GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

ADJUSTED TO THE NIS OF JUNE 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 six months and three months ended June 30, 2003

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of June 30, 2003, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six months and 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 98.1% as of June 30, 2003, and total revenues constituting approximately 98.6% of the related consolidated totals for the six 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
August 25, 2003

KOST FORER & GABBAY
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2003

	June 30,		December 31,
	2003	2002	2002
	Unaudited		Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	170,037	221,014	287,692
Short-term investments	64,490	135,825	81,216
Tenants	73,251	25,298	45,144
Accounts receivable	84,528	62,216	80,943
Loans to partners and to former partners	60,477	69,462	45,605
Properties for rent held for sale	5,568	50,492	43,711
	458,351	564,307	584,311
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	28,035	36,460	34,423
Long-term investments	66,787	180,444	96,994
Long-term loans	59,672	78,456	84,082
	154,494	295,360	215,499
FIXED ASSETS:			
Cost	10,346,957	6,748,288	6,911,877
Less - accumulated depreciation	414,072	324,216	336,090
	9,932,885	6,424,072	6,575,787
OTHER ASSETS AND DEFERRED CHARGES, NET	263,685	152,077	156,906
	10,809,415	7,435,816	7,532,503

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2003

	June 30, 2003	June 30, 2002	December 31, 2002
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	299,978	337,974	367,784
Trade payables	60,946	43,254	62,529
Other accounts payable	185,529	123,658	138,851
Dividend declared	-	10,270	-
	546,453	515,156	569,164
LONG-TERM LIABILITIES:			
Liabilities to financial institutions and others	5,057,753	3,850,339	3,983,929
Debentures	975,237	392,228	287,082
Tenants' security deposits	138,581	141,300	139,309
Accrued severance pay, net	918	737	852
Deferred taxes	741	512	737
	6,173,230	4,385,116	4,411,909
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	753,150	776,414	719,589
MINORITY INTEREST	2,377,628	879,242	929,597
SHAREHOLDERS' EQUITY	958,954	879,888	902,244
	10,809,415	7,435,816	7,532,503

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

August 25, 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 June 2003

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2003	2002 *)	2003	2002 *)	2002 *)
	Unaudited				Audited
	Adjusted NIS in thousands (except for share data)				
Rental income	619,352	442,694	322,235	220,790	897,904
Property operating expenses	204,689	154,629	104,170	75,787	307,367
Rental property depreciation	84,563	57,023	45,612	29,302	115,471
Gross profit	330,100	231,042	172,453	115,701	475,066
General and administrative expenses	53,471	45,788	25,577	21,659	82,105
Operating income	276,629	185,254	146,876	94,042	392,961
Financial expenses, net	106,924	32,282	123,875	26,321	149,276
	169,705	152,972	23,001	67,721	243,685
Other income (expenses), net	18,502	5,425	23,921	(14,105)	3,193
Income before taxes on income	188,207	158,397	46,922	53,616	246,878
Taxes on income	15,551	6,018	8,809	(3,758)	18,161
Income after taxes on income	172,656	152,379	38,113	57,374	228,717
Equity in earnings of affiliates	3,698	3,078	1,379	1,088	3,297
Minority interest in earnings of subsidiaries	(99,542)	(74,063)	(25,491)	(30,761)	(126,394)
Net income for the period	76,812	81,394	14,001	27,701	105,620
Earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	0.90	1.16	0.11	0.34	1.47

*) 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 June 2003
Unaudited

	Six months ended June 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 acquisition of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the period	129,005	720,208	1,727	62,829	95,305	11,534	(108,045)	(10,319)	902,244
Exercise of stock options into shares	2,957	31,371	-	-	-	-	-	-	34,328
Purchase of shares	-	-	-	-	-	-	(64)	64	-
Foreign currency translation adjustments for foreign consolidated units	-	-	-	(30,712)	-	-	-	-	(30,712)
Repayment of loans for the purchase of shares	-	-	-	-	-	-	-	500	500
Net income for the period	-	-	-	-	76,812	-	-	-	76,812
Dividend paid	-	-	-	-	(12,684)	(11,534)	-	-	(24,218)
Balance at the end of the period	131,962	751,579	1,727	32,117	159,433	-	(108,109)	(9,755)	958,954

