GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2003

ADJUSTED TO THE NIS OF SEPTEMBER 2003

UNAUDITED

INDEX

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ERNST & YOUNG

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

Re: Review report of unaudited interim consolidated financial statements for the nine and three months periods ended September 30, 2003

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of September 30, 2003, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the nine and three months periods then ended.

Our review was made in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter-alia, reading of the aforementioned financial statements, reading of the minutes of meetings of the shareholders and the board of directors and its committees, and making inquiries of certain officers responsible for financial and accounting matters.

We have been furnished with review reports of other auditors in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 98.2% of total assets included in the interim consolidated balance sheet, and whose revenues constitute approximately 98.7% of total revenues included in the interim consolidated statement of income.

The foregoing procedures do not constitute an examination made in accordance with generally accepted auditing standards in Israel, and are limited in scope. Therefore, we do not express an opinion on the interim consolidated financial statements.

In the course of our review, including the reading of the review reports of other auditors, as referred to above, nothing came to our attention as a result of our review that would indicate that material changes of the aforementioned statements are required in order that they may be considered prepared in accordance with generally accepted accounting principles in Israel and in accordance with the Israeli Securities Regulations (Periodic and Immediate Statements), 1970.

Tel-Aviv, Israel
November 23, 2003

KOST FORER & GABBAY
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of September 2003

	September 30, 2003	September 30, 2002	December 31, 2002
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	85,256	196,661	284,838
Short-term investments	54,663	64,040	80,410
Tenants	63,179	30,285	44,696
Accounts receivable	127,045	85,442	80,140
Loans to partners and to former partners	64,199	66,199	45,153
Properties held-for-sale	50,414	40,724	43,277
	444,756	483,351	578,514
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	16,120	35,904	34,082
Long-term investments	48,239	148,407	96,032
Long-term loans	60,528	77,529	83,248
	124,887	261,840	213,362
FIXED ASSETS:			
Cost	11,844,982	6,873,517	6,843,307
Less - accumulated depreciation	480,011	353,608	332,756
	11,364,971	6,519,909	6,510,551
OTHER ASSETS AND DEFERRED CHARGES, NET	273,148	155,130	155,349
	12,207,762	7,420,230	7,457,776

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

CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of September 2003

	September 30,		December 31,
	2003	2002	2002
	Unaudited		Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	259,228	294,499	364,135
Trade payables	61,698	42,080	61,909
Other accounts payable	214,832	137,907	137,474
	535,758	474,486	563,518
LONG-TERM LIABILITIES:			
Liabilities to financial institutions and others	5,709,686	3,885,874	3,944,406
Debentures	1,076,047	381,646	284,234
Tenants' security deposits	145,301	141,727	137,927
Accrued severance pay, net	934	782	843
Deferred taxes	741	505	730
	6,932,709	4,410,534	4,368,140
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	772,724	716,714	712,450
MINORITY INTEREST	2,829,245	927,224	920,375
SHAREHOLDERS' EQUITY	1,137,326	891,272	893,293
	12,207,762	7,420,230	7,457,776

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

November 23, 2003			
Date of approval of the financial statements	Chaim Katzmann Chairman of the Board of Directors	Dori Segal President and Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of September 2003

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2003	*) 2002	2003	*) 2002	*) 2002
	Unaudited				Audited
	Adjusted NIS in thousands (except for share data)				
Rental revenues	1,000,261	662,766	387,053	224,825	888,996
Property operating expenses	327,134	229,755	124,476	76,786	304,318
Rental property depreciation	140,579	87,050	56,855	30,640	114,325
Gross profit	532,548	345,961	205,722	117,399	470,353
General and administrative expenses	86,257	64,016	33,316	18,719	81,290
Operating income	446,291	281,945	172,406	98,680	389,063
Financial expenses, net	166,491	78,356	60,628	46,416	147,795
	279,800	203,589	111,778	52,264	241,268
Other income, net	47,878	11,228	29,560	5,857	3,161
Income before taxes on income	327,678	214,817	141,338	58,121	244,429
Taxes on income	30,514	9,645	15,117	3,691	17,981
Income after taxes on income	297,164	205,172	126,221	54,430	226,448
Equity in earnings of affiliates	3,667	3,673	6	629	3,264
Minority interest in earnings of subsidiaries	(175,258)	(106,716)	(76,704)	(33,449)	(125,140)
Net income for the period	125,573	102,129	49,523	21,610	104,572
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	1.57	1.45	0.69	0.31	1.45

*) Reclassified, see Note 2b.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2003
Unaudited

	Nine months ended September 30, 2003								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the period	127,725	713,063	1,710	62,206	94,359	11,420	(106,973)	(10,217)	893,293
Issuance of share capital, net	4,000	60,000	-	-	-	-	-	-	64,000
Exercise of stock options into shares	6,429	68,600	-	-	-	-	-	-	75,029
Purchase of shares	-	-	-	-	-	-	(63)	63	-
Foreign currency translation adjustments for foreign consolidated units	-	-	-	17,079	-	-	-	-	17,079
Repayment of loans for the purchase of shares	-	-	-	-	-	-	-	477	477
Net income for the period	-	-	-	-	125,573	-	-	-	125,573
Dividend paid	-	-	-	-	(26,705)	(11,420)	-	-	(38,125)
Dividend declared	-	-	-	-	(14,170)	14,170	-	-	-
Balance at the end of the period	138,154	841,663	1,710	79,285	179,057	14,170	(107,036)	(9,677)	1,137,326

