

Board of Directors' Report to Shareholders/ For the period ended December 31, 2003

The Board of Directors of Gazit-Globe (1982) Ltd. (herein after "the Company") hereby presents the financial statements of the Company and its consolidated subsidiaries for the period ended December 31, 2003:

1. A. General

The Company is a real-estate investment company engaged, directly and through its subsidiaries, in the acquisition, development, and management of real-estate in the U.S., Canada, and Israel (here in after "the Group"). The Group focuses principally on supermarket-anchored shopping centers. In addition, the Group is active in the senior living sector in the U.S. and Israel, and pursues business opportunities in the acquisition of companies engaged in its areas of activity and/or in synergetic businesses.

B. Growth strategy in a stable business

The key characteristics of the Company's business strategy are as follows:

- Investment in countries characterized by economic and political stability.
- Investment in commercial real estate, principally in supermarket-anchored shopping centers considered "recessions resistant" relative to other sectors of the real estate industry.
- Operating in growing metropolitan areas with high barriers of entry to potential competitors.
- Operating through local subsidiaries with experienced local managements.
- Active management of assets aimed at maintaining and increasing their value on an ongoing basis.

C. The Group's Properties

As of the date of the financial statements, the Group owned 282 commercial properties with a total Gross Leasable Area ("G.L.A.") of approximately 3 million square meters. These properties comprise of 268 operating shopping centers, 9 shopping centers under development, 4 senior living facilities, which include 1,000 units, an office building in Tel Aviv, and partnership interests in 2 commercial properties. These properties have a book value of approximately NIS 13.4 billion and generate annual rental income of approximately NIS 1.7 billion (gross annual rent calculated for the properties currently owned at the exchange rate on the date of publication of these financial statements). In addition, as of the publication date of these financial statements, the Company owned approximately 30.3% of Citycon Oyj (herein after "Citycon"), a publicly-traded Finnish company that owns approximately 150 centers and income producing commercial properties (for details see Section 6).

In the U.S., the Group operates mainly through Equity One Inc. ("EQY"), a publicly-traded company listed 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 owned, directly and indirectly, approximately 41% of the issued share capital of EQY. EQY operates in growing metropolitan areas in the southeastern U.S., mainly in Florida, Texas and Georgia, and owns 180 operating shopping centers, with a total G.L.A. of approximately 1.9 million square meters, 5 shopping centers under development, and partnership interests in 2 commercial properties.

In addition, the Group operates in the U.S. through Royal Senior Care ("RSC") (50%), which operates in the seniors living sector in the U.S.

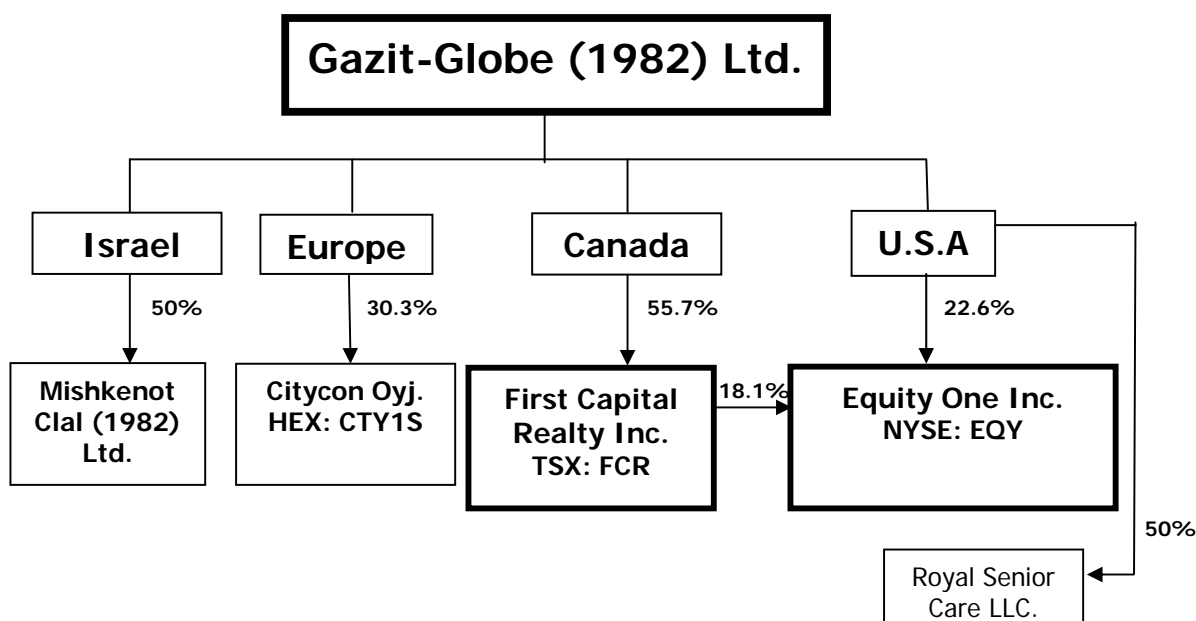
Operations in Canada are carried out through First Capital Realty Inc. ("FCR"), a publicly-traded company listed on the Toronto Stock Exchange (TSX). As of the date of these financial statements, the Company owned approximately 56% of the share capital of FCR. FCR operates in the Canadian provinces of Ontario, Quebec and Alberta, owning 88 operating shopping centers, with a total G.L.A. of approximately 1.1 million square meters, as well as 4 additional shopping centers under development. In addition, FCR owns approximately 18% of the share capital of EQY.

