financed by a bank granting the allottees a loan. Most of this loan is linked to the consumer price index, bears interest at 2% per annum and has a term of up to 5 years. A subsidiary of the Company has placed a collateral with the bank to secure the loan, and the allottees have registered a lien in favor of the subsidiary on the shares allotted to them.

K. Credit Rating by Ma'alot, the Israeli Rating Company

Ma'alot, the Israeli rating company, has given the Company's debentures an A+ rating.

In October 2002, following EQY's signing of an undertaking for the acquisition of IRT as described in section 6A below, Ma'alot announced that it is to review the Company's aforementioned credit rating.

L. Dividend Distribution Policy

Pursuant to the Company's dividend policy, whereby the Company announces at the end of each year the anticipated dividend for the subsequent year, the Company announced that the dividend to be declared in 2003 will not be less than NIS 0.68 per share.

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

M. Changes in Accounting Standards

1. In October 2001 and in December 2002, the Israeli Accounting Standards Board issued Standards Nos. 12, 13 and 17 dealing with discontinuation of the measurement of financial statements based on changes in purchasing power in countries in which companies' real activities are conducted. These standards are expected to be applied from 2004.

The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, which adjust their financial statements for changes in purchasing power in their domicile countries.

The Company's management estimates that discontinuation of such measurement, without the enactment of other accounting standards that affect the results of real estate companies, would have a material adverse effect on the Company's reported accounting results beginning from the year of the change.

2. In February 2003, Accounting Standard No. 15 of the Israeli Accounting Standards Board - "Impairment of Assets", was published. This standard requires to evaluate periodically the need for a provision for the impairment of the Company's non-monetary assets (mainly fixed assets) and investments in associated companies.

In the opinion of the Company's management, implementation of the above standard is not expected to have a material affect on the Company's operating results, its financial position or its cash flows.

3. A. Results of Operations

	For the year		
	2002	2001	2000
Adjusted NIS in thousands (except per share amounts)			
Revenues:			
Rental income	902,356	721,290	386,468
Other income	75,553	94,154	76,200
Total	977,909	815,444	462,668
Costs and expenses:			
Operating rental properties	308,891	245,949	129,462
Depreciation of rental properties	116,043	100,908	51,859
General and administrative	82,512	59,986	37,834
Financial, net	175,594	238,839	111,861
Other expenses	46,767	16,659	8,950
Total	729,807	662,341	339,966
Income before taxes on income	248,102	153,103	122,702
Taxes on income	18,251	18,748	13,148
Income after taxes on income	229,851	134,355	109,554
Company's share in earnings of associated companies	3,314	-	-
Minority interest in earnings of subsidiaries	(127,021)	(48,044)	(28,016)
Former shareholders interest in earnings of subsidiary consolidated for first time	-	-	(9,016)
Net income for the year	106,144	86,311	72,522
Net earnings per share (of NIS 1 par value)	1.48	1.61	1.65
F.F.O. for the year*	163,712	156,102	103,810
F.F.O. per share (of NIS 1 par value)*	2.21	2.90	2.04

* F.F.O. - Funds From Operations – net income, which includes gains (losses) and dividends from investments in securities, less non-recurring income and expenses, plus the Company's share in depreciation and amortization.

B. Analysis of Results of Operations for 2001

Rental income

The increase in 2002, compared to 2001, stems from the continuing acquisition of new properties during the year and the full-year contribution of UIRT's properties, which were acquired at the end of the third quarter of 2001.

Other income

Other income includes income from dividends and from investments in traded securities, gains from the sale of properties, gains from the dilution of the company's share in subsidiaries, as well as from the forgiveness of part of a loan taken to finance one of EQY's properties. The decrease in other income in 2002, compared to 2001, is due mainly to the fall in income from investments in traded securities.

Dividend income for 2002 totalled NIS 11.7 million, compared to NIS 14.3 million for 2001.

Income from investments in traded securities for 2002 totalled NIS 25.6 million, compared to NIS 73.7 million for 2001.