	Nine months ended September 30, 2002							
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	112,126	499,023	1,710	56,249	32,393	(3,724)	-	697,777
Issuance of share capital, net	6,223	80,622	-	-	-	-	(8,177)	78,668
Exercise of stock options into shares	530	6,015	-	-	-	-	-	6,545
Sale of shares held by the Company	-	178	-	-	-	2,467	(1,416)	1,229
Foreign currency translation adjustments for foreign consolidated units	-	-	-	25,424	-	-	-	25,424
Net income for the period	-	-	-	-	102,129	-	-	102,129
Dividend declared	-	-	-	-	(20,500)	-	-	(20,500)
Balance at the end of the period	118,879	585,838	1,710	81,673	114,022	(1,257)	(9,593)	891,272

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2003
Unaudited

	Three months ended September 30, 2003								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the period	130,653	744,123	1,710	31,798	157,851	-	(107,036)	(9,677)	949,422
Issuance of share capital, net	4,000	60,000	-	-	-	-	-	-	64,000
Exercise of stock options into shares	3,501	37,540	-	-	-	-	-	-	41,041
Foreign currency translation adjustments for foreign consolidated units	-	-	-	47,487	-	-	-	-	47,487
Net income for the period	-	-	-	-	49,523	-	-	-	49,523
Dividend paid	-	-	-	-	(14,147)	-	-	-	(14,147)
Dividend declared	-	-	-	-	(14,170)	14,170	-	-	-
Balance at the end of the period	138,154	841,663	1,710	79,285	179,057	14,170	(107,036)	(9,677)	1,137,326

	Three months ended September 30, 2002							
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	117,754	572,241	1,710	78,657	102,750	(1,257)	(1,416)	870,439
Issuance of share capital, net	595	7,582	-	-	-	-	(8,177)	-
Exercise of stock options into shares	530	6,015	-	-	-	-	-	6,545
Foreign currency translation adjustments for foreign consolidated units	-	-	-	3,016	-	-	-	3,016
Net income for the period	-	-	-	-	21,610	-	-	21,610
Dividend declared	-	-	-	-	(10,338)	-	-	(10,338)
Balance at the end of the period	118,879	585,838	1,710	81,673	114,022	(1,257)	(9,593)	891,272

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2003
Audited

	Year ended December 31, 2002								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the year	112,126	499,023	1,710	56,249	32,393	-	(3,724)	-	697,777
Issuance of share capital, net	6,223	80,622	-	-	-	-	-	(8,177)	78,668
Exercise of stock options into shares	9,376	133,124	-	-	-	-	(106,324)	-	36,176
Sale of shares held by the Company	-	294	-	-	-	-	3,075	(2,040)	1,329
Foreign currency translation adjustments for foreign consolidated units	-	-	-	5,957	-	-	-	-	5,957
Net income for the year	-	-	-	-	104,572	-	-	-	104,572
Dividend paid	-	-	-	-	(31,186)	-	-	-	(31,186)
Dividend declared	-	-	-	-	(11,420)	11,420	-	-	-
Balance at the end of the year	127,725	713,063	1,710	62,206	94,359	11,420	(106,973)	(10,217)	893,293

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2003

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2003	2002	2003	2002	2002
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	125,573	102,129	49,523	21,610	104,572
Adjustments to reconcile net income to net cash provided by operating activities (a)	106,214	48,094	53,563	26,912	118,902
Net cash provided by operating activities	231,787	150,223	103,086	48,522	223,474
Cash flows from investing activities:					
Investment in newly consolidated subsidiary (b)	(843,264)	-	-	-	-
Investment in subsidiary and in jointly controlled entity	(47,730)	(2,211)	(32,643)	(1,783)	(12,813)
Investment in fixed assets	(1,526,678)	(773,870)	(1,130,094)	(224,457)	(958,676)
Repayment (grant) of loans to partners and former partners	(20,160)	(2,642)	(5,538)	2,227	16,883
Proceeds from sale of real estate	69,244	102,243	2,337	42,242	142,401
Long-term loans granted	(1,971)	(8,822)	-	(1,213)	(9,914)
Repayment of long-term loans granted	38,001	4,617	4,408	1,602	4,882
Short-term investments, net	105,764	46,158	31,903	45,425	27,332
Purchase of marketable securities and long-term investments	(72,883)	(164,323)	(27,344)	(18,235)	(194,754)
Proceeds from realization of long-term investments	66,507	159,209	31,877	65,711	230,448
Net cash used in investing activities	(2,233,170)	(639,641)	(1,125,094)	(88,481)	(754,211)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2003

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2003	2002	2003	2002	2002
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from financing activities:					
Issuance of share capital, net	64,000	78,847	64,000	-	78,668
Repayment of loans for the purchase of shares	477	-	-	-	-
Exercise of stock options into shares	75,029	6,545	41,041	6,545	36,176
Sale of shares by the Company and subsidiary	-	1,229	-	-	1,329
Issuance of shares to minorities in subsidiary, net	925,234	273,298	407,738	35,566	280,181
Deferred charges in respect of raising loans and debentures	(20,201)	(19,807)	(9,573)	(8,134)	(26,272)
Dividend paid	(38,125)	(39,835)	(14,147)	(20,500)	(50,533)
Dividend paid to minorities in subsidiaries	(164,625)	(61,985)	(73,735)	(22,525)	(83,405)
Receipt of long-term loans	1,518,163	662,159	443,155	172,281	987,266
Repayment of long-term loans	(609,750)	(384,325)	(8,765)	(70,846)	(514,202)
Redemption of debentures	-	-	-	-	(18,814)
Early redemption of the Company and subsidiary's debentures and convertible debentures	(35,495)	(108,455)	(12,488)	(43,498)	(127,322)
Sale of Company's debentures by subsidiary	79,126	-	77,352	-	551
Short-term credit from banks and others, net	(419)	(126,963)	(565)	(36,589)	(135,535)
Issuance of debentures and convertible debentures	-	154,997	-	-	154,756
Increase (decrease) in tenants' security deposits, net	2,106	2,886	1,258	(351)	1,870
Net cash provided by financing activities	1,795,520	438,591	915,271	11,949	584,714
Effect of exchange rate differences from cash balances of foreign autonomous consolidated units on cash and cash equivalents	6,281	23,091	23,643	6,030	6,464
Increase (decrease) in cash and cash equivalents	(199,582)	(27,736)	(83,094)	(21,980)	60,441
Cash and cash equivalents at the beginning of the period	284,838	224,397	168,350	218,641	224,397
Cash and cash equivalents at the end of the period	85,256	196,661	85,256	196,661	284,838

