GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2003

ADJUSTED TO THE NIS OF MARCH 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 three months period ended March 31, 2003

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of March 31, 2003, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the three months 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 did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 97.9% as of March 31, 2003, and total revenues constituting approximately 98.5% of the related consolidated totals for the three months then ended. These statements were reviewed by other auditors whose reports have been furnished to us.

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
May 27, 2003

KOST FORER & GABBAY
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of March 2003

	March 31,		December 31,
	2003	2002	2002
	Unaudited		Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	206,795	186,507	291,402
Short-term investments	139,040	143,980	82,263
Tenants	51,820	25,070	45,726
Accounts receivable	81,365	64,386	81,987
Loans to partners and to former partners	53,516	68,608	46,193
Properties for rent held for sale	27,124	-	44,275
	559,660	488,551	591,846
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	36,444	37,844	34,867
Long-term investments	35,015	144,766	98,245
Long-term loans	79,340	76,226	85,166
	150,799	258,836	218,278
FIXED ASSETS:			
Cost	10,822,765	6,478,972	7,001,018
Less - accumulated depreciation	388,150	268,842	340,424
	10,434,615	6,210,130	6,660,594
OTHER ASSETS AND DEFERRED CHARGES, NET	273,075	138,785	158,930
	11,418,149	7,096,302	7,629,648

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of March 2003

	March 31, 2003	March 31, 2002	December 31, 2002
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	274,491	348,197	372,527
Trade payables	45,534	32,818	63,335
Other accounts payable	173,350	115,130	140,642
Dividend declared	11,599	10,490	-
	504,974	506,635	576,504
LONG-TERM LIABILITIES:			
Debentures	1,058,325	353,351	290,784
Liabilities to financial institutions and others	5,734,297	3,613,142	4,035,309
Tenants' security deposits	149,529	154,116	141,106
Accrued severance pay, net	879	785	863
Deferred taxes	741	528	747
	6,943,771	4,121,922	4,468,809
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	760,473	759,232	728,869
MINORITY INTEREST	2,227,945	862,555	941,586
SHAREHOLDERS' EQUITY	980,986	845,958	913,880
	11,418,149	7,096,302	7,629,648

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

May 27, 2003			
Date of approval of the financial statements	Chaim Katzmann Chairman of the Board of Directors	Dori Segal Managing Director	Gil Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of March 2003

	Three months ended March 31, 2003	Three months ended March 31, (* 2002	Year ended December 31, (* 2002
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands (except per share amounts)		
Rental income	300,949	224,753	909,484
Property operating expenses	101,815	79,854	311,331
Rental property depreciation	39,453	28,077	116,960
Gross profit	159,681	116,822	481,193
General and administrative expenses	28,254	24,440	83,164
Operating income	131,427	92,382	398,029
Financial income (expenses), net	17,169	(6,037)	(151,201)
	148,596	86,345	246,828
Other income (expenses), net	(5,489)	19,782	3,234
Income before taxes on income	143,107	106,127	250,062
Taxes on income	6,829	9,902	18,396
Income after taxes on income	136,278	96,225	231,666
Equity in earnings of affiliates	2,349	2,015	3,340
Minority interest in earnings of subsidiaries	(75,006)	(43,858)	(128,024)
Net income for the period	63,621	54,382	106,982
Earning per NIS 1 par value of Common shares (in adjusted NIS):			
Basic earnings	0.81	0.84	1.49

*) 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 March 2003
Unaudited

	Three months ended March 31, 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 acquisition of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the period	130,669	729,496	1,749	63,640	96,534	11,683	(109,438)	(10,453)	913,880
Foreign currency translation adjustments for foreign consolidated units	-	-	-	15,084	-	-	-	-	15,084
Net income for the period	-	-	-	-	63,621	-	-	-	63,621
Dividend declared	-	-	-	-	84	(11,683)	-	-	(11,599)
Balance at the end of the period	130,669	729,496	1,749	78,724	160,239	-	(109,438)	(10,453)	980,986