During the third quarter of the year, EQY recorded a gain of NIS 7.3 million from the forgiveness of part of a loan taken to finance one its properties (the Company's share in the gain was NIS 3.2 million, net). EQY has reviewed the value of the property, which was mortgaged in order to secure the above loan, and did not find any changes of a permanent nature that would necessitate making an allowance for impairment to its value.

During the year, EQY and FCR sold properties and land for a consideration of NIS 163 million, which yielded a gross gain of NIS 28.5 million. This compares to the very slight gain of NIS 0.2 million in 2001.

Operating expenses

The increase in operating expenses matches the growth in rental income and is attributable to the same factors. Operating profit for the year amounted to 66% of revenues, similar to that for 2001.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 70.5 million for the year, representing NIS 1.08 depreciation per share; this compares with NIS 70.6 million, representing NIS 1.31 depreciation per share, for 2001.

The decrease in the Company's depreciation per share for the year, compared to 2001, stems mainly from the increase in the number of the Company's shares, due to the capital raised during the year.

General and administrative expenses

The increase in general and administrative expenses for the year, compared to 2001, stems mainly from the increase in EQY's administrative costs, which was caused by the growth in its properties and operations compared to last year, from the NIS 5 million one-time write-off of accrued costs in relation to review of new investments and from the increase in payroll expenses, which are linked to the increase in the Company's earnings this year compared to 2001.

General and administrative expenses for the year amounted to 8.4% of revenues, compared to 7.4% for 2001.

Financing

The reduction in financing expenses in 2002, compared to 2001, is due mainly to the higher inflation in the USA and Canada this year, compared to 2001. Because most of the Company's loans are not linked to the change in the consumer price index, an increase in inflation rates decreases the Company's financing expenses (in real terms), while, on the other hand, a decrease in inflation rates increases its financing expenses.

The percentage increases in the consumer price index for 2000, 2001 and 2002 are presented below:

Consumer Price Index			
	Israel	USA	Canada
	Percentage increase in period		
1-12.02	6.48%	2.38%	3.88%
1-12.01	1.41%	1.55%	0.70%
1-12.00	0.00%	3.39%	3.23%

Furthermore, due to the release of the deferred gain (as explained in section 2C above) and another deferred gain, the Company's financing expenses decreased in the year by NIS 8.4 million, gross (NIS 5.2 million, net). This compares to the gain recognized in 2001 on the acquisition of debentures (as explained in the same section) that amounted to NIS 39 million, gross (NIS 19.2 million, net).

Other expenses

The increase in other expenses in the year is due mainly to the losses on investments in traded securities amounting to NIS 11.5 million and to allowances amounting to NIS 33.8 million made for the impairment to the value of long-term investments, as described in section 2B. In 2001, most of the expense stemmed from the NIS 8.8 million write-down of the Company's Internet venture (which was closed down) and from an early repayment fee of NIS 6.8 million paid by EQY.

Earnings per share and F.F.O. per share

The calculation of the primary earnings per share and F.F.O. per share data for the year includes option warrants (Series 4) and option warrants (Series 6). The effect of these options is to add NIS 3.9 million to earnings and F.F.O., and to add 8.8 million shares to the aggregate number of shares; thus the overall effect is a decrease of NIS 0.15 and NIS 0.24 in the earnings per share and F.F.O. per share, respectively, for the year.