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2003

	Nine months ended September 30, 2003	Nine months ended September 30, 2002	Three months ended September 30, 2003	Three months ended September 30, 2002	Year ended December 31, 2002
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Depreciation	138,927	87,615	54,999	31,066	114,681
Minority interest in earnings of subsidiaries	175,258	106,716	76,704	33,449	125,140
Equity in earnings of affiliates net of dividend received	(1,474)	(906)	872	952	85
Deferred taxes, net	7,219	(3,116)	6,381	(1,660)	(5,311)
Gain from realization and revaluation of marketable securities, net	(5,268)	(23,262)	(6,514)	(2,504)	(25,254)
Loss (gain) from early redemption of subsidiary's debentures and convertible debentures	259	735	99	102	(8,235)
Adjustment of differences on monetary assets and long-term monetary liabilities, net	(161,300)	(157,009)	(61,436)	(48,423)	(149,134)
Write-down of long-term investments	-	33,933	-	11,931	44,653
Amortization of other assets and deferred charges	20,497	9,733	9,721	2,519	14,598
Gain from sale of fixed assets	(12,022)	(25,186)	(5,074)	(327)	(28,036)
Accrued severance pay, net	91	-	26	52	50
Gain from issuance to third party and related party	(38,378)	(2,538)	(24,704)	(94)	(1,105)
Changes in asset and liability items:					
Increase in tenants and other accounts receivable	(39,116)	(7,814)	(12,514)	(16,268)	(10,884)
Increase in trade payables and other accounts payable	18,606	27,562	13,262	15,494	45,489
Increase in tenants' security deposits	2,915	1,631	1,741	623	2,165
	106,214	48,094	53,563	26,912	118,902

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2003

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2003	2002	2003	2002	2002
	Unaudited				Audited
	Adjusted NIS in thousands				
(b) Investment in newly consolidated subsidiary: (see Note 5)					
Subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents):					
Current assets	(53,825)	-	-	-	-
Current liabilities	60,108	-	-	-	-
	6,283	-	-	-	-
Fixed assets	(3,282,971)	-	-	-	-
Other assets (including goodwill)	(92,050)	-	-	-	-
Long-term liabilities	1,429,548	-	-	-	-
Minority interest	54,414	-	-	-	-
	(1,891,059)	-	-	-	-
Increase in minority interest in respect of consideration paid in subsidiary's shares	1,041,512	-	-	-	-
	(843,264)	-	-	-	-
(c) Significant non-cash operations:					
Issuance of shares in subsidiary to minorities and related party against long-term loans	-	-	-	-	7,222
Purchase of fixed assets against liabilities	-	-	-	-	4,932
Purchase of fixed assets in consideration for subsidiary's shares	25,476	-	17,318	-	2,416
Conversion of debentures into convertible debentures	593	-	-	-	25,621
Sale of real estate against receivables	-	-	-	-	18,201
Sale of Company shares held by it to employees against long-term loans	-	-	-	-	2,040
Sale of investments in affiliates	19,696	-	19,696	-	-

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

NOTE 1:- GENERAL

These financial statements have been prepared as of September 30, 2003 and for the nine and three months periods then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 2002 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements as of December 31, 2002 are applied consistently in these financial statements.

b. Reclassification of the statement of income:

In view of the increase in the Company's activity in the field of income producing properties on the one hand and the decrease in the scope of the other activities (mainly investment in securities) on the other hand, Company management decided that, beginning 2003, the statement of income shall be presented by the multi stage method as required by the Securities Regulations (Preparation of Annual Financial Statements), 1993. The statements of income for previous periods have been reclassified accordingly.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS based on the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of September 2003.

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2003	2002	2003	2002	2002
			%		
Consumer Price Index in Israel	(1.5)	7.0	(1.0)	0.6	6.5
Consumer Price Index in U.S.	2.4	2.4	0.8	0.6	2.4
Consumer Price Index in Canada	1.9	3.6	0.5	0.9	3.9
Exchange rate of U.S.$ 1	(6.2)	10.3	3.0	2.1	7.3
Exchange rate of CD 1	9.8	11.3	3.8	(2.2)	8.1

NOTE 4:- IMPLEMENTATION OF NEW ACCOUNTING STANDARDS AND THEIR IMPACT ON THE FINANCIAL STATEMENTS

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 Accounting Standards No. 12 and No. 17, which deal with the discontinuance of adjusting financial statements, financial statements will discontinue to be adjusted for inflation 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.

Company management is of the opinion that the discontinuance of adjusting financial statements to the CPI in environment of positive inflation, without regulating additional Standards that influence the results of income producing properties companies, will have a significant negative effect on the reported accounting net income of the Company beginning with the year of application of the Standard (On the other hand, the discontinuance of the adjustments is not likely to affect the gross profit, operating income and cash flows of the Company).