	Three months ended March 31, 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 acquisition of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	114,711	510,523	1,749	57,545	33,139	(3,809)	-	713,858
Issuance of share capital (net of issuance expenses)	3,663	49,597	-	-	-	-	-	53,260
Foreign currency translation adjustments for foreign consolidated units	-	-	-	23,241	-	-	-	23,241
Net income for the period	-	-	-	-	54,382	-	-	54,382
Sale of shares held by the Company	-	181	-	-	-	2,483	(1,447)	1,217
Balance at the end of the period	118,374	560,301	1,749	80,786	87,521	(1,326)	(1,447)	845,958

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of March 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 acquisition of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the year	114,711	510,523	1,749	57,545	33,139	-	(3,809)	-	713,858
Issuance of share capital, net	6,366	82,481	-	-	-	-	-	(8,366)	80,481
Exercise of stock options into shares	9,592	136,191	-	-	-	-	(108,774)	-	37,009
Sale of shares held by the Company	-	301	-	-	-	-	3,145	(2,087)	1,359
Foreign currency translation adjustments for foreign consolidated units	-	-	-	6,095	-	-	-	-	6,095
Net income for the year	-	-	-	-	106,982	-	-	-	106,982
Dividend paid	-	-	-	-	(31,904)	-	-	-	(31,904)
Dividend declared	-	-	-	-	(11,683)	11,683	-	-	-
Balance at the end of the year	130,669	729,496	1,749	63,640	96,534	11,683	(109,438)	(10,453)	913,880

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2003

	Three months ended March 31,		Year ended December 31,
	2003	2002	2002
	Unaudited		Audited
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the period	63,621	54,382	106,982
Adjustments to reconcile net income to net cash provided by operating activities (a)	(31,895)	(16,473)	121,642
Net cash provided by operating activities	31,726	37,909	228,624
Cash flows from investing activities:			
Investment in newly consolidated subsidiary (b)	(885,170)	-	-
Investment in subsidiary and in jointly controlled entity	-	-	(13,108)
Investments in fixed assets	(202,586)	(254,767)	(980,770)
Loans granted to (repaid by) partners and former partners	(5,711)	(3,869)	17,272
Proceeds from sale of real estate	44,625	50,873	145,683
Long-term loans granted	(3,829)	(4,751)	(10,142)
Repayment of long-term loans granted	2,804	2,935	4,995
Short-term investments, net	12,913	(17,061)	27,962
Purchase of marketable securities and long-term investments	(3,353)	(36,885)	(199,243)
Proceeds from realization of long-term investments	21,938	38,322	235,759
Net cash used in investing activities	(1,018,369)	(225,203)	(771,592)
Cash flows from financing activities:			
Issuance of share capital, net	-	53,260	80,481
Exercise of stock options into shares	-	-	37,009
Sale of shares by the Company and subsidiary	-	1,217	1,359
Issuance of shares to minorities in subsidiary, net	141,780	221,999	286,638
Deferred charges in respect of raising loans and debentures	(10,072)	(8,441)	(26,877)
Dividend paid	-	(9,310)	(51,697)
Dividend paid to minorities in subsidiary	(53,853)	(18,371)	(85,327)
Receipt of long-term loans	1,088,688	139,937	1,010,018
Repayment of long-term loans	(264,367)	(207,171)	(526,052)
Redemption of debentures	-	-	(19,248)
Early redemption of subsidiary's debentures and convertible debentures	(10,172)	(24,050)	(130,257)
Sale of Company's debentures by subsidiaries	1,160	-	564
Short-term credit from banks and others, net	90	(96,727)	(138,657)
Issuance of debentures and convertible debentures	-	81,281	158,323
Increase (decrease) in tenants' security deposits	(971)	1,567	1,913
Net cash provided by financing activities	892,283	135,191	598,190
Effect of exchange rate differences from cash balances of foreign autonomous consolidated units on cash and cash equivalents	9,753	9,042	6,612
Increase (decrease) in cash and cash equivalents	(84,607)	(43,061)	61,834
Cash and cash equivalents at the beginning of the period	291,402	229,568	229,568
Cash and cash equivalents at the end of the period	206,795	186,507	291,402