	Six months ended June 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 acquisition of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	113,250	504,024	1,727	56,812	32,717	(3,761)	-	704,769
Issuance of share capital (net of issuance expenses)	5,728	74,123	-	-	-	-	-	79,851
Sale of shares held by the Company	-	178	-	-	-	2,494	(1,429)	1,243
Foreign currency translation adjustments for foreign consolidated units	-	-	-	22,901	-	-	-	22,901
Net income for the period	-	-	-	-	81,394	-	-	81,394
Dividend declared	-	-	-	-	(10,270)	-	-	(10,270)
Balance at the end of the period	118,978	578,325	1,727	79,713	103,841	(1,267)	(1,429)	879,888

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2003
Unaudited

	Three months ended June 30, 2003							
	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	129,005	720,208	1,727	77,722	158,199	(108,045)	(10,319)	968,497
Exercise of stock options into shares	2,957	31,371	-	-	-	-	-	34,328
Purchase of shares	-	-	-	-	-	(64)	64	-
Foreign currency translation adjustments for foreign consolidated units	-	-	-	(45,605)	-	-	-	(45,605)
Repayment of loans for the purchase of shares	-	-	-	-	-	-	500	500
Net income for the period	-	-	-	-	14,001	-	-	14,001
Dividend paid	-	-	-	-	(12,767)	-	-	(12,767)
Balance at the end of the period	131,962	751,579	1,727	32,117	159,433	(108,109)	(9,755)	958,954

	Three months ended June 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 acquisition of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	116,874	553,202	1,727	79,759	86,410	(1,308)	(1,429)	835,235
Issuance of share capital (net of issuance expenses)	2,104	25,123	-	-	-	-	-	27,227
Sale of shares held by the Company	-	-	-	-	-	41	-	41
Foreign currency translation adjustments for foreign consolidated units	-	-	-	(46)	-	-	-	(46)
Net income for the period	-	-	-	-	27,701	-	-	27,701
Dividend declared	-	-	-	-	(10,270)	-	-	(10,270)
Balance at the end of the period	118,978	578,325	1,727	79,713	103,841	(1,267)	(1,429)	879,888

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 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	113,250	504,024	1,727	56,812	32,717	-	(3,761)	-	704,769
Issuance of share capital, net	6,285	81,430	-	-	-	-	-	(8,259)	79,456
Exercise of stock options into shares	9,470	134,457	-	-	-	-	(107,389)	-	36,538
Sale of shares held by the Company	-	297	-	-	-	-	3,105	(2,060)	1,342
Foreign currency translation adjustments for foreign consolidated units	-	-	-	6,017	-	-	-	-	6,017
Net income for the year	-	-	-	-	105,620	-	-	-	105,620
Dividend paid	-	-	-	-	(31,498)	-	-	-	(31,498)
Dividend declared	-	-	-	-	(11,534)	11,534	-	-	-
Balance at the end of the year	129,005	720,208	1,727	62,829	95,305	11,534	(108,045)	(10,319)	902,244