In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (here in after "Mishkenot Clal"), which is engaged in the construction, operation, management and marketing of seniors living facilities in Israel. In addition, the Company owns an office building in Tel Aviv.

The following map details the regions in North America in which the Company has operations (indicated by the darkened area).



D. Below is the structure of the Company's principal holdings (as of the date of the financial statements publication):



E. The Company's Holdings

The following table presents a summary of the Company's holdings as of December 31, 2003:

Name of investee company	Type of security	Quantity (par value in millions)	Holding percentage	Book Value (NIS in millions)	Market value as of December 31, 2003 (NIS in millions)	Market value as of date of financial statements publication (NIS in millions)
EQY	Shares	15.5	22.4% ¹	877.4	1,149.1	1,302.3
FCR	Shares	20	56.9%	912.7	1,082.5	1,157.4
FCR	Option warrants	3.8	65.8%	0.7	51.2	65.6
FCR	Convertible debentures	164.7	45.8%	500.5	555.8	572.2
Investments in other companies (unlisted securities) ²				124	124 ³	124 ³
Total				2,415.3	2,962.6	3221.5

The Company's net liabilities (including those of its wholly-owned subsidiaries) amounted to approximately NIS 1,274.1 million, as of December 31, 2003.

¹ Represents the Company's direct holding in EQY. (In addition, FCR holds approximately 18.1% of EQY.)

² Represents the Company's holdings in Mishkenot Clal, Royal Senior Care and the office building in Tel Aviv.

³ Represents book value.

F. Year 2003 - Highlights

- ◆ The Company's investments in acquisitions (including the purchase of IRT's properties) and development of properties totaled approximately NIS 5.5 billion.
- ◆ Rental income totaled approximately NIS 1.4 billion, an increase of 58% compared with 2002.
- ◆ Gross profits totaled NIS 746 million (53.2% of revenues), compared with NIS 468 million (52.9% of revenues) in 2002, an increase of 59%.
- ◆ Cash flow from current operations totaled NIS 362 million, compared with NIS 223 in 2002, an increase of 62.5%.
- ◆ Net profits totaled NIS 136.6 million, NIS 1.69 per share, compared with NIS 104.2 million, NIS 1.45 per share in 2002.
- ◆ FFO (see Section 3) totaled NIS 192 million this year, NIS 2.39 million per share, compared with NIS 156.8 million, NIS 2.17 per share, respectively, in 2002.
- ◆ The Company, FCR and EQY raised NIS 1,144 million in public equity, compared with NIS 393 million in 2002. As a result of the capital raised by FCR and EQY, the Company recorded a net gain of NIS 37.5 million, compared with a net gain of NIS 3.4 million in 2002.
- ◆ In September, 2003, Royal Senior Care acquired a senior living facility in Florida for approximately NIS 32 million. This acquisition comprises a first step in the framework of the Group's strategy to enter additional sectors in the commercial property field in regions in which it operates, leveraging its experience and expertise in building an additional business platform in North America.
- ◆ Shareholders' equity and minority interests as of the date of the financial statements totaled NIS 4.1 billion, comprising approximately 32% of total assets, compared with NIS 1.8 billion at the end of 2002, which comprised 24.3% of total assets, an increase of approximately 31% over the period of comparison.
- ◆ As of December 31, 2003, shareholders' equity per share totaled NIS 14.45, compared with NIS 13.05 per share at the end of 2002. Taking into account the dividend paid out by the Company this year (0.71 NIS per share), shareholders' equity per share increased by 16.1%.