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2003

	Three months ended March 31, 2003	Three months ended March 31, 2002	Year ended December 31, 2002
	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	39,575	28,139	117,323
Minority interest in earnings of subsidiaries	75,006	43,858	128,024
Equity in earnings of affiliates net of dividend received	(1,592)	(1,744)	87
Deferred taxes, net	1,668	4,262	(5,433)
Loss (gain) from realization and revaluation of marketable securities, net	8,449	(7,228)	(25,836)
Loss (gain) from early redemption of subsidiary's debentures and convertible debentures	15	-	(8,425)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(135,691)	(68,268)	(152,571)
Write-down of long-term investments	-	-	45,682
Amortization of other assets and deferred charges	8,391	2,783	14,934
Gain from sale of fixed assets	(2,337)	(21,656)	(28,682)
Accrued severance pay, net	17	(25)	52
Loss (gain) from issuance to third party and related party	4,914	(3,840)	(1,130)
Changes in asset and liability items:			
Decrease (increase) in tenants and other accounts receivable	(69)	13,188	(11,135)
Increase (decrease) in trade payables and other accounts payable	(31,898)	(5,336)	46,538
Increase (decrease) in tenants' security deposits	1,657	(606)	2,214
	(31,895)	(16,473)	121,642

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2003

	Three months ended March 31, 2003	Three months ended March 31, 2002	Year ended December 31, 2002
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
(b) Investment in newly consolidated subsidiary: (see Note 5)			
Subsidiary's assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	(56,500)	-	-
Current liabilities	63,095	-	-
	6,595	-	-
Fixed assets	(3,446,116)	-	-
Other assets (including goodwill)	(96,624)	-	-
Long-term liabilities	1,500,588	-	-
Minority interest	57,118	-	-
	(1,985,034)	-	-
Increase in minority interest following consideration paid in subsidiary's shares	1,093,269	-	-
	(885,170)	-	-
(c) Significant non-cash operations:			
Issuance of shares in subsidiary to minorities and related party against long-term loans	-	1,447	7,388
Purchase of fixed assets against liabilities	-	-	5,045
Purchase of fixed assets in consideration for subsidiary's shares	7,900	-	2,471
Conversion of debentures into convertible debentures	578	-	26,212
Sale of real estate against receivables	-	-	18,620
Sale of Company shares held by it to employees against long-term loans	-	-	2,087
Dividend declared	11,599	10,490	-

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

NOTE 1:- GENERAL

These financial statements have been prepared as of March 31, 2003 and for the three months 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, beginning with the reported period, to present the statement of income 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 March 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:

	Consumer Price Index			Exchange rate of $ 1 of	
	Israel	U.S.	Canada	U.S.	Canada
As of:		Points *)		NIS	
March 31, 2003	116.0	184.2	122.8	4.687	3.1926
December 31, 2002	115.1	180.9	120.4	4.737	3.0013
March 31, 2002	110.7	178.8	117.7	4.668	2.9271
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
Change for the period ended on:			%		
March 31, 2003	0.8	1.8	2.0	(1.1)	6.4
December 31, 2002	6.5	2.4	3.9	7.3	8.1
March 31, 2002	2.4	1.2	1.6	5.7	5.4
December 31, 2001	1.4	1.6	0.7	9.3	3.2
March 31, 2001	(0.5)	1.3	0.4	3.7	(1.1)

*) According to the index for the month ending on balance sheet date on an average basis in years as follows:

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

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 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.

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 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.

During the reported period, the Company has initially implemented Accounting Standard No. 14 of the Israel Accounting Standards Board, which deals with fiscal reporting for interim periods and which supersedes 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

In October 2002, EQY signed an agreement and Plan of Merger with IRT Property Company Inc. ("IRT") in shares and cash transaction, in consideration of approximately $ 426 million. The merger transaction was closed on February 12, 2003.