C. Summary of Operating Results for 2002, by Quarter

	Quarter				Total
	1	2	3	4	2002
Adjusted NIS in thousands (except per share amounts)					
Revenues:					
Rental income	222,929	221,832	228,339	229,256	902,356
Other income	41,752	13,127	13,534	7,140	75,553
Total	264,681	234,959	241,873	236,396	977,909
Costs and expenses:					
Operating rental properties	79,206	76,145	77,986	75,554	308,891
Depreciation of rental properties	27,850	29,440	31,119	27,634	116,043
General and administrative	24,242	21,761	19,011	17,498	82,512
Financial, net	21,035	36,902	42,453	75,204	175,594
Other expenses	7,084	16,841	12,275	10,567	46,767
Total	159,417	181,089	182,844	206,457	729,807
Income before taxes on income	105,264	53,870	59,029	29,939	248,102
Taxes on income (tax savings)	9,821	(3,776)	3,749	8,457	18,251
Income after taxes on income	95,443	57,646	55,280	21,482	229,851
Company's share in earnings (losses) of associated companies	1,999	1,093	638	(416)	3,314
Minority interest in earnings of subsidiaries	43,502	30,907	33,971	18,641	127,021
Net income for the period	53,940	27,832	21,947	2,425	106,144
Net earning per share (of NIS 1 par value)	0.84	0.34	0.32	0.01	1.48
F.F.O. for the period*	63,002	41,447	39,593	17,901	163,712
F.F.O. per share (of NIS 1 par value)*	0.91	0.56	0.52	0.23	2.21

* F.F.O. - Funds From Operations – net income, which includes gains (losses) and dividends from investments in securities, less non-recurring income and expenses, plus the Company's share in depreciation and amortization.

D. Analysis of Results of Operations for Quarter 4 of 2002

Other income

The decrease in other income in the fourth quarter of the year, compared to the previous quarters, is due mainly to the reduction in gains from the disposal of traded securities. In addition, the first quarter of the year included the gain from the sale of EQY's office building in Miami, Florida, which yielded a gross gain of NIS 21.5 million (net gain to the Company - NIS 8.6 million, net).

General and administrative expenses

The decrease in this item in the fourth quarter of the year, compared to the previous quarters, is due mainly to the reduction in payroll expenses that are linked to the Company's earnings. In addition, the first quarter of the year included the NIS 5 million one-time write-off of accrued costs in relation to review of new investments.

Financing

The increase in financing expenses in the fourth quarter of the year, compared to the previous quarters of the year, is due mainly to the decrease during that quarter in inflation in the USA and Canada, the countries in which the Company operates, as explained above.

The changes in the consumer price indices during the year are shown below:

Consumer Price Index			
	Israel	USA	Canada
Quarter 1	2.45%	1.20%	1.57%
Quarter 2	3.81%	0.63%	1.12%
Quarter 3	0.63%	0.61%	0.94%
Quarter 4	(0.41%)	(0.06%)	0.25%
Total for 2002	6.48%	2.38%	3.88%

Earnings per share and F.F.O. per share

The calculation of the primary earnings per share and F.F.O. per share data for the four quarters of the year includes option warrants (Series 4) and option warrants (Series 6). Eliminating the effect of the options would increase the earnings per share and F.F.O. per share, as follows:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	NIS			
Increase in earnings per share	<u>0.06</u>	<u>0.10</u>	<u>0.02</u>	<u>0.03</u>
Increase in F.F.O. per share	<u>0.07</u>	<u>0.14</u>	<u>0.07</u>	<u>0.06</u>

4. Financial Status

Liquidity

The Company has a policy of maintaining a high level of liquidity while striving to increase its shareholders' equity, so as to be able to pursue business opportunities in its areas of operation.

As of December 31, 2002, the liquid assets available to the Company and its subsidiaries, including short-term investments, totalled NIS 370.7 million, compared to NIS 395.7 million as of December 31, 2001. The decrease in liquid assets is mainly due to the acquisition of new properties, net of the proceeds from the sale of properties and short-term investments and net of capital and long-term debt raised from the public and others.

Shareholders' Equity

As of December 31, 2002, the Company's shareholders' equity, together with minority interests, totalled an aggregate of NIS 1.84 billion, which financed 24.3% of total assets; this compares to NIS 1.3 billion, which financed 19.4% of total assets, as of December 31, 2001 (if the convertible debentures in FCR, which may be converted into shares by FCR, are included, the above percentages would be 33.9% and 30.8%, respectively).