G. Fourth quarter - Highlights

- ◆ The Group's investments in acquisitions and development of properties totaled NIS 790 million.
- ◆ Rental income totaled approximately NIS 1.4 billion, an increase of approximately 80%, compared with the quarter ended December 31, 2002.
- ◆ Gross profit totaled NIS 215.5 million (53.2% of revenues), compared with NIS 123.9 million (55% of revenues) in the comparable period, an increase of approximately 74%.
- ◆ Cash flow from current operations totaled approximately NIS 131 million, compared with approximately NIS 73 million in the comparable period, an increase of approximately 79%.
- ◆ Net income totaled approximately NIS 11.5 million, approximately NIS 0.13 per share, compared with NIS 2.4 million, approximately NIS 0.01 per share respectively in the parallel period.
- ◆ FFO totaled NIS 34.8 million, approximately NIS 0.42 per share, compared with NIS 19.3 million, approximately NIS 0.23 per share, respectively, in the comparable period.
- ◆ Inflation in the fourth quarter of the year fell below zero in the U.S. and remained unchanged in Canada, compared with zero inflation in the U.S. and 0.3% inflation in Canada, respectively, in the quarter ended December 31, 2002.

2. The Group and its business environment — key events and changes during the reporting period

General

During the reporting period the Group's cash-based investments totaled approximately NIS 3.1 billion. Of this sum, approximately NIS 800 million was used in the acquisition of IRT Property Company ("IRT"), as described below, and approximately NIS 2.3 billion in the purchase of new assets, redevelopment, expansion and construction of various other commercial properties, in accordance with the Group's investment plan. The effect of these investments on operating results will be reflected in full only during 2004.

A. Property operations

1. In February 2003, EQY completed the acquisition of IRT, as described in Section 2B below, for approximately NIS 1.8 billion, of which NIS 800 million was paid in cash, while the balance was paid for by the issuance of EQY stock.
2. During the reporting period, FCR, RSC and EQY acquired 25 commercial properties with a total G.L.A. of approximately 304,000 square meters, as well as a seniors living facility and 3 land sites for future development, investing a total of approximately NIS 1.8 billion.
3. During the reporting period, FCR and EQY developed new properties and redeveloped existing properties, investing in excess of NIS 500 million.
4. During the reporting period, FCR and EQY sold 8 commercial properties (including jointly-owned properties) and land sites with a total G.L.A. of approximately 32,000 square meters, in consideration for NIS 146 million. The net gains from these sales totaled approximately NIS 4.4 million, compared with approximately NIS 13.1 net gains in 2002.
5. As of December 31, 2003, the Group had properties being developed and redeveloped, as well as land for future development, which totaled approximately NIS 541 million. These properties did not generate rental income during the reporting period.
6. As of the end of 2003, EQY's average monthly rental income was approximately US\$ 8.42 per square meter. In the course of the year, EQY renewed its leases over a total G.L.A. of 62,700 square meters, while increasing average rental income of those same leases by 3.1%, to US\$ 11 per square meter per month, and signed new rental leases with a total G.L.A. of 106,300 square meters at a price of US\$ 9.78, on average, per square meter per month. In the course of the year, leases ended on G.L.A. of 104,500 square meters. Net cash flow from same properties increased by a rate of 3%, compared with 2002.

As of December 2003, the average occupancy rate of EQY's assets was approximately 89.8%.

7. As of the end of the year, FCR's average monthly rental income was C\$ 11.36 per square meter. During the year, FCR renewed 26 leases, with a total G.L.A. of 48,300 square meters, increasing rental income on those leases by 3.8% to C\$ 11.39 per square meter, on average, per month, and signed new leases on G.L.A. of 44,400 square meters, with an average price of C\$ 10.54, per square meter, per month. During the reporting period, leases ended on G.L.A. of 80,000 square meters. Net cash flow of same properties increased at a rate of 1.9%, compared with 2002.

As of December 31, 2003, FCR's properties had an average occupancy rate of 93.1%.

B. Acquisition of IRT by EQY

1. On February 12, 2003, EQY completed the acquisition of IRT for US\$ 426 million (approximately NIS 1.8 billion), payable in cash and stock. IRT was a self-administrated, self-managed REIT for tax purposes, whose shares were traded on the NYSE. IRT operated in the southeastern part of the United States. IRT owned 90 shopping centers (mainly supermarket-anchored), having a total G.L.A. of approximately 925,000 square meters at an estimated value of US\$ 763 million at the time of acquisition. The consideration for 57% of IRT's shares was paid in EQY stock, and the remainder in cash.
2. Concurrently with the closing of the acquisition agreement, and in order to finance the acquisition, EQY issued 6.9 million shares to its principal shareholders at a price of US\$ 13.50 per share. The Company acquired approximately 4.3 million shares and FCR purchased one million shares in the aforementioned stock issue.
3. In accordance with generally accepted accounting principles relating to transactions for the acquisition of companies, the Company has not recorded an accounting gain as a result of the dilution of its holdings in EQY.
4. The Company has been consolidating IRT's results since February 12, 2003.

C. Private Placement of Company's Shares

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

The total amount of capital raised by the Company since the beginning of the year, including the capital raised as a result of the exercise of option warrants (Series 4), totaled NIS 142 million.