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 properties in South-East U.S.

NOTE 5:- ADDITIONAL INFORMATION (cont.)

According to the merger 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).

Simultaneously with the merger agreement and for its financing, EQY has signed an agreement whereby on the date of closing EQY issued agreement 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 the issued shares at the price of $ 13.5 per share.

After closing, the Company held directly and through its wholly owned subsidiaries in 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 exchange of asset transactions, the Company did not record an accounting gain as a result of the decrease in its holdings in EQY.

Close after signing on the agreement, as aforementioned, three former IRT shareholders ("the plaintiffs") filed a class action suit against IRT, its directors and EQY alleging breach of the fidelity duty towards the former shareholders in IRT. The Court has rejected the plaintiffs motion for an injunction order that shall prohibit the closing of the transaction, however two of the plaintiffs proceeded with their suit. EQY filed an application to dismiss these claims and it believes that these claims are groundless.

NOTE 6:- SUBSEQUENT EVENTS

On May 13, 2003, EQY sold in an underwritten public offering 3 million (common) shares in consideration for the total amount of approximately $ 49 million (approximately NIS 220 million). As a result of this offering, the Company's shareholdings in EQY decreased, directly and indirectly, from approximately 45% to approximately 42%. Due to the decrease in shareholdings, the Company is expected to record in the second quarter a net gain in the amount of approximately NIS 18 million. The Company continues to consolidate the accounts of EQY by virtue of agreements with other shareholders in EQY (who hold together with the Company and FCR in approximately 51% of EQY) which confer it the right to nominate the majority of the members of EQY Board of Directors.

NOTE 7:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Three months ended March 31, 2003 (unaudited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	180,760	115,728	4,461	300,949
Segment results	104,188	55,133	360	159,681

	Year ended December 31, 2002 (audited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	499,653	391,902	17,929	909,484
Segment results	280,950	199,937	306	481,193

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended March 31, 2003

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 period ended March 31, 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. 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.

B. The Company's Properties

As of the date of the financial statements, the Company owns 242 properties with a Gross Leasable Area ("G.L.A.") of some 27 million square feet, as well as 4 that are jointly owned and 9 additional properties under development. These properties have a book value of NIS 10.5 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. 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"), 42% of EQY. EQY operates primarily in the southeastern states of the USA, mainly in Florida, Texas and Georgia. It owns 173 properties, with a G.L.A. of 18.3 million square feet, as well as 4 properties that are jointly owned and 5 additional properties under development.

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 68 properties with a total G.L.A. of approximately 8.6 million square feet, as well as 4 additional properties under development. The anchor tenants of FCR's properties are national and regional chains. In addition, as stated above, FCR is a stockholder in EQY, holding 20% of the latter's stock.

In Israel, the company owns 50% of the share capital of Mishkenot Clal (1982) Ltd., 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.

C. Key Points for the Reporting Period

- **Net income for the first quarter of the year amounted to NIS 63.6 million, NIS 0.81 per share, compared with net income of NIS 54.4 million, NIS 0.84 per share, for the same quarter last year.**

- **Gross profit for the first quarter of the year amounted to NIS 159.7 million, compared with net income of NIS 116.8 million, for the same quarter last year, an increase of 37%.**

- **F.F.O. (see section 3) for the first quarter of the year amounted to NIS 86.4 million, NIS 1.12 per share, compared to NIS 63.5 million, NIS 0.92 per share, for the same quarter last year. The increase in F.F.O. per share is mainly due to the continued improvement in the gross profit as previously noted.**

- **Rental income for the first quarter of the year amounted to NIS 301 million, an increase of 34% compared to the same quarter last year, mainly due to the acquisition of IRT during February 2003.**

- **Inflation in the USA and Canada during the first quarter of the year was exceptionally high (1.8% in the USA and 2% in Canada. As a result, financing expenses (in real terms) for the first quarter of the year were significantly lower than the average financing expenses (in real terms).**