The increase in shareholders' equity from NIS 708.3 million as of December 31, 2001 to NIS 906.7 million as of December 31, 2002 stems from the offerings and sale of shares and the exercise of options into shares, amounting to NIS 118 million, from an increase of NIS 6 million in the item "translation adjustments deriving from translation of the financial statements of FCR and EQY", resulting from the devaluation (in real terms) of the shekel against the U.S. dollar and the Canadian dollar, and, in addition, the Company's net income for the reporting year of NIS 106.1 million. These were partly offset by the dividend paid by the Company.

Current Ratio

The current ratio (current assets to current liabilities) was 1.03 as of December 31, 2002, compared to 1.05 as of December 31, 2001.

Cash Flows

Cash inflows from operating activities for the year totalled NIS 226.8 million, compared to NIS 88 million for 2001. These cash inflows were used primarily for the purchase of fixed assets, which totalled NIS 973 million, compared to NIS 493 million in 2001. Additional sources of finance for the Company's investing activities were long-term loans received in the amount of NIS 480 million, compared to NIS 350 million in 2001, and capital raised by the Company and its subsidiaries, which totalled NIS 402.3 million, compared to NIS 228 million in 2001.

Credit Facilities

As of December 31, 2002, the Company and its subsidiaries have unutilized bank facilities totalling NIS 366 million.

5. Donations

The Company makes donations to charities and community welfare projects.

During the reporting year, the Company's donations amounted to NIS 678,000.

Included in the above sum is an amount of NIS 191,000 donated by the Company to the charity "Larger than Life" – a voluntary, humanitarian organization that assists children and youngsters afflicted with cancer and other chronic diseases.

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

6. Additional Information and Subsequent Events

A. Acquisition of IRT by EQY

1. On February 12, 2003, EQY completed the acquisition of IRT for US\$ 426 million, payable in cash and shares. The transaction was first announced, upon being signed, on October 20, 2002..

IRT was a self-administrated, self-managed REIT for tax purposes, whose shares were traded on the NYSE. IRT operated in the south-eastern part of the United States. It owned 90 shopping centers (mainly supermarket-anchored), having a G.L.A of some 10 million square feet.

Based on the consideration paid and taking into account the debts of IRT totalling US\$ 290 million that were assumed by EQY as a result of the acquisition, IRT's asset value was estimated at US\$ 715 million

EQY paid for 57% of IRT's shares with its own shares and the balance was paid for in cash.

The Company, which immediately prior to the acquisition held 331,000 shares in IRT, received 297,000 EQY shares in exchange for its IRT shares.

2. Upon completion of the deal, EQY doubled the number of shopping centers it owns, and has become one of the largest REITs in this sector in the south-eastern part of the United States and the largest in Florida.
3. At the same time as it closed the acquisition agreement, and in order to finance the acquisition, EQY issued to its three principal shareholders: the Company, FCR, and Alony Hetz Properties and Investments Ltd. ("Alony Hetz") 6.9 million shares. The Shares were issued at a price of US\$ 13.50 per share, with the company taking 62% of the issue, FCR - 15% and Alony Hetz - 23%.
4. Upon completion of the deal, the Company and FCR will own 24% and 20.7%, respectively, of the EQY's share capital. Pursuant to the agreement between the Company and Alony Hetz, the Company will continue to appoint most of the members of EQY's board of directors and will continue to consolidate EQY's financial statements with its own. Furthermore, in accordance with generally accepted accounting practices with regard to transactions for the acquisition of companies, as referred to above, the Company will not record an accounting gain as a result of the dilution of its holding in EQY.
5. Shown below is the principal data from the Company's proforma balance sheet, based on its financial statements as of December 31, 2002 as consolidated with IRT's balance sheet as of December 31, 2002:

	NIS in billions
Fixed assets, net	10.2
Long-term liabilities	7.4
Shareholder's equity and minority interests	3.1
Total assets	11.0

B. EQY's New Credit Facility and Credit Ratings by S&P and Moody's

Immediately prior to IRT's acquisition, EQY completed an agreement for the receipt of an unsecured credit facility of US\$ 340 million from Wells Fargo Bank, together with a consortium of 14 other banks. The facility is for 3 years and EQY has an option to renew it for a further year and to increase it to US\$ 400 million.