D. Public Offering of Shares in Consolidated Subsidiaries

1. During 2003, EQY had two public offerings in which of 6 million shares were issued, for total proceeds of approximately US\$ 100 million (approximately NIS 438 million). Additionally, EQY issued a further 4.4 million shares (of which approximately one million were acquired by the Company and its consolidated subsidiaries) in the framework of a dividend reinvesting plan ("DRIP"), exercise of employee-held option warrants to shares, and other offerings with a total consideration of approximately US\$ 59 million (approximately NIS 258 million). As a result of these offerings, the Company's holdings in EQY were diluted, directly and indirectly, to approximately 40.5%, and the Company recorded a net gain (net of minority interests) of approximately NIS 31.6 million.

The Company continues to consolidate the financial statements of EQY, in accordance with a directive from the Israeli Securities Authority, accepted by the Company, as the Company continues to exert effective control over EQY.

2. In the course of 2003, FCR had two private placements at which 5.75 million shares were issued to institutional investors and others (of which 1.5 million shares were issued to the Company). The total proceeds from the private placements amounted to approximately C\$ 84 million (approximately NIS 285 million).

3. In the course of 2003, the Company and others exercised approximately 4.7 option warrants, to shares of FCR (of which approximately 3.5 million option warrants were owned by the Company), for total consideration of approximately C\$ 55 million (approximately NIS 187 million).
4. On October 30, 2003, and December 31, 2003, FCR exercised its right and redeemed all the principal of its convertible debentures (Series A), valued at approximately C\$ 57.4 million (approximately NIS 195 million), in consideration for approximately 3.9 million shares of FCR (of which approximately 1.3 million were received by the Company).
5. During the reporting year, FCR made all interest payments on its convertible debentures (Series C and D), totaling approximately C\$ 18.7 million, by the way of issuance of 1.4 million shares (of which 600,000 were issued to the Company), in accordance to the terms of the convertible debentures.
6. As a result of the aforementioned issuances, conversion of option warrants into shares by employees, and other offerings, the Company's holdings in FCR were diluted from 67.9% to approximately 56.9%, and the Company recorded a net gain (net of minority holdings) of approximately NIS 5.9 million.

E. Debt raised by the Company

During the course of the year, a wholly-owned subsidiary of the Company sold approximately NIS 129 million (par value) of debentures (Series A) that were held by it, for a total consideration of NIS 117.6 million. As of December 31, 2003, this subsidiary still held debentures (Series A) with a total par value of approximately NIS 3 million, out of a total par value of the series of NIS 197 million. At the time of submission of this financial statement, the Company had sold the remainder of the debentures that were in its possession.

F. Credit facility of EQY and rating of its debt by Moody's and Standard & Poor's

On the eve of the completion of EQY's acquisition of IRT, EQY received an unsecured line of credit, of approximately \$340 million, from a banking consortium led by Wells Fargo. EQY has the option to extend this line of credit up to \$400 million. The line of credit is for a period of 3 years and EQY has the option to extend it by a further year.

Monies drawn on the line of credit will bear an interest rate of LIBOR plus a margin of 1.0%. The margin may vary between 0.65% and 1.35%, in accordance with EQY's credit rating.

As of December 31, 2003, EQY had drawn \$162 million on this line of credit.

With the completion of the IRT acquisition, the credit rating agencies Moody's and Standard & Poor's announced they had issued EQY a global "investment grade" credit ratings of BBB- and Baa3, respectively.

G. 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 since the second quarter of 2004 will be of at least NIS 0.19 per share, each quarter (NIS 0.76 per share on an annual basis).

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

H. Changes in Accounting Standards

1. In October 2001, and in December 2002, the Israeli Accounting Standards Board issued Standards Numbers 12, 13 and 17 dealing with discontinuation of the adjustments of the financial statements to changes in the purchasing power. These standards will be applied as of 2004.

The Company operates in Israel, the U.S. and Canada through companies defined as autonomous operating units, whose financial statements are adjusted for changes in purchasing power in their domicile countries.

The Company's management is of the opinion that the discontinuance of the adjustment of financial statements to the Israeli CPI in environment of positive inflation, without the enactment of additional accounting 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 adoption of the Standard, however, it is not expected to affect the gross profit, operating income and cash flows. (Based on the Company's financial statement as of December 31, 2003, every 1% change in the inflation rate in each country — the U.S., Canada and Israel — when taken together, affects the Company's accounting results by causing a change in the reported net financing expenses of approximately NIS 30 million *).

2. In February 2003, Accounting Standard Number 15 of the Israeli Accounting Standards Board — "Impairment of Assets" — was issued. This standard requires a periodic assessment to evaluate the need for a provision for the impairment of the Company's non-monetary assets (mainly fixed assets) and investments in associated companies.

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

* The sole purpose of these data is to provide an indication of the size of the effect referred to.