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2003

	Six months ended June 30, 2003	Six months ended June 30, 2002	Three months ended June 30, 2003	Three months ended June 30, 2002	Year ended December 31, 2002
	Unaudited	Unaudited	Unaudited	Unaudited	
Cash flows from operating activities:					
Net income for the period	76,812	81,394	14,001	27,701	105,620
Adjustments to reconcile net income to net cash provided by operating activities (a)	53,178	21,412	84,667	37,681	120,093
Net cash provided by operating activities	129,990	102,806	98,668	65,382	225,713
Cash flows from investing activities:					
Investment in newly consolidated subsidiary (b)	(812,138)	-	-	-	-
Investment in subsidiary and in jointly controlled entity	(15,238)	(435)	(15,238)	(435)	(12,941)
Investment in fixed assets	(400,558)	(555,230)	(200,551)	(303,131)	(968,282)
Repayment (grant) of loans to partners and former partners	(14,769)	(4,968)	(9,131)	(1,149)	17,052
Proceeds from sale of real estate	67,577	60,652	23,520	10,430	143,828
Long-term loans granted	(3,549)	(7,793)	231	(3,103)	(10,013)
Repayment of long-term loans granted	35,488	3,049	32,720	151	4,931
Short-term investments, net	74,601	742	61,852	16,996	27,606
Purchase of marketable securities and long-term investments	(45,995)	(147,671)	(42,685)	(111,257)	(196,706)
Proceeds from realization of long-term investments	34,977	94,512	13,318	56,679	232,757
Net cash used in investing activities	(1,079,604)	(557,142)	(135,964)	(334,819)	(761,768)
Cash flows from financing activities:					
Issuance of share capital, net	-	79,851	-	27,227	79,456
Repayment of loans for the purchase of shares	500	-	500	-	-
Exercise of stock options into shares	34,328	-	34,328	-	36,538
Sale of shares by the Company and subsidiary	-	1,243	-	41	1,342
Issuance of shares to minorities in subsidiary, net	522,681	240,166	382,706	21,150	282,988
Deferred charges in respect of raising loans and debentures	(10,734)	(11,800)	(790)	(3,468)	(26,535)
Dividend paid	(24,218)	(19,546)	(24,218)	(10,355)	(51,039)
Dividend paid to minorities in subsidiaries	(91,801)	(39,888)	(38,634)	(21,752)	(84,241)
Receipt of long-term loans	1,046,187	495,195	33,122	356,944	997,158
Repayment of long-term loans	(607,007)	(316,881)	(346,006)	(112,357)	(519,354)
Redemption of debentures	-	-	-	-	(19,003)
Early redemption of the Company and subsidiary's debentures and convertible debentures	(23,238)	(66,143)	(13,196)	(42,400)	(128,598)
Sale of Company's debentures by subsidiary	1,792	-	647	-	557
Short-term credit from banks and others, net	147	(91,355)	58	4,137	(136,892)
Issuance of debentures and convertible debentures	-	157,159	-	76,918	156,307
Increase in tenants' security deposits	857	3,271	1,816	1,724	1,889
Net cash provided by financing activities	849,494	431,272	30,333	297,809	590,573
Effect of exchange rate differences from cash balances of foreign autonomous consolidated units on cash and cash equivalents	(17,535)	17,433	(27,164)	8,519	6,529
Increase (decrease) in cash and cash equivalents	(117,655)	(5,631)	(34,127)	36,891	61,047
Cash and cash equivalents at the beginning of the period	287,692	226,645	204,164	184,123	226,645
Cash and cash equivalents at the end of the period	170,037	221,014	170,037	221,014	287,692

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2003

	Six months ended June 30, 2003	Six months ended June 30, 2002	Three months ended June 30, 2003	Three months ended June 30, 2002	Year ended December 31, 2002
	Unaudited	Unaudited	Unaudited	Unaudited	
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Depreciation	84,769	57,162	45,698	29,385	115,830
Minority interest in earnings of subsidiaries	99,542	74,063	25,491	30,761	126,394
Equity in earnings of affiliates net of dividend received	(2,370)	(1,878)	(798)	(157)	86
Deferred taxes, net	846	(1,472)	(801)	(5,679)	(5,364)
Loss (gain) from realization and revaluation of marketable securities, net	1,258	1,257	(7,083)	8,393	(25,507)
Loss (gain) from early redemption of the Company and subsidiary's debentures and convertible debentures	162	640	147	640	(8,318)
Adjustment of differences on monetary assets and long-term monetary liabilities, net	(100,865)	(109,763)	33,097	(42,359)	(150,628)
Write-down of long-term investments	-	-	-	-	45,100
Amortization of other assets and deferred charges	10,884	7,292	2,600	4,544	14,744
Gain from sale of fixed assets	(7,018)	(25,128)	(4,711)	(3,748)	(28,317)
Accrued severance pay, net	66	(53)	50	(28)	51
Loss (gain) from issuance to third party and related party	(13,811)	(2,471)	(18,662)	1,321	(1,116)
Changes in asset and liability items:					
Decrease (increase) in tenants and other accounts receivable	(26,869)	8,545	(26,801)	(4,475)	(10,993)
Increase in trade payables and other accounts payable	5,398	12,198	36,890	17,465	45,945
Increase (decrease) in tenants' security deposits	1,186	1,020	(450)	1,618	2,186
	53,178	21,412	84,667	37,681	120,093