Drawings on the facility will bear interest at Libor plus a margin of 1%. In the future, this margin could be reduced to 0.65% or be increased to 1.35%, in accordance with EQY's credit rating.

Upon completion of the IRT transaction, EQY drew down US\$ 175 million from the credit facility.

Subsequent to the closure of the acquisition transaction, the Standard & Poor's and Moody's rating agencies announced that they had given EQY a BBB- rating and a Baa3 rating, respectively.

7. Reporting of Exposures to Market Risks and their Management

A. The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's President, and Mr. Gil Kotler, the Company's Chief Financial Officer.

B. Principal Market Risks to which Company is Exposed:

1. Real estate investments held through EQY and FCR are the most significant assets of the Company. Therefore, the relevant risk factors for the Company are the key risk factors to which the operations of FCR and EQY are exposed. These are as follows:
 - 1.1 The financial stability of the tenants.
 - 1.2 Changes in consumption habits.
 - 1.3 Changes in the rental policies of retail chains and major tenants.
 - 1.4 The business cycle of the businesses in the regions in which the Company's properties are located (economic situation).
 - 1.5 The status of EQY as an REIT.
2. Changes in the exchange rate of the U.S. dollar and the Canadian dollar relative to the shekel will have an effect, mainly on the Company's adjusted shareholders' equity. An increase in the exchange rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity, while a decrease in the exchange rate of the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.

3. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results, to the extent that a rise in interest rates will increase the Company's financing expenses, while a decline in interest rates will reduce the Company's financing expenses.
4. The Company has an occasional foreign currency exposure in respect to the U.S. dollar against the Canadian dollar, due to Company's activities in Canada and the USA.
5. The Company has an exposure with regard to its investments in traded securities, whose value is affected by fluctuations in their market price.

C. The Company's Policies for Risk Management are as Follows:

1. FCR and EQY monitor, on a regular basis, developments in the markets in which they operate. The companies have hired local experts in the field of property management, development and acquisition in the USA and Canada.
2. It is the Company's policy to maintain as close a correlation as possible between the currency in which properties are acquired and the currency in which the liabilities to finance the acquisition of the properties are taken out. As to the Company's shareholders' equity, management regularly evaluates the linkage basis balance sheet, and takes appropriate action in accordance with developments. In principle, the Company tries not to have an exposure to currency fluctuations.
3. Most of the Company's foreign currency debt is in U.S. and Canadian dollars, at fixed interest rates under long-term mortgages. The Company finances most of its investment in shekel assets in shekels, mainly at fixed rates, and regularly monitors developments and changes in the interest policy of the Bank of Israel. In order to reduce the impact of interest rate fluctuations, from time to time and depending on market conditions, the Company enters into interest swap agreements, whereby it receives interest at a fixed rate and pays interest at a variable rate, or vice versa.
4. During 2002, no changes occurred in the Company's market risks management policy.