A. Results of Operations

	Year ended December 31,		
	2003	(*) 2002	(*) 2001
	Adjusted NIS in thousands (except per share amounts)		
Rental income	1,401,186	885,431	707,761
Rental property operating expenses	457,790	303,097	241,336
Rental property depreciation	197,489	113,866	99,015
Gross profit	745,907	468,468	367,410
General and administrative expenses	115,805	80,964	58,861
Operating income	630,102	387,504	308,549
Financial expenses, net	300,163	147,203	147,992
	329,939	240,301	160,557
Other income (expenses), net	56,492	3,148	(10,326)
Income before taxes on income	386,431	243,449	150,231
Taxes on income	43,629	17,909	18,396
Income after taxes on income	342,802	225,540	131,835
Equity in earnings of affiliates	3,613	3,252	-
Minority interest in earnings of subsidiaries	(209,839)	(124,639)	(47,143)
Net income	136,576	104,153	84,692
Net earnings per share	1.69	1.45	1.58
F.F.O. for the period (**)	192,016	156,806	152,802
F.F.O. per share (of NIS 1 par value) (**)	2.39	2.17	2.85
Number of shares used to compute net earnings and F.F.O per share (in thousands)	78,242	74,116	53,774
Shareholders' equity and minority interests as percentage of total assets at end of period	32%	24.3%	19.4%

(*) Reclassified, see Note 2E to the attached financial statements.

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

B. Analysis of Results of Operations for 2003

Rental income

The increase in the rental income in the reporting year, compared with that of the previous year, resulted from the continuing acquisition of new properties, including IRT's properties-acquired during the first quarter of the year.

Rental operating expenses

The increase in rental operating expenses during the reporting year, compared with those of the previous year, is attributable to the aforementioned growth in the number of properties. Rental operating expenses as a percentage of rental income declined from 34.2% in 2002 to 32.7% in 2003.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) totaled NIS 97.1 million in 2003, representing NIS 1.27 depreciation per share. This compares with NIS 69.1 million, representing NIS 1.06 depreciation per share, for 2002.

Gross profit

Gross profit for the year totaled NIS 745.9 million, representing 53.2% of rental income. This compares with NIS 468.5 million, representing 52.9% of rental income, for 2002.

General and administrative expenses

General and administrative expenses for 2003 represented 8.3% of total rental income, compared with 9.1% for the previous year. The decline in general and administrative expenses as a percentage of rental income was primarily due to the sharp increase in operating activities of EQY (including the acquisition of IRT) and those of FCR, which were accompanied by a more moderate increase in general administrative expenses, resulting from exploiting economies of scale inherent in those companies.

Financing expenses, net

The increase in financing expenses, compared with those of 2002, is attributable to the increase in the Group's borrowings, matching the growth in its property holdings and its rental income, as well as the moderate rates of inflation in the U.S. and Canada (the main regions of the Company's operations), compared with 2002, as detailed in the table below. The financing expenses include the results of activities in financial securities, which resulted in a gain of approximately NIS 14.1 million, compared with a total gain of approximately NIS 25.1 million in 2002. (In 2002: before adjustment of long-term investments in negotiable financial securities which are presented in the section "Other income, net.")

The table below details the changes in the consumer price indices for the years 2001, 2002 and 2003:

	Consumer Price Index		
	Israel	U.S.	Canada
	Rate of change		
Year 2003	(1.88%)	1.88%	1.99%
Year 2002	6.48%	2.38%	3.88%
Year 2001	1.41%	1.55%	0.70%

In addition, in 2002 the Company recognized a deferred profit that lowered its financing expenses by approximately NIS 8.2 million, gross (approximately NIS 5.1 million, net).

Other income, net

This item consists mainly of gains and losses in respect of transactions, such as the dilution of holdings in consolidated subsidiaries and the sale of properties.

In 2003, the Company recorded a net gain as the result of the dilution of its holdings in consolidated subsidiaries of approximately NIS 44.6 million (of which the Company's part was approximately NIS 37.5 million), compared with a total net gain of approximately NIS 1.1 million for the year 2002 (of which the Company's part was approximately NIS 0.1 million).

Additionally, consolidated subsidiaries sold assets in 2003 that generated net gains for the Group of approximately NIS 11.1 million (of which the Company's part was approximately NIS 4.5 million), compared with a net gain of approximately NIS 28 million in 2002 (of which the Company's part was approximately NIS 13.1 million). Additionally, in 2002, EQY recorded a gain from the partial forgiveness of a loan financing a commercial asset, totaling approximately NIS 7.1 million (of which the Company's part was approximately NIS 3.1 million, net). Furthermore, in 2002, the Company adjusted its investments in long-term negotiable financial securities, totaling approximately NIS 33 million, reflecting the decline in the value of those investments.