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2003

	Six months ended June 30, 2003	Six months ended June 30, 2002	Three months ended June 30, 2003	Three months ended June 30, 2002	Year ended December 31, 2002
	Unaudited				
(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	(51,838)	-	-	-	-
Current liabilities	57,889	-	-	-	-
	6,051	-	-	-	-
Fixed assets	(3,161,792)	-	-	-	-
Other assets (including goodwill)	(88,652)	-	-	-	-
Long-term liabilities	1,376,781	-	-	-	-
Minority interest	52,405	-	-	-	-
	(1,821,258)	-	-	-	-
Increase in minority interest in respect of consideration paid in subsidiary's shares	1,003,069	-	-	-	-
	(812,138)	-	-	-	-
(c) Significant non-cash operations:					
Issuance of shares in subsidiary to minorities and related party against long-term loans	-	-	-	-	7,294
Purchase of fixed assets against liabilities	-	-	-	-	4,981
Purchase of fixed assets in consideration for subsidiary's shares	7,863	-	-	-	2,440
Conversion of debentures into convertible debentures	572	-	-	-	25,878
Sale of real estate against receivables	-	-	-	-	18,383
Sale of Company shares held by it to employees against long-term loans	-	-	-	-	2,060
Dividend declared	-	10,270	-	10,270	-
Sale of investment in affiliate	9,792	-	9,792	-	-

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

NOTE 1:- GENERAL

These financial statements have been prepared as of June 30, 2003 and for the six months and 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 June 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:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2003	2002	2003	2002	2002
	Unaudited				
Consumer Price Index in Israel	(0.5)	6.3	(1.3)	3.8	6.5
Consumer Price Index in U.S.	1.6	1.8	(0.3)	0.6	2.4
Consumer Price Index in Canada	1.4	2.7	(0.6)	1.1	3.9
Exchange rate of U.S.$ 1	(9.0)	8.0	(8.0)	2.2	7.3
Exchange rate of CD 1	5.9	13.8	(0.5)	7.9	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).

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

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 properties 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 - 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 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 an accounting gain as a result of the decrease in its holdings in EQY.

Subsequent to signing on the agreement, as aforementioned, three former IRT shareholders ("the plaintiffs") 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. 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 a motion to dismiss these claims and it believes that these claims are groundless. EQY and IRT have insurance coverage for claims of this type.

b. On May 13, 2003, EQY issued to the public 3 million shares for the aggregate amount of $ 49 million (approximately NIS 210 million). As a result of this issuance, the Company’s shareholding in EQY decreased, directly and indirectly, from approximately 45% to about 42%. As a result of the decrease in the shareholding, the Company recorded a net gain of NIS 16 million. The Company continues to consolidate the financial statements of EQY by virtue of agreements with other shareholders in EQY (who hold along with company and FCR in approximately 51% of EQY share capital) thereby conferring the right to appoint the majority of EQY's board of directors.

c. On June 26, 2003, FCR completed a private placement of 3,753 thousand of shares at Canadian dollar 14.1 per share, for gross proceeds of Canadian dollar 52.9 million (approximately NIS 168 million). Institutional investors and others purchased in the offering 2,503 thousand shares. The Company, through a Canadian subsidiary, purchased 975 thousand shares and a Canadian company related to Alony Hetz purchased 275 thousand shares.