D. Primary Linkage Report and Derivatives:

1. Primary linkage report

December 31, 2002						
	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In unlinked NIS	Unlinked	Total
Adjusted NIS in thousands						
Monetary assets						
Cash and cash equivalents	446	173,802	114,868	3	-	289,119
Short-term investments	-	41,776	10,153	-	29,689	81,618
Tenants, accounts receivable and other debit balances	1,635	61,978	17,390	-	45,710	126,713
Loans to partners and former partners	-	12,321	33,510	-	-	45,831
Long-term investments	15,136	3,690	-	-	78,649	97,475
Long-term loans	22,381	48,042	14,076	-	-	84,499
	39,598	341,609	189,997	3	154,048	725,255
Non-monetary assets	-	-	-	-	6,844,611	6,844,611
	<u>35,958</u>	<u>341,609</u>	<u>189,997</u>	<u>3</u>	<u>6,998,659</u>	<u>7,569,866</u>
Liabilities						
Short-term credit from banks and other credit granting institutions	-	-	-	2,839	-	2,839
Trade and other payables and other credit balances	3,479	67,598	102,649	10,268	8,427	192,421
Debentures	101,170	204,616	45,345	-	-	351,131
Liabilities to financial institutions and others	26,004	2,186,211	1,978,117	117,503	-	4,307,835
Deposits from tenants	9,077	136,289	4,592	-	-	149,958
Liabilities for employee rights upon retirement	-	-	-	856	-	856
Deferred taxes	-	-	-	-	741	741
Convertible debentures redeemable for subsidiary's shares	-	-	723,158	-	-	723,158
	139,730	2,594,714	2,853,861	131,466	9,168	5,728,939
Minority interests	-	-	-	-	934,208	934,208
Shareholders' equity	-	-	-	-	906,719	906,719
	<u>139,730</u>	<u>2,594,714</u>	<u>2,853,861</u>	<u>131,466</u>	<u>1,850,095</u>	<u>7,569,866</u>

December 31, 2001						
	Linked to the consumer price index	In US\$ or linked thereto	In C\$ or linked thereto	In unlinked NIS	Unlinked	Total
Adjusted NIS in thousands						
Monetary assets						
Cash and cash equivalents	-	55,733	169,866	2,170	-	227,769
Short-term investments	-	21,202	11,195	-	135,508	167,905
Tenants, accounts receivable and other debit balances	3,683	43,141	17,307	568	34,843	99,542
Loans to partners and former partners	-	37,116	25,299	-	-	62,415
Long-term investments	14,507	4,237	-	-	70,196	88,940
Long-term loans	19,192	35,222	16,312	-	-	70,726
	37,382	196,651	239,979	2,738	240,547	717,297
Non-monetary assets	-	-	-	-	5,992,040	5,992,040
	<u>37,382</u>	<u>196,651</u>	<u>239,979</u>	<u>2,738</u>	<u>6,232,587</u>	<u>6,709,337</u>
Liabilities						
Short-term credit from banks and other credit granting institutions	-	6,630	-	16,184	-	22,814
Trade and other payables and other credit balances	-	44,586	82,595	38,806	4,148	170,135
Debentures	16,524	198,562	71,490	-	-	286,576
Liabilities to financial institutions and others	83,529	2,311,217	1,568,970	60,692	-	4,024,408
Deposits from tenants	6,876	124,561	3,459	14,373	-	149,269
Liabilities for employee rights upon retirement	-	-	-	804	-	804
Deferred taxes	-	-	-	-	535	535
Convertible debentures redeemable for subsidiary's shares	-	-	753,261	-	-	753,261
	106,929	2,685,556	2,479,775	130,859	4,683	5,407,802
Minority interests	-	-	-	-	593,271	593,271
Shareholders' equity	-	-	-	-	708,264	708,264
	<u>106,929</u>	<u>2,685,556</u>	<u>2,479,775</u>	<u>130,859</u>	<u>1,306,218</u>	<u>6,709,337</u>

2. Derivatives

In January 2001, the Company entered into a 5-year swap transaction with the a Bank in Israel in the amount of US\$ 20 million relating to part of its linked debentures, which were issued in the same month, and which are to be swapped from being linked to the consumer price index to being linked to the US dollar. The Company's liability as of December 31, 2002 in respect of this transaction amounted to NIS 7.235 million.

E. Means of Implementing and Monitoring Policies:

1. The Company's Board of Directors oversees the Company's management, which regularly monitors the management of the risks and the ways in which to minimize the Company's exposure to these risks.
2. The Chairman of the Board of Directors, Mr. Chaim Katzman, who is also the Chairman of the Board of Directors of EQY and FCR, and the Company's President, Mr. Dori Segal, who is also the President of FCR, reside permanently in the countries in which the Company's subsidiaries operate.

Chaim Katzman
Chairman of the Board of Directors

Dori Segal
President and Director