Since January 1, 2003, the Company has initially applied Accounting Standard No. 14 of the Israel Accounting Standards Board, which deals with fiscal reporting for interim periods and which superseded Opinion 43 of the Institute of Certified Public Accountants in Israel. Comparable data for interim periods prior to the effective date of the Standard (January 1, 2003) was not restated since the provisions of Standard 14, as far as applicable to these financial statements, are not materially different from Opinion 43. Disclosure about segmental information is presented in Note 7 below.

NOTE 5:- ADDITIONAL INFORMATION

a. In October 2002, EQY signed an agreement for the purchase of IRT Property Company Inc. ("IRT") in share and cash transaction, in consideration of approximately $ 426 million. The purchase transaction was closed on February 12, 2003.

Prior to the consummation of the transaction, IRT was a public company type REIT for tax purposes whose shares were listed for trade on the New York Stock Exchange and which owned 92 commercial centers in South-East U.S.

According to the purchase 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.

In practice, in consideration of 57% of IRT shares, EQY paid through its shares and the balance was paid in cash (approximately $ 189 million).

NOTE 5:- ADDITIONAL INFORMATION (cont.)

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

After closing, the Company held directly and through its wholly owned subsidiaries approximately 24% of EQY's share capital and its subsidiary, FCR, held approximately 20.7% of EQY's share capital. According to generally accepted accounting principles for asset exchange transactions, the Company did not record a capital accounting gain as a result of the decrease in its holdings in EQY.

Subsequent to signing on the agreement, three former IRT shareholders filed a motion for a class action against IRT, its directors and EQY alleging breach of the fiduciary duty towards the former shareholders of IRT. In September 2003, the above claims were dismissed after the former insurance company of IRT paid for the cost of the compromise reached.

b. In September 2003, the Company executed a private placement offering of 4 million Ordinary shares at the price of NIS 16 per share. Two institutional investors purchased each one million shares and the parent company purchased 2 million shares. Total capital raised aggregated NIS 64 million.

Total capital raised by the Company from the beginning of the year, including the capital raised from exercise of warrants (series 4), totals approximately NIS 140 million.

c. On May 13, 2003, EQY sold 3 million shares for the aggregate amount of $ 49 million (approximately NIS 218 million). As a result of this issuance, the Company's shareholding in EQY decreased, directly and indirectly, from approximately 45% to about 42%. On September 22, 2003, EQY sold additional 3 million shares for the aggregate amount of $ 51 million (approximately NIS 226 million). As a result of this issuance, the Company's shareholding in EQY decreased, directly and indirectly, from approximately 42% to about 40%. As a result of the decrease in the shareholding, the Company recorded a net capital gain of approximately NIS 34.8 million. According to the position of the Israel Securities Authorities, which was accepted by the Company, the Company will continue to consolidate the financial statements of EQY, as the Company has done up to date, as long as the Company's effective control in EQY remains.

d. On June 26, 2003, FCR completed a private placement of 3.7 million of shares at the price of CD$ 14.1 per share. The issuance proceeds totaled approximately CD $ 52.9 million (approximately NIS 174 thousand). Institutional investors and others purchased in the offering 2.7 million shares and the Company, through a Canadian subsidiary, purchased one million shares.

On August 28, 2003, FCR completed an additional private placement of 2 million shares at the price of CD $ 15.6 per share. The issuance proceeds totaled approximately CD $ 31.2 million (approximately NIS 104 thousand). Institutional investors and others purchased in the offering 1.5 million shares and the Company, through a Canadian subsidiary, purchased 0.5 million shares.

NOTE 5:- ADDITIONAL INFORMATION (cont.)

In addition, during the reported period, the Company exercised approximately 2.3 million of FCR warrants in a total investment of approximately CD $ 27 million (approximately NIS 89 million). Along with the exercise of approximately 0.7 million of warrants by others, FCR raised approximately CD $ 35.7 million (approximately NIS 117 million).

Total FCR capital raisings from the private placements, exercise of warrants and payment in shares in return for interest on convertible debentures during the reported period amounted to approximately CD $ 130 million (approximately NIS 428 million).

As a result of these offerings, the Company's shareholding in FCR decreased from 66.7% to about 59%. As a result of the decrease in the shareholding, the Company derived a capital gain of approximately NIS 2.2 million.

e. During the reported period, a wholly owned subsidiary of the Company sold approximately NIS 89 million par value of debentures (series A) which were held by it, for a total amount of approximately NIS 79 million. As of the date of the financial statements, this company holds approximately NIS 45 million par value of debentures (series A) out of a total of NIS 197 million par value in the series. Subsequent to the balance sheet date, this company sold additional 28 million par value of the debentures it holds for approximately NIS 27 million.

NOTE 6:- SUBSEQUENT EVENTS

a. On October 30, 2003, FCR made an early redemption of a principle of CD $ 20 million of convertible debentures (series A) (out of a total of approximately CD $ 57 million in the series). The early redemption was made through the issuance of 1.4 million of FCR shares at the price of CD $ 15.42 per share, discounted by 5%. The Company, who held approximately 33% of the convertible debentures (series A) received 434 thousand of FCR shares in consideration of approximately 6.4 million convertible debentures (series A).

On November 19, 2003, FCR announced that it intends to redeem on December 31, 2003, the remainder convertible debentures (series A) in consideration of approximately CD $ 37 million. The redemption will be made in shares of FCR. However, if the average price for FCR share in the time when the consideration is computed will be less than CD $ 15.30 per share, the redemption will be made in cash.

b. On November 23, 2003, the Company declared on a dividend of NIS 0.18 per share payable on December 30, 2003. The record date for the dividend is December 8, 2003.