In addition, in June 2003, the Company exercised approximately 1.8 million of publicly traded warrants of FCR for gross proceeds of Canadian dollar 21 million (about NIS 67 million). Along with the exercise of 500 thousand publicly traded warrants by Alony Hetz, FCR raised Canadian dollar 27 million (approximately NIS 86 million) from exercising the publicly traded warrants. Subsequent to exercising the publicly traded warrants, the Company holds in an additional 5.5 million publicly traded warrants that are exercisable to shares of FCR at an exercise price of Canadian dollar 11.8 per share. Total gross proceeds of FCR from the private placement, exercise of publicly traded warrants and payment in shares in return for interest on convertible debentures amounted to approximately Canadian dollar 86 million (NIS 273 million).

As a result of these offerings, the Company’s shareholding in FCR decreased from 66.7% to about 61.7%. The Company did not realize a gain or loss from the decrease in the shareholding.

NOTE 6:- SUBSEQUENT EVENTS

a. Subsequent to balance sheet date and until the date the statements were signed, a wholly owned subsidiary of the Company sold approximately NIS 86 million par value of debentures (Series A) which were held by it for a total amount of NIS 79 million. As of the date of signing the financial statements, this company holds in NIS 46 million par value of debentures (Series A) out of a total of NIS 197 million par value in the series.

b. Subsequent to balance sheet date and until the date the statements were signed, approximately 2.8 million publicly traded warrants (Series 4) were exercised mainly by the parent company of the Company into 3.4 million shares of the Company for a total amount of approximately NIS 40 million.

NOTE 7:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Six months ended June 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	378,045	232,632	8,675	619,352
Segment results	218,230	111,338	532	330,100

	Three months ended June 30, 2003 (unaudited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	199,588	118,378	4,269	322,235
Segment results	115,369	56,907	177	172,453

	Year ended December 31, 2002 (audited)			
	U.S.	Canada	Israel	Total-consolidated
	Adjusted NIS in thousands			
Rental income	493,291	386,912	17,701	897,904
Segment results	277,373	197,391	302	475,066

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended June 30, 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 June 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. 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 246 properties with a Gross Leasable Area ("G.L.A.") of some 29 million square feet, as well as 3 that are jointly owned and 9 additional properties under development. These properties have a book value of NIS 11 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"), 42.5% of EQY. EQY operates in growth regions in the southeastern part of the USA, mainly in Florida, Texas and Georgia, and owns 176 properties, with a G.L.A. of 19.4 million square feet, as well as 3 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 62% of FCR. FCR operates in growth regions in the Canadian provinces of Ontario, Quebec and Alberta, owning 69 properties with a total G.L.A. of approximately 9.1 million square feet, as well as 4 additional properties under development. In addition, as stated above, FCR is a stockholder in EQY, holding 19% 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 of the Second Quarter

- **Rental income for the second quarter of the year amounted to NIS 322 million, an increase of 46% compared to the same quarter last year, mainly due to the acquisition of IRT during the first quarter of this year.**

- **Gross profit for the second quarter of the year amounted to NIS 172.5 million, compared to NIS 115.7 million, for the same quarter last year, an increase of 49%.**

- **Cash inflows from operating activities for the second quarter of the year amounted to NIS 99 million, compared to NIS 65 million for the same quarter last year, an increase of 51%.**

- **Net income for the second quarter of the year amounted to NIS 14 million, NIS 0.11 per share, compared with net income of NIS 27.7 million, NIS 0.34 per share, for the same quarter last year.**

- **F.F.O. (see section 3) for the second quarter of the year amounted to NIS 14 million, NIS 0.18 per share, compared to NIS 41.2 million, NIS 0.56 per share, for the same quarter last year.**