C. Analysis of key business results for 2003 on a quarterly basis:

	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2003 full year
Adjusted NIS in thousands (except for per share amounts)					
Revenues					
Rental income	292,991	317,759	385,502	404,934	1,401,186
Rental operating expenses	99,123	102,723	123,977	131,967	457,790
Depreciation of rental properties	38,410	44,979	56,627	57,473	197,489
Gross profit	155,458	170,057	204,898	215,494	745,907
General & administrative expenses	27,507	25,222	33,182	29,894	115,805
Income from ordinary operations	127,951	144,835	171,716	185,600	630,102
Financing income (expenses), net	16,715	(122,154)	(60,385)	(134,339)	(300,163)
	144,666	22,681	111,331	51,261	329,939
Other income (expenses), net	(5,344)	23,589	29,442	8,805	56,492
Income before taxes on income	139,322	46,270	140,773	60,066	386,431
Taxes on income	6,648	8,687	15,056	13,238	43,629
Income after taxes on income	132,674	37,583	125,717	46,828	342,802
Company's share in profits of associated companies	2,288	1,360	5	(40)	3,613
Minority interest in earnings of subsidiaries	(73,023)	(25,137)	(76,397)	(35,282)	(209,839)
Net income for the period	61,939	13,806	49,325	11,506	136,576
Net earnings per share (of NIS 1 par value)	0.79	0.11	0.69	0.13	1.69
FFO for the period	85,681	19,395	52,113	34,827	192,016
FFO per share (of NIS 1 par value)	1.09	0.18	0.73	0.42	2.39
Number of shares used in computing net earnings per share and FFO per share (par value in thousands)	77,009	77,004	77,917	81,004	78,242
Shareholders' equity and minority interests as percentage of total assets at end of period	28.1%	30.9%	32.5%	32%	32%

D. Analysis of results of operations for Q4 2003**Rental income**

The increase in rental income in the fourth quarter of the year, compared with the same quarter in the previous year, resulted from the continuing acquisition of new properties and from the contribution made by IRT's properties acquired during the first quarter of the year.

Rental operating expenses

The increase in rental operating expenses in the fourth quarter of the year, compared with the same quarter of the previous year, resulted from the aforementioned growth in the number of properties. Rental operating expense as a percentage of rental income declined from 33% for the fourth quarter last year to 32.6% for the current quarter.

Depreciation of rental-generating assets

The Company's share in the depreciation of assets (depreciation of assets net of the minority interest therein) was approximately NIS 28.1 million for the fourth quarter of the year, representing NIS 0.36 depreciation per share. This compares with NIS 16.4 million, representing NIS 0.26 depreciation per share, for the same quarter in the previous year.

Gross profit

Gross profit for the fourth quarter of the year totaled NIS 215.5 million, representing 53.2% of rental income. This compares with NIS 124.9 million, representing 55% of rental income for the same quarter in the previous year. Gross profit in the previous year included an extraordinary gain, resulting from a tenant lease termination, at the amount of NIS 4.7 million.

General and administrative expenses

General and administrative expenses as a percentage of rental income for the fourth quarter in 2003 were 7.4%, compared with 7.6% in the comparable quarter of the previous year.

Financing expenses, net

The increase in financing expenses in the fourth quarter of the year, compared with the same quarter in the previous year, resulted from the increase in the Group's borrowings, which matched the growth in its property holding and its rental income, as well as a decline in U.S. inflation, compared with zero inflation in the comparable period in the previous year. The increase in financing expenses was moderated by the Group's financial securities activity, which resulted in a gain of approximately NIS 6.7 million in the fourth quarter, compared with a gain of approximately NIS 4.6 million in the comparable quarter (in the fourth quarter of 2002—before adjustment of the long-term negotiable financial securities as presented in the section below, "Other income, net").

Other income, net

This item consists mainly of gains and losses from real estate sales and dilution of holdings in consolidated subsidiaries.

In the fourth quarter of the year, the Group recorded a net gain resulting from dilution of holdings in consolidated subsidiaries, totaling approximately NIS 6.4 million (the Company's net share was approximately NIS 5 million), compared with NIS 2.6 million in the comparable period in the previous year (in which the Company recorded a loss of NIS 1.9 million).

Additionally, in the fourth quarter of 2002, the Company adjusted its investments in long-term negotiable financial securities, in the amount of NIS 10.3 million, in order to reflect the decline in value of those investments.

4. Financial status

Liquidity

The Group has a policy of maintaining a high level of liquidity, enabling it to pursue business opportunities in its areas of operation.

As of December 31, 2003, the liquid assets available to the Group, including short-term investments, totaled NIS 121.4 million, compared with NIS 363.7 million as of December 31, 2002. The decline in liquid assets was principally a result of the acquisition of IRT and the acquisition of new properties.

In addition, the Group had un-utilized credit lines available for immediate access, totaling approximately NIS 1,196 million.