- **As of March 31, 2003, shareholders' equity per share (of NIS 1 par value) amounted to NIS 14.4 per share, compared to NIS 13.4 as of December 31, 2002. Taking into account the dividend paid by the Company in the first quarter of 2003, the shareholders' equity per share grew by 8.7% during the first quarter.**

- **During the first quarter of the year, the Company, EQY and FCR raised NIS 1.3 billion from issuing shares to the public, including to former shareholders of IRT. In the same quarter last year, NIS 0.3 billion was raised.**

- **Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 3.2 billion, representing 28.1% of the total assets, compared to NIS 1.86 billion at the end of 2002, which represented 24.3% of the total assets.**

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

General

During the reporting period, the Group made cash investments in excess of NIS 1 billion in the acquisition of IRT Property Company ("IRT"), as described below, in the acquisition of new properties and in the redevelopment, expansion and construction of various other properties, as detailed below. The effect of these investments on the operating results will be reflected in full during the remainder of 2003.

A. Property Transactions

1. In February 2003, EQY completed the acquisition of IRT, as detailed in section 2B below, for NIS 885 million (the cash portion of the consideration).

2. During the reporting period, EQY and FCR acquired 4 properties, with a total G.L.A. of some 154 thousand square feet, and 2 plots of land for future development. The total consideration for these acquisitions amounted to NIS 112 million (including NIS 8 million paid by the issue of FCR shares).

3. During the reporting period, EQY and FCR invested in excess of NIS 80 million in developing new properties and in the redevelopment of existing properties.

4. During the reporting period, EQY sold 2 properties, with a total G.L.A. of some 24 thousand square feet. The total proceeds from these sales amounted to NIS 33 million. The net gain recognized by the Company from these sales amounted to NIS 1 million.

5. As of the end of the first quarter of the year, EQY's average monthly rental income was US$ 9 per square foot per year. During the first quarter of the year, EQY successfully renewed 75 leases, on which the average rent increased to US$ 9.70 per square foot per year(an average increase of 4%), and signed 67 new leases at an average monthly rental of US$ 11.30 per square foot. The net cash inflows from the same properties increased by 4.3%, compared to the same quarter last year.

   EQY's shopping centers had an average occupancy rate of 90.5% as of March 31, 2003.

6. During the first quarter of the year, FCR increased its average monthly basic rental income to C$ 12.0 per square foot per year, and signed new leases on a total G.L.A. of some 16 thousand square feet, compared to an overall net reduction in tenants during the same quarter last year. The net cash inflows from the same properties increased by 2.4%, compared to the same quarter last year.

   FCR's properties had an average occupancy rate of 92% as of March 31, 2003.

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

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 southeastern part of the United States. It owned 92 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, which were assumed by EQY, and the costs of the acquisition, IRT's asset value was estimated at US$ 763 million

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

The 331,000 IRT shares held by the Company immediately prior to the acquisition were exchanged for 297,000 EQY shares.

Immediately after the agreement for the acquisition of IRT was signed, 3 former shareholders of IRT ("the plaintiffs") filed a petition for a class action against IRT, its directors and EQY, alleging breach of trust owed to the former shareholders of IRT. The Court rejected the plaintiffs' request for an injunction to prevent the closing of the transaction, yet 2 of the plaintiffs are continuing with their action. EQY has filed a petition to have these claims struck off and is of the opinion that the claims are groundless.

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 southeastern 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 made an issuance of 6.9 million shares to its three principal shareholders: the Company, FCR, and Alony Hetz Properties and Investments Ltd. ("Alony Hetz"). 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 held 24% and 20.7%, respectively, of EQY's share capital. In accordance with generally accepted accounting practices with regard 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.

5. The Company consolidates IRT's results since February 12, 2003:

C. <u>EQY's Credit Facility and Credit Ratings by S&P and Moody's</u>

Immediately prior to IRT's acquisition by EQY, EQY completed an agreement for the receipt of an unsecured credit facility of US$ 340 million from a consortium of banks headed by Wells Fargo Bank. 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.

As of March 31, 2003, EQY had drawn down US$ 170 million from the facility.