- **The reduction in the net income and in the F.F.O., as well as in the net income per share and in the F.F.O. per share, is due to the negative inflation during the second quarter of this year in the United States and Canada (negative of 0.3% and negative 0.6% in the USA and Canada, respectively). This compares to the positive inflation during the same quarter last year (0.6% and 1.1% in the USA and Canada, respectively). As a result, financing expenses (in real terms) for the second quarter of the year were significantly higher than the average financing expenses (in real terms) and the financing expenses (in real terms) for the same quarter last year.**

- **During the second quarter of the year, the Company, EQY and FCR raised NIS 418 million in share offerings to the public. In the same quarter last year, NIS 48 million was raised.**

- **Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 3.34 billion, representing 30.9% of the total assets, compared to NIS 1.83 billion at the end of 2002, which represented 24.3% of the total assets.**

- **As of June 30, 2003, shareholders' equity per share (of NIS 1 par value) amounted to NIS 13.5 per share, compared to NIS 13.2 as of December 31, 2002. Taking into account the dividend paid by the Company in the first six months of 2003, the shareholders' equity per share grew by 5% during the period.**

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

General

During the reporting period, the Company's invested in excess of NIS 1.2 billion - NIS 812 million was invested in the acquisition of IRT Property Company ("IRT"), as described below, and an additional NIS 408 million was invested in the acquisition of new properties and in 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 1.8 billion, of which NIS 812 million was paid in cash, while the balance was settled by the issue of EQY shares.

2. During the reporting period, EQY and FCR acquired 8 properties, with a total G.L.A. of some 388 thousand square feet, and 2 plots of land for future development. The total consideration for these acquisitions amounted to NIS 176 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 232 million in developing new properties and in the redevelopment of existing properties.

4. During the reporting period, EQY and FCR sold 4 properties and 2 plots of land, with a total G.L.A. of some 118 thousand square feet. The total proceeds from these sales amounted to NIS 68 million. The net gain recognized by the Company from these sales amounted to NIS 2.8 million (of which some NIS 1.8 million was during the second quarter of 2003).

5. As of June 30, 2003, the Company had properties being developed and being redeveloped, as well as land for future development, which amounted to NIS 362 million. These properties and land did not generate any rental income during the reporting period.

6. As of the end of the second quarter of the year, EQY's average rental income was US$ 9.00 per square foot per year – the same as for the first quarter of the year. During the second quarter of the year, EQY successfully renewed 52 leases, on which the average rental income increased to US$ 12.60 per square foot per year (an average increase of 2.7%), and signed 68 new leases at an average rental income of US$ 11.30 per square foot per year. The net cash inflows from the same properties increased by 2.1%, compared to the same quarter last year.

   EQY's shopping centers had an average occupancy rate of 88.7% as of June 30, 2003.

7. As of the end of the second quarter of the year, FCR's average rental income was C$ 12.10 per square foot per year, compared to C$ 12.00 per square foot for the first quarter of the year. During the second quarter of the year, FCR successfully renewed 31 leases, on which the average monthly rental increased to C$ 9.90 per square foot per year (an average increase of 4.6%), and signed 21 new leases at an average monthly rental of C$ 9.10 per square foot per year. The net cash inflows from the same properties increased by 1.9%, compared to the same quarter last year.

   FCR's properties had an average occupancy rate of 91.9% as of June 30, 2003.

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 1.8 billion), 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. EQY and IRT have insurance cover for such claims.

2. As a result of completing this acquisition, 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 in this sector.

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 principles 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>Public Offering of Shares in Subsidiaries</u>

1. During May 2003, EQY made a public offering of 3 million shares, the proceeds from which amounted to US$ 49 million (NIS 210 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 recorded a gain of NIS 16 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 on the Company the right to appoint the majority of EQY's board of directors.

2. During June 2003, FCR made an offering of 2.5 million shares to institutional investors and others, and a further 1.25 million shares to the Company and Alony Hetz (975,000 shares to the Company and 275,000 shares to Alony Hetz). The proceeds from this offering aggregated C$ 53 million (NIS 168 million). In addition, the Company, Alony Hetz and others invested a further C$ 27 million (NIS 86 million) in exercising 2.3 million option warrants into FCR shares.