NOTE 7:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Nine months ended September 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	620,636	366,679	12,946	1,000,261
Segment results	351,559	180,421	568	532,548

	Three months ended September 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	246,341	136,355	4,357	387,053
Segment results	135,494	70,188	40	205,722

	Year ended December 31, 2002 (audited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	488,397	383,074	17,525	888,996
Segment results	274,621	195,433	299	470,353

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended September 30, 2003

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") hereby presents the financial statements of the Company and its consolidated subsidiaries for the period ended September 30, 2003:

1. A. General

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

B. The Group's Properties

As of the date of the financial statements, the Group owns 267 properties with a total Gross Leasable Area ("G.L.A.") of approximately 30 million square feet. These properties comprise 253 operating shopping centers, 9 shopping centers under development, 4 senior living facilities, an office building in Tel Aviv and partnership interests in 2 properties. These properties have a book value of approximately NIS 12.3 billion and generate annual rental income of approximately NIS 1.5 billion (gross annual rent calculated for the properties currently owned at the exchange rate on the date of publishing these financial statements).

In the USA, the Group operates mainly through Equity One Inc. ("EQY"), a public company traded on the NYSE. EQY is a self-administrated, self-managed REIT (Real Estate Investment Trust) for tax purposes. As of the date of the financial statements, the Company owns, directly and through First Capital Realty Inc. ("FCR"), approximately 41% of the issued share capital of EQY. EQY operates in growth regions in the southeastern part of the USA, mainly in Florida, Texas and Georgia, and owns 178 operating shopping centers, with a total G.L.A. of 19.4 million square feet, 5 shopping centers under development, and partnership interests in 2 properties. In addition, the Group operates in the U.S. through Royal Senior Care (50%) which operates in the senior living sector in the U.S.

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 approximately 58% of the share capital of FCR. FCR operates in growth regions in the Canadian provinces of Ontario, Quebec and Alberta, owning 75 operating shopping centers, with a total G.L.A. of approximately 9.9 million square feet, as well as 4 additional shopping centers under development. In addition, FCR owns approximately 18% of the share capital of EQY.

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 building in Tel-Aviv.

C. The Company's Holdings

The following table presents a summary of the Company's holdings as of September 30, 2003, as described above:

Name of investee company	Type of security	Quantity (par value in millions)	Holding percentage	Book Value (NIS in millions)	Market value of securities as of September 30, 2003 (NIS in millions)
EQY	Shares	15.2	[1]22.3%	871.6	1,148.9
FCR	Shares	17.3	59%	786.5	866
FCR	Options	5	67.7%	0.9	51.1
FCR	Convertible debentures	177.4	42.6%	525	565
Investments in other companies (unlisted securities)[2]				99	[3]99
Total				**2,283**	**2,730**

The Company's net liabilities (including those of its wholly owned subsidiaries) amounted to approximately NIS 1,180 million as of September 30, 2003.

D. Key Points for the Third Quarter

- **The Group's investment in the acquisition and development of properties amounted to NIS 1.1 billion.**

(1) Represents the Company's direct holding in EQY. (In adddition, FCR holds 18% in EQY).
(2) Represents the Company's holdings in Mishkenot Clal, Royal Senior Care and the office building in Tel-Aviv.
(3) Represents book value.

- **Rental income amounted to NIS 387 million, an increase of 72% compared to the same quarter last year.**

- **Gross profit amounted to NIS 205.7 million (53.2% of revenues), compared to NIS 117.4 million (52.2% of revenues) for the same quarter last year, an increase of 75%.**

- **Cash inflows from operating activities amounted to NIS 103.1 million, compared to NIS 48.5 million for the same quarter last year, an increase of 112%.**

- **Net income amounted to NIS 49.5 million, NIS 0.69 per share, compared to NIS 21.6 million, NIS 0.31 per share, for the same quarter last year.**

- **F.F.O. (see section 3) amounted to NIS 52.3 million, representing NIS 0.73 per share, compared to NIS 36.5 million, representing NIS 0.51 per share, for the same quarter last year.**

- **The Company, EQY and FCR raised NIS 513 million from the public in equity, compared to NIS 42 million for the same quarter last year. As a result of the capital raised by EQY and FCR, the Company recorded a net gain of NIS 21 million.**

- **In September 2003, Royal Senior Care (in which the Group has a 50% interest) acquired a senior living facility in Florida for NIS 32.5 million (the transaction was closed and the consideration was transferred on October 1, 2003). This acquisition constitutes the first step within the framework of the Group's strategy of entering additional sectors in the property market in regions in which it operates, and to leverage its experience and knowledge to build an additional business platform in North America.**

- **Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 4 billion, representing 32.5% of the total assets, compared to NIS 1.8 billion at the end of 2002, which represented 24.3% of the total assets, an increase of 34%.**

- **As of September 30, 2003, shareholders' equity per share (of NIS 1 par value) amounted to NIS 14.5 per share, compared to NIS 13.1 as of December 31, 2002. Taking into account the dividend paid by the Company during the first nine months of 2003, the shareholders' equity per share grew by 15% during the period.**

E. <u>Key Points for the First Nine Months of 2003</u>

- **The Group's investment in the acquisition and development of properties amounted to NIS 3.4 billion.**

- **Rental income amounted to NIS 1 billion, an increase of 51% compared to the same period last year.**