Upon the closure of the IRT 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.

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

The Company's debentures are rated A+ by Ma'alot, the Israeli rating company.

In October 2002, following EQY's signing an agreement for the acquisition of IRT as described in section 2B above, Ma'alot announced that it will review the Company's aforementioned credit rating and, in May 2003, Ma'alot announced that it had decided to leave the Company's credit rating unchanged.

E. 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 2003 will be at least NIS 0.18 per share each quarter (NIS 0.72 per share on an annual basis), commencing from the second quarter.

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.

F. 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 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 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.

   The above standard has no affect on the Company’s operating results, its financial position or its cash flows.

3. A. Results of Operations

	For the 3 months ended March 31		For the year ended December 31
	2003	**2002*)**	**2002*)**
	Adjusted NIS in thousands (except per share amounts)		
Revenues			
Rental income	300,949	224,753	909,482
Rental operating expenses	101,815	79,854	311,331
Depreciation of rental properties	39,453	28,077	116,960
Gross profit	159,681	116,822	481,193
General and administrative expenses	28,254	24,440	83,164
Income from ordinary operations	131,427	92,382	398,029
Financing income (expenses), net	17,169	(6,037)	(151,201)
	148,596	86,345	246,828
Other income (expenses), net	(5,489)	19,782	3,234
Income before taxes on income	143,107	106,127	250,062
Taxes on income	6,829	9,902	18,396
Income after taxes on income	136,278	96,225	231,666
Company’s share in profits of associated companies	2,349	2,015	3,340
Minority interest in earnings of subsidiaries	(75,006)	(43,858)	(128,024)
Net income for the period	63,621	54,382	106,982
Net earnings per share (of NIS 1 par value)	0.81	0.84	1.49
****) F.F.O. for the period**	86,414	63,518	165,005
****) F.F.O. per share (of NIS 1 par value)**	1.12	0.92	2.23

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

**) F.F.O. - Funds From Operations – net income, less non-recurring income and expenses, plus the Company’s share in depreciation and amortization.

B. Analysis of Results of Operations for the First Quarter of 2002

Rental income

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

Rental operating expenses

The increase in rental operating expenses for the reporting period, compared to the same period last year, is attributable to the growth in the number of properties. Rental operating expenses as a percentage of rental income fell from 35.5% for the first quarter last year to 33.8% for the current quarter.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 20.8 million for the first quarter of the year, representing NIS 0.30 depreciation per share; this compares with NIS 17.7 million, representing NIS 0.29 depreciation per share, for the same quarter last year.

Gross profit

Gross profit for the first quarter of the year amounted to NIS 159.7 million, representing 53.1% of rental income; this compares to NIS 116.8 million, representing 52% of rental income, for the same period last year.

General and administrative expenses

The increase in general and administrative expenses for the first quarter of the year, compared to the same quarter last year, stems mainly from the increase in EQY's administrative expenses resulting from the growth in the number of its properties and the expansion of its operations, compared to the same period last year (due largely to the acquisition of IRT).

General and administrative expenses for the first quarter of the year amounted to 9.4% of rental income, compared to 10.9% for the same quarter last year.

Financing income, net

Financing expenses were exceptionally low in the first quarter of both this year and last, due to the high inflation in the USA and Canada during those periods. Because most of the loans of the Company and its subsidiaries are not linked to the change in the consumer price index, an increase in inflation rates decreases the financing expenses (in real terms) of the Company and its subsidiaries, while, on the other hand, a decrease in inflation rates increases the financing expenses (in real terms) of the Company and its subsidiaries.

The percentage increases in the consumer price index for the reporting periods are presented below:

Consumer Price Index			
	Israel	**USA**	**Canada**
	Percentage increase in period		
1-3.03	0.79	1.82	1.99
1-3.02	2.38	1.19	1.55
1-12.02	6.48	2.38	3.88

Other income (expenses), net

This item consists mainly of gains and losses in respect of capital transactions, such as real estate sales and the dilution of holdings in subsidiaries. During the first quarter of the year, this item also includes an amount of NIS 3 million, gross, in respect of the loss that arose from the early repayment of mortgages on properties of EQY.