The total capital raised by FCR from the above issues, together with the interest on convertible debentures that was paid by the issue of shares, aggregated C$ 86 million (NIS 273 million). As a result of these issues, the Company's holding in FCR was diluted from 66.7% to 61.7%, from which the Company made neither a gain nor a loss.

D. 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.

E. 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 from the year of the 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 to June 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 financing expenses, net of NIS 30 million*.)

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

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.

3. A. Results of Operations

	For the 6 months ended June 30		For the 3 months ended June 30		For the year ended December 31,
	2003	2002*)	2003	2002*)	2002*)
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Rental income	619,352	442,694	322,235	220,790	897,904
Rental operating expenses	204,689	154,629	104,170	75,787	307,367
Depreciation of rental properties	84,563	57,023	45,612	29,302	115,471
Gross profit	330,100	231,042	172,453	115,701	475,066
General and administrative expenses	53,471	45,788	25,577	21,659	82,105
Income from ordinary operations	276,629	185,254	146,876	94,042	392,961
Financing expenses, net	106,924	32,282	123,875	26,321	149,276
	169,705	152,972	23,001	67,721	243,685
Other income (expenses), net	18,502	5,425	23,921	(14,105)	3,193
Income before taxes on income	188,207	158,397	46,922	53,616	246,878
Taxes on income	15,551	6,018	8,809	(3,758)	18,161
Income after taxes on income	172,656	152,379	38,113	57,374	228,717
Company's share in profits of associated companies	3,698	3,078	1,379	1,088	3,297
Minority interest in earnings of subsidiaries	(99,542)	(74,063)	(25,491)	(30,761)	(126,394)
Net income for the period	**76,812**	**81,394**	**14,001**	**27,701**	**105,620**
Net earnings per share (of NIS 1 par value)	**0.90**	**1.16**	**0.11**	**0.34**	**1.47**
F.F.O. for the period)**	**99,263**	**103,939**	**13,948**	**41,250**	**162,903**
F.F.O. per share (of NIS 1 par value) **)	**1.29**	**1.46**	**0.18**	**0.56**	**2.20**
Number of shares used to compute net earnings per share and F.F.O. per share (par value in thousands)	**77,007**	**71,358**	**77,004**	**73,450**	**74,116**
Shareholders' equity and minority interests as percentage of total assets at end of period	**30.9%**	**23.7%**	**30.9%**	**23.7%**	**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 Second Quarter of 2003

Rental income

The increase in rental income in the second 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 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 aforementioned growth in the number of properties. Rental operating expenses as a percentage of rental income fell from 34.3% for the second quarter last year to 32.3% for the current quarter.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 23.6 million for the second quarter of the year, representing NIS 0.33 depreciation per share; this compares with NIS 16.7 million, representing NIS 0.26 depreciation per share, for the same quarter last year.

Gross profit

Gross profit for the second quarter of the year amounted to NIS 172.5 million, representing 53.5% of rental income; this compares to NIS 115.7 million, representing 52.4% of rental income, for the same quarter last year.

General and administrative expenses

General and administrative expenses for the second quarter of the year represent 7.9% of rental income, compared to 9.8% for the same quarter last year. The decrease in the general and administrative expenses as a percentage of rental income is due primarily to economies of scale enjoyed by the Company following its acquisition of IRT's and other properties.

Financing expenses, net

Financing expenses were high in the second quarter of this year, due to the negative inflation in the USA and Canada, compared to positive inflation during the same quarter last year. 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		
1-6.03	(0.49)	1.55	1.41
1-6.02	6.29	1.81	2.67
4-6.03	(1.27)	(0.27)	(0.57)
4-6.02	3.82	0.62	1.10
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 second quarter of the year, the Company recorded a gain from the dilution of its holding in EQY, as referred to in section 2C, in the amount of NIS 16 million; this compares to a loss NIS 1.2 million from the dilution of the Company's holdings in its subsidiaries in the same period last year. In addition, during the second quarter of the year, the sale by EQY of two shopping centers (one of which was jointly owned) yielded a net gain of NIS 1.8 million. During the same period last year, EQY sold an apartment building that yielded a net gain of NIS 1.6 million.