- **Gross profit amounted to NIS 533 million (53.2% of revenues), compared to NIS 346 million (52.2% of revenues) for the same period last year, an increase of 54%.**

- **Cash inflows from operating activities amounted to NIS 232 million, compared to NIS 150 million for the same period last year, an increase of 55%.**

- **Net income amounted to NIS 125.6 million, representing NIS 1.57 per share, compared to NIS 102.1 million, representing NIS 1.45 per share, for the same period last year.**

- **F.F.O. (see section 3) amounted to NIS 157.8 million, representing NIS 1.98 per share, compared to NIS 138.1 million, NIS 1.94 per share, for the same period last year.**

- **The Company, EQY and FCR raised in excess of NIS 1 billion from the public. In the same period last year, NIS 359 million was raised. As a result of the capital of equity raised by EQY and FCR, the Company recorded a net gain of NIS 32.5 million.**

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

General

During the reporting period, the Group invested in excess of NIS 2.35 billion - NIS 0.85 billion was invested in the acquisition of IRT Property Company ("IRT"), as described below, and an additional NIS 1.5 billion was invested in the acquisition of new properties and in redevelopment, expansion and construction of various other properties, in accordance with the Group's investment policy. The effect of these investments on the operating results will be reflected in full only during 2004.

A. <u>Realty Activity ? Property Transactions</u>

1. In February 2003, EQY completed the acquisition of IRT, as described in section 2B below, for NIS 1.9 billion, of which NIS 0.85 billion was paid in cash, while the balance was settled by the issue of EQY stock.

2. During the reporting period, EQY and FCR acquired 17 properties, with a total G.L.A. of approximately 2.3 million square feet, and 3 plots of land for future development. The total consideration for these acquisitions amounted to NIS 1.2 billion.

3. During the reporting period, EQY and FCR invested in excess of NIS 300 million in developing new properties and in the redevelopment of existing properties.

4. During the reporting period, EQY and FCR sold 6 properties (including jointly owned properties) and 2 plots of land, with a total G.L.A. of some 237 thousand square feet for total proceeds of NIS 89 million. The net gain recorded by the Company from these sales amounted to NIS 4.5 million (of which NIS 1.7 million was recorded during the third quarter of 2003).

5. As of September 30, 2003, the Group had properties being developed and being redeveloped, as well as land for future development, which amounted to NIS 419 million. These properties and land did not generate any rental income during the reporting period.

6. As of the end of the third quarter of the year, EQY's average rental income was US$ 9.20 per square foot per year – an increase of 3.1% compared to the second quarter of the year. During the third quarter of the year, EQY successfully renewed 74 leases, on which the average rental income increased to US$ 14.20 per square foot per year (an average increase of 5.1%), and signed 112 new leases at an average rental income of US$ 10.30 per square foot per year. The net cash inflows from the same properties have increased by 4.8%, compared to the same quarter last year.

   As of September 30, 2003, EQY's shopping centers had an average occupancy rate of 90.1%

7. As of the end of the third quarter of the year, FCR's average rental income was C$ 12.40 per square foot per year, compared to C$ 12.10 per square foot for the second quarter of the year. During the third quarter of the year, FCR renewed 26 leases, on which the average monthly rental increased to C$ 17.30 per square foot per year (an average increase of 6.1%), and signed 20 new leases at an average monthly rental of C$ 15.40 per square foot per year. The net cash inflows from the same properties increased by 1.1%, compared to the same quarter last year.

   As of September 30, 2003, FCR's properties had an average occupancy rate of 92.3%

B. <u>Acquisition of IRT by EQY</u>

1. On February 12, 2003, EQY completed the acquisition of IRT for US$ 426 million (approximately NIS 1.9 billion), payable in cash and stock.

   IRT was a self-administrated, self-managed REIT for tax purposes, whose shares were traded on the NYSE. IRT operated in the southeastern part of the United States. IRT owned 92 shopping centers (mainly supermarket-anchored), having a total G.L.A of some 10 million square feet at an estimated value of US$ 763 million.

   The consideration for 57% of IRT's shares was paid in EQY stock and the remainder in cash.

2. Concurrently with the closing of the acquisition agreement, and in order to finance the acquisition, EQY issued 6.9 million shares to its three principal shareholders at a price of US$ 13.50 per share. The Company acquired 62% of the issue, FCR - 15% and Alony Hetz Properties and Investments Ltd. - 23% of the foregoing issue.

3. Upon completion of the foregoing transaction, the Company and FCR held 24% and 20.7%, respectively, of EQY's share capital. In accordance with generally accepted accounting principles relating to transactions for the acquisition of companies, the Company has not recorded an accounting gain as a result of the dilution of its holding in EQY.

4. The Company is consolidating IRT's results since February 12, 2003.

5. Immediately after the signing of the agreement for the acquisition of IRT, 3 former shareholders of IRT filed a petition for a class action against IRT, its directors and EQY, alleging a breach of fiduciary duty owed to the former shareholders of IRT. In September 2003, the above action was withdrawn, following the payment of an agreed settlement amount by IRT's former insurance company.

C. Private Placement of Company Shares

In September 2003, the Company issued through a private placement 4 million of its ordinary shares at a price of NIS 16 per share. Two institutional investors acquired each one million shares for the portfolios under their management and the parent company acquired 2 million shares. The total amount raised from this placement amounted to NIS 64 million.

The total amount of equity raised by the Company since the beginning of the year, including the capital raised as a result of the exercise of option warrants (Series 4), amounts to NIS 140 million.