As referred to in section 2A above, EQY sold two shopping centers during the reporting period on which a gain of NIS 2.4 million was recorded. During the same period last year, EQY sold an office building and land for development on which a gain of NIS 21 million was recorded. During the reporting period, the Company recorded losses from the dilution of its holding in FCR (due to interest on debentures and the acquisition of a property being paid for by the issue of shares) in the amount of NIS 2.1 million, and from the dilution of its holding in EQY (mainly due to the exercise of options into EQY shares by former employees of IRT) in the amount of NIS 2.4 million; this compares to a gain of NIS 2.3 million from the dilution of the Company's holdings in its subsidiaries in the same period last year.

4. Financial Status

Liquidity

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

As of March 31, 2003, the liquid assets available to the Company and its subsidiaries, including short-term investments, totalled NIS 346 million, compared to NIS 374 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, net of capital raised by subsidiaries.

In addition, the Company and its subsidiaries had unutilized credit facilities of NIS 681 million as of March 31, 2003.

In aggregate, the Company and its subsidiaries have cash reserves and unutilized credit facilities in excess of NIS 1 billion.

Shareholders' Equity

As of March 31, 2003, the Company's shareholders' equity, together with minority interests, totalled an aggregate of NIS 3.2 billion, which financed 28.1% of total assets; this compares to NIS 1.86 billion, which financed 24.3% of total assets, as of December 31, 2002 (if the convertible debentures in FCR, which may be converted into shares by FCR, are included, the above percentages would be 34.8% and 33.9%, respectively).

The increase in shareholders' equity from NIS 913.9 million as of December 31, 2002 to NIS 981 million as of March 31, 2003 stems from the net income for the reporting period of NIS 63.6 million and from an increase of NIS 15.1 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. These were partly offset by the dividend paid by the Company.

Current Ratio

The current ratio (current assets to current liabilities) was 1.11 as of March 31, 2003, compared to 0.96 as of March 31, 2002.

Cash Flows

Cash inflows from operating activities for the first quarter of the year totalled NIS 31.7 million, compared to NIS 37.9 million for the same period last year. The fall in cash inflows from operating activities was due to temporary changes in accounts receivable and payable, totalling NIS 30.3 million, that reduced the cash flows, as compared to an increase of NIS 7 million in the cash flows relating to these items in the same period last year. The cash inflows from operating activities were used primarily in investing activities for the purchase of fixed assets, which totalled NIS 203 million, and for the acquisition of IRT, of which the cash portion amounted to NIS 885 million.

In addition, in order to finance its investing activities for the first quarter of the year, the Company received long-term loans totalling NIS 824 million and raised capital through its subsidiaries totalling NIS 142 million.

5. Donations

The Company makes donations to charities and community welfare projects.

During the reporting period, the Company's donations amounted to NIS 329,000.

6. Additional Information and Subsequent Events

A. During May 2003, EQY made a public offering of 3 million shares, the proceeds from which amounted to US$ 49 million (NIS 220 million). As a result of this offering, the Company's direct and indirect holdings in EQY were diluted from 45% to 42%. In the second quarter of the year, the Company will record a gain of NIS 18 million in respect of this dilution. The Company continues to consolidate EQY's financial statements due to agreements it has with other shareholders of EQY, who together with the Company and FCR own 51% of EQY. These agreements confer to the Company the right to appoint the majority of EQY's board of directors.

B. Subsequent to March 31st, FCR acquired 2 properties, with a total G.L.A. of some 126 thousand square feet, at a cost of NIS 44 million.

C. Subsequent to March 31st, EQY and FCR sold 2 properties for NIS 20 million. The profit that will be recorded by the Company from these sales is not material.

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 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 3.4 billion. Liabilities in respect of debentures and indebtedness to financial institutions and other parties have increased by NIS 0.8 billion and NIS 0.7 billion, respectively. 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