Net earnings per share and F.F.O. per share

Net earnings per share and F.F.O. per share in both the second quarter of this year and the same period last year have been calculated based on the assumption that the option warrants (Series 4) will be exercised. As the option warrants' exercise price is linked to the exchange rate of the US dollar, and due to the fact that the exchange rate of the US dollar against the new Israeli shekel has fallen during the period, net earnings and F.F.O. have been reduced during the aforementioned period by NIS 5.7 million and NIS 2.7 million, respectively, while 5.9 million shares and 10.1 million shares have been added to the number of shares used in the respective per share calculations. The affect of the above has been to reduce both the net earnings per share and the F.F.O. per share in the reporting period by NIS 0.10, and to reduce the net earnings per share by NIS 0.10 and the F.F.O. per share by NIS 0.13 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 June 30, 2003, the liquid assets available to the Company and its subsidiaries, including short-term investments, totaled NIS 235 million, compared to NIS 369 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 the Company and its subsidiaries.

In addition, the Company and its subsidiaries had unutilized credit facilities available for immediate drawdown of NIS 1,285 million as of June 30, 2003.

In aggregate, the Company and its subsidiaries have cash reserves and unutilized credit facilities available for immediate drawdown in excess of NIS 1.5 billion.

Shareholders' Equity

As of June 30, 2003, the Company's shareholders' equity, together with minority interests, totaled an aggregate of NIS 3.34 billion, which financed 30.9% of total assets; this compares to NIS 1.83 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 37.8% and 33.9%, respectively).

The increase in shareholders' equity from NIS 902.2 million as of December 31, 2002 to NIS 959 million as of June 30, 2003 stems from the net income for the first six months of the year amounting to NIS 76.8 million and from the exercise of option warrants amounting to NIS 34.3 million. These were partly offset by the dividend paid by the Company and by the reduction of NIS 30.5 million due to "translation adjustments deriving from translation of the financial statements of FCR and EQY", that were the result of the strengthening (in real terms) of the shekel against the U.S. dollar and the Canadian dollar.

Current Ratio

The current ratio (current assets to current liabilities) was 0.84 as of June 30, 2003, compared to 1.09 as of June 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 second quarter of the year totaled NIS 98.7 million, compared to NIS 65.4 million for the same period 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.

The cash inflows from operating activities were used primarily in investing activities for the purchase of fixed assets, which totaled NIS 201 million, and for the repayment of long-term loans in the amount of NIS 346 million.

In addition, in order to finance its investing activities for the second quarter of the year, the Company and its subsidiaries raised capital totaling NIS 418 million.

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 six months of this year, the Company's donations amounted to NIS 713,000.

6. Additional Information and Subsequent Events

A. Subsequent to June 30, 2003 through to the date of these financial statements, EQY and FCR acquired 4 properties at a total cost of NIS 630 million and announced binding agreements for the acquisition of additional properties costing in excess of NIS 500 million.

B. Subsequent to June 30, 2003 through to the date of these financial statements, a wholly owned subsidiary of the Company sold part of its holding of debentures (Series A), having a nominal value of NIS 86 million), for a total consideration of NIS 79 million. Out of the total nominal value of NIS 197 million of the debentures (Series A), this subsidiary still held debentures having a nominal value of NIS 46 million, as of the date of these financial statements.

C. Subsequent to June 30, 2003 through to the date of these financial statements, 2.8 million of the Company's option warrants (Series 4) were exercised – primarily by the Company's parent company – into 3.4 million of the Company's shares for a total consideration of NIS 40 million.

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 3.2 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