In aggregate, the Group had cash reserves and un-utilized lines of credit for immediate access of approximately NIS 1.3 billion.

Fixed assets, net

Net fixed assets as of December 31, 2003, were approximately NIS 12.1 billion, compared with approximately NIS 6.5 billion at the end of 2002.

During the reporting period of 2003, the Group acquired commercial properties, developed new properties, and redeveloped existing properties, for a total investment of approximately NIS 2.3 billion. Additionally, the acquisition of IRT contributed another approximately NIS 3.2 billion to this section (for details, see Section 2A and 2B, above).

Long-term liabilities

Long-term liabilities as of December 31, 2003, totaled approximately NIS 7.4 billion, compared with approximately NIS 4.4 billion at the end of 2002.

The increase results from new loans with a net value of approximately NIS 1.4 billion, and were principally designated for financing fixed-asset investments and the acquisition of shares in IRT, as well as the liabilities of IRT, totaling approximately NIS 1.4 billion, which were consolidated for the first time this year.

Shareholders' equity

As of December 31, 2003, the Company's shareholders' equity, together with minority interests, totaled approximately NIS 4.1 billion, financing approximately 32% of the balance sheet, compared with approximately NIS 1.8 billion, financing approximately 24.3% of the balance sheet, as of December 31, 2002. Taking into

consideration the convertible debentures in FCR, which may be converted into shares by FCR, per FCR's sole discretion, the percentages of shareholders' equity, minority interests, together with the convertible debentures, accounted for approximately 37% of total assets, compared with 33.9% respectively.

The increase in shareholders' equity from approximately NIS 889.7 million, as of December 31, 2002, to approximately NIS 1,141.2 million, as of December 31, 2003, resulted principally from a gain this year of approximately NIS 136.6 million, conversions of option warrants to shares, and the raising of capital by the Company, totaling approximately NIS 142 million, and due to translation adjustments deriving from translation of the financial statements of FCR and EQY, totaling approximately NIS 24.2 million (net of the dividends paid by the Company, totaling approximately NIS 52.2 million).

Current ratio

The current ratio (current assets to current liabilities) was approximately 0.57 as of December 31, 2003, compared with approximately 1.03 as of December 31, 2002. The decline in the above ratio resulted from the utilization of short-term financing to acquire properties and long-term investments and to repay long-term lines of credit. At the same time, these actions significantly increased the Company's un-utilized lines of credit (approximately NIS 1.2 billion).

Cash flows

Cash flows from operating activities totaled approximately NIS 361.8 million in 2003, compared with approximately NIS 222.6 million in 2002. The increase in cash flows from operations this reporting year resulted from the ongoing improvement in operating profits this year, net of expenses, and interest payments on loans. This was principally the result of the acquisition of IRT and the continued acquisition of new properties.

Additionally, the Company completed its financings by raising capital by the Company and its consolidated subsidiaries for a total sum of approximately NIS 1,468 million. These cash flows served principally to finance investment activities in fixed assets (the cash portion) which totaled this year approximately NIS 2,310 million, and the acquisition of IRT (the cash portion), totaling approximately NIS 827 million.

5. Donations

The Company makes donations to charities and community welfare projects, in particular to the charity "Larger than Life," a volunteer, humanitarian association benefiting youths afflicted with cancer and other severe chronic diseases.

Chaim Katzman, 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.

The Company's donations in the reported period totaled approximately NIS 1,948 million.

Of the above sum, the Company donated NIS 510,000 to the "Larger than Life" association, and approximately NIS 1,208 million to various bodies in the United States and Canada (via the Company's consolidated subsidiaries, such sums being designated for the regions where those companies carry on their business activities).