D. Public Offering of Shares in Consolidated Subsidiaries

1. During September 2003, EQY made a public offering of 3 million shares, for total proceeds of US$ 51 million (NIS 226 million). As a result of this offering, the Company's direct and indirect holdings in EQY were diluted from 42% to 40%. In the third quarter of the year the Company recorded a gain of NIS 18.8 million in respect of this dilution. The Company continues to consolidate EQY's financial statements, in accordance with the position of the Israeli Securities Authority's pursuant to which the company has effective control over EQY.

2. In August 2003, FCR made an offering of 2 million shares to institutional investors and others (of which 0.5 million shares were offered to the Company) for total proceeds of C$ 31 million (NIS 104 million). In addition, the Company and others invested a further C$ 8.7 million (NIS 29 million) in exercising 0.7 million option warrants into FCR shares.

   The total capital raised by FCR from the above issues, together with the payment of interest on convertible debentures that was paid by the issue of shares, was C$ 44 million (NIS 143 million). As a result of these issues, the Company's holding in FCR was diluted from 61.7% to 59%, on which the Company recorded a net gain of NIS 2.2 million.

E. Debt raised by the Company

During the third quarter of the year, a wholly owned subsidiary of the Company sold part of its holding of debentures Series A, having a par value of NIS 87 million, for a total consideration of NIS 77 million. As of September 30, 2003, this subsidiary still held debentures (Series A) having a par value of NIS 45 million, out of the total par value of NIS 197 million. Through to the date of the approval of these financial statements, the Company sold a further part of its holding in these series A debentures, having a par value of NIS 28 million, for a total consideration of NIS 27 million.

F. Dividend Distribution Policy

Pursuant to the Company's dividend policy, the Company announces at the end of each year the anticipated dividend for the subsequent year. The Company has decided that the dividend to be announced in 2004 will be at least NIS 0.18 per share each quarter (NIS 0.72 per share on an annual basis).

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

G. 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, whose financial statements are adjusted 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 reported accounting results beginning as of the date of such change. On the other hand, the discontinuation of such measurement is not expected to affect the Company's gross profit, operating profit and cash flows (Based on the Company's financial statements as of September 30, 2003, every 1% change in the inflation in each country – USA, Canada and Israel – when taken together will affect the Company's accounting results by causing a change in the reported net financing expenses of NIS 30 million*.)

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

   Adoption of the above standard has had no affect on the Company's operating results, its financial position or its cash flows.

* The sole purpose of this data is to provide an indication of the size of the affect referred to.

3. A. Results of Operations

	For the 9 months ended September 30		For the 3 months ended September 30		For the year ended December 31,
	2003	2002(*)	2003	2002(*)	2002(*)
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Rental income	1,000,261	662,766	387,053	224,825	888,996
Rental operating expenses	327,134	229,755	124,476	76,786	304,318
Depreciation of rental properties	140,579	87,050	56,855	30,640	114,325
Gross profit	532,548	345,961	205,722	117,399	470,353
General and administrative expenses	86,257	64,016	33,316	18,719	81,290
Income from ordinary operations	446,291	281,945	172,406	98,680	389,063
Financing expenses, net	166,491	78,356	60,628	46,416	147,795
	279,800	203,589	111,778	52,264	241,268
Other income, net	47,878	11,228	29,560	5,857	3,161
Income before taxes on income	327,678	214,817	141,338	58,121	244,429
Taxes on income	30,514	9,645	15,117	3,691	17,981
Income after taxes on income	297,164	205,172	126,221	54,430	226,448
Company's share in profits of associated companies	3,667	3,673	6	629	3,264
Minority interest in earnings of subsidiaries	(175,258)	(106,716)	(76,704)	(33,449)	(125,140)
Net income for the period	**125,573**	**102,129**	**49,523**	**21,610**	**104,572**
Net earnings per share (of NIS 1 par value)	**1.57**	**1.45**	**0.69**	**0.31**	**1.45**
F.F.O. for the period (**)	**157,822**	**138,135**	**52,322**	**36,484**	**157,437**
F.F.O. per share (of NIS 1 par value) (**)	**1. 98**	**1.94**	**0.73**	**0.51**	**2.18**
Number of shares used to compute net earnings per share and F.F.O. per share (par value in thousands)	**77,313**	**73,209**	**77,917**	**76,974**	**74,116**
Shareholders' equity and minority interests as percentage of total assets at end of period	**32.5%**	**24.5%**	**32.5%**	**24.5%**	**24.3%**

(*) Reclassified, see note 2B to the attached financial statements.

(**) F.F.O. - Funds From Operations – net income, including the results of investment transactions in securities, less non-recurring items, plus the Company's share in depreciation and amortization.

B. Analysis of Results of Operations for the Third Quarter of 2003

Rental income

The increase in rental income in the third quarter of the year, compared to the same quarter last year, stems from the continuing acquisition of new properties and from the contribution made by IRT's properties acquired during the first quarter of the year.

Rental operating expenses

The increase in rental operating expenses in the third quarter of the year, compared to the same quarter last year, is attributable to the aforementioned growth in the number of properties. Rental operating expenses as a percentage of rental income fell from 34.2% for the third quarter last year to 32.2% for the current quarter.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 25.5 million for the third quarter of the year, representing NIS 0.34 depreciation per share; this compares with NIS 19.1 million, representing NIS 0.29 depreciation per share, for the same quarter last year.

Gross profit

Gross profit for the third quarter of the year amounted to NIS 205.7 million, representing 53.2% of rental income; this compares to NIS 117.4 million, representing 52.2% of rental income, for the same quarter last year.

General and administrative expenses

General and administrative expenses for the third quarter of the year represent 8.6% of total rental income, compared to 8.3% for the same quarter last year. The increase in the general and administrative expenses as a percentage of rental income is due primarily to the increase in payroll expenses, which are connected to the Company's net income, and to the increase in the expenses of EQY and FCR, resulting from the growth in their operations.

Financing expenses, net

The increase in financing expenses in the third quarter of the year, compared to the same quarter last year, is attributable to the increase in the Group's borrowings that matches the growth in its property holdings and its rental income. The increase in financing expenses has been moderated by the Group's securities operations that resulted in a gain of NIS 7.7 million in the third quarter of the year, compared to a loss of NIS 7.1 million in the same quarter last year.

Other income, net

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

During the third quarter of the year, the Company recorded a net gain of NIS 21M as a result of the dilution of its holdings in subsidiaries, as referred to in section 2D compared to NIS 0.1 million in the same quarter last year. In addition, during the third quarter of the year, the sale by EQY of a jointly owned shopping center yielded a net gain of NIS 1.7 million. During the same period last year, EQY recorded a gain of NIS 7.7 million from a partial forgiveness of a loan taken to finance one of its properties (the Company's net share was NIS 3.1 million).

4. Financial Status

Liquidity

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

As of September 30, 2003, the liquid assets available to the Group, including short-term investments, totaled NIS 140 million, compared to NIS 365 million as of December 31, 2002. The decrease in liquid assets is mainly due to the acquisition of IRT and the acquisition of new properties.

In addition, the Group had unutilized credit facilities available for immediate drawdown of NIS 1,319 million as of September 30, 2003.

In aggregate, the Group has cash reserves and unutilized credit facilities available for immediate drawdown amounting to NIS 1.5 billion.

Shareholders' Equity

As of September 30, 2003, the Company's shareholders' equity, together with minority interests, totaled in NIS 4 billion, which financed 32.5% of total assets; this compares to NIS 1.8 billion, which financed 24.3% of total assets, as of December 31, 2002 (taking into consideration the convertible debentures in FCR, which may be converted into shares by FCR, the shareholders' equity and minority interests, together with the convertible debentures, account for 38.8% and 33.9%, respectively, of the total assets at the above dates).

The increase in shareholders' equity from NIS 893.3 million as of December 31, 2002 to NIS 1,137.3 million as of September 30, 2003 stems from the Company's net proceeds of NIS 125.6 million for the first nine months of the year, from the exercise of option warrants and the capital raised by the Company amounting to NIS 140 million, and from the increase of NIS 17 million due to "translation adjustments deriving from translation of the financial statements of FCR and EQY". These were partly offset by the dividend of NIS 38.1 million paid by the Company.

Current Ratio

The current ratio (current assets to current liabilities) was 0.83 as of September 30, 2003, compared to 1.01 as of September 30, 2002. The decline in the above ratio stems from the utilization of short-term financing to acquire properties and long-term investments and to repay long-term financing. A parallel consequence of the above actions has been to significantly increase the Company's unutilized credit facilities available for immediate drawdown.

Cash Flows

Cash inflows from operating activities for the third quarter of the year totaled NIS 103.1 million, compared to NIS 48.5 million for the same quarter last year. The growth in cash inflows from operating activities for the reporting period was due to the continuing improvement in operating profit in the aforesaid periods, which was partly offset by interest expenses.

In addition, in order to finance its activities, the Company and its subsidiaries raised equity totaling in NIS 513 million and debt through long-term loans and sale of debentures totaling in NIS 520 million. The proceeds from the above sources were used primarily to finance investing activities for the purchase of fixed assets, which totaled NIS 1,130 million in the third quarter of the year.

5. **Donations**

The Company makes donations to charities and community welfare projects and, in particular, 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.

During the first nine months of this year, the Company's donations amounted to NIS 1.062 million.

6. **Additional Information and Subsequent Events**

On October 30, 2003, FCR made an early redemption of the principal of convertible debentures (Series A) with a par value of C$ 20 million (out of the total nominal value of C$ 57 million for this series). In consideration, FCR issued 1.4 million of its shares at a price per share of C$ 15.42, less a 5%. Discount.

The Company, which immediately prior to the early redemption held 33% of the debentures in this series, received 434,000 FCR shares in return for C$ 6.4 million nominal value of the convertible debentures (Series A).

This is the first time that FCR has made an early redemption of the principal amount of its convertible debentures by means of a payment in shares (the total balance of the four series of FCR's convertible debentures remaining in circulation amounts to C$ 400 million, of which the Company holds an average of 44%).

On November 19, 2003, FCR announced that, on December 31, 2003, it intends to make early redemption of the remaining C$ 37 million nominal value of the convertible debentures (Series A). The intention is that the redemption payment will again be made in shares. However, if the average price of FCR's shares falls below C$ 15.30 per share, during the days used to calculate the redemption price, the redemption shall be made in cash.

7. Reporting of Exposures to Market Risks and their Management

A. The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's president, and Mr. Gil Kotler, the Company's Chief Financial Officer. Since the publication of the Company's annual report on March 23, 2003, there have been no significant changes in the market risks or the way in which they are managed.

B. Primary Linkage Report

The significant changes to the primary linkage report since the Company's annual report for 2002 are as follows:

As a result of the acquisition of IRT in February 2003, the Company's non-monetary assets (fixed assets) and liabilities have been the main items that have increased since December 31, 2002. Fixed assets, net, have increased by NIS 3.3 billion. Liabilities in respect of debentures and indebtedness to financial institutions and other parties have each increased by NIS 0.7 billion. The assets and liabilities constituting the above increases are denominated in US dollars.

Chaim Katzman	**Dori Segal**
Chairman of the Board of Directors	President and Director