6. Additional information and subsequent events

- A.** As of February 20, 2004, the final exercise date, approximately 1.6 million of the Company's option warrants (Series 4) were exercised, into approximately 2 million of the Company's shares, for a total consideration of approximately NIS 24 million. Approximately 3 thousand option warrants expired unexercised.
- B.** During January 2004, the Israeli rating agency Maalot raised its rating on the Company's debentures to AA-.
- C.** On January 27, 2004, the Company placed the following securities to institutional investors:
1. A series of debentures (which will not trade on the stock exchange) with a par value of NIS 120 million. These debentures were issued in consideration for payment based on their par value. The debentures, linked to the consumer price index, will bear a fixed annual interest rate of 5.55%, and will be paid on an annual basis. The principal will be redeemed in full in one payment in February 2010.
 2. Series A debentures totaling NIS 90 million par value at a price of NIS 101 per NIS 100 per par value. The Company received approximately NIS 91 million. The above mentioned offering was a secondary offering based on the prospectus for the Series A debentures, initially sold publicly on May 2, 2002, and the terms pertaining for the first offering were identical to those for the subsequent offering, as described in the previously mentioned prospectus.
- D.** In March 2004, FCR issued approximately 3.4 million shares to institutional and other investors, and the Company (approximately 0.8 million shares). This offering was in consideration of approximately C\$ 55 million (approximately NIS 187 million). As a result of this offering, the Company is expected to record a gain in the first quarter of 2004, as a consequence of the dilution of its holdings, totaling approximately NIS 8.5 million.
- E.** In February 2004, the Company's Board of Directors authorized the Company to examine, on the basis of its experience and acquired expertise, the expansion of its activities into Europe, in the sectors of shopping centers, senior living facilities, and other commercial property ventures.
- F.** During February and March 2004, the Company acquired approximately 30.9 million shares of Citycon Oyj ("Citycon") that represents a holding of approximately 29.2% of Citycon's share capital (approximately 30.3% of the company's share capital net of shares held by Citycon itself). On March 15, 2004, Citycon's shareholders' meeting appointed 7 directors to the Board of Directors, 2 of which were recommended by the Company. The Company's total investment in Citycon amounts to approximately Euro 59 million (approximately NIS 324 million). In March 2004, Citycon announced it would distribute a dividend to shareholders totaling approximately Euro 14 million, on March 25, 2004. The Company's portion of this dividend will total approximately Euro 4 million (approximately NIS 22 million).

Citycon is a publicly-held company in Finland, focusing on the Finnish commercial property sector. Its asset-portfolio as of December 31, 2003, consisted of approximately 150 properties, part of which are supermarket-anchored shopping centers, and part commercial properties leased primarily to supermarket chains, with a total G.L.A. of approximately 500,000 square meters. According to Citycon's annual financial statements for December 31, 2003, the total assets's book value was approximately Euro 722 million (approximately NIS 4.1 billion). Citycon's share price on the Helsinki stock exchange on the day the

financial statement was released, reflected a market capitalization of approximately Euro 194 million (approximately NIS 1.1 billion).

- G.** On January 31, 2004, Mishkenot Clal signed an agreement with Polar Investments Inc. and Nidoran Inc. to acquire 91.2% of the shares in Hatsrot Hadar Inc., Mishkenot Clal's partner in Mediterranean Towers Kfar Saba (50%), and Mediterranean Towers Nordia (33%).

On March 1, 2004, after receiving clearance from the anti-trust commissioner, Mishkenot Clal completed the acquisition. And currently holds, through consolidated subsidiaries, full ownership of Mediterranean Towers Kfar Saba and 66.67% of Mediterranean Towers Nordia.

7. Exposure to market risks and their management

- A.** The individuals responsible for reporting on and managing the Company's exposure to market risks are Dori Segal, Chief Executive Officer, and Gil Kotler, Chief Financial Officer.

B. The Company's principal sources of market risk exposure:

1. The real estate investments of FCR and EQY are the Company's most materially significant assets; consequently, the relevant sources of risk to the Company are those related to the operations of FCR and EQY, as detailed below:
 - 1.1) The financial soundness of the tenants.
 - 1.2) Changes in the consumption habits of the public.
 - 1.3) Changes in the leasing policies of commercial chains and other significant tenants.
 - 1.4) The economic cycle in the regions where the Company's properties are located.
 - 1.5) The status of EQY as a REIT.
2. Fluctuations in the exchange rates of the U.S. and Canadian dollars relative to the new Israeli shekel (NIS) principally affect the Company's adjusted book value, such that an appreciation of the U.S. and Canadian dollars would increase the book value of the Company, and a depreciation of those currencies would result in a decline of the Company's book value.
3. Interest rate changes in the U.S., Canada, and Israel have an effect on the Company's results, in that a rise in interest rates increases the funding costs of the Company, and a decrease in interest rates reduces the Company's funding costs.
4. The Company is occasionally exposed to fluctuations in the exchange rate of the U.S. versus Canadian dollars, owing to the Company's operations in the U.S. and Canada.
5. The Company maintains holdings in negotiable financial securities which are subject to fluctuations in value.

C. The Company's policy of managing market risks are as follows:

1. FCR and EQY closely track, on an ongoing basis, developments in the markets where they operate. The companies employ local experts in the fields of management, development, and acquisitions of commercial properties in the U.S. and Canada.
2. The Company's policy is to maintain the highest correlation possible between the currency in which assets are acquired and the currency in which liabilities stemming from acquisition of said assets are incurred. The Company's management examines the linkage balance on an ongoing basis and responds to developments accordingly. In practice, the Company strives to neutralize all currency exposure.
3. The Company finances its principal credit undertakings in U.S. and Canadian dollars at long-term fixed rates (mortgages against commercial property). The Company finances its principal credit undertakings in new Israeli shekels (NIS) with shekel-linked financing, at fixed interest rates, and examines on an ongoing basis developments and changes in interest-rate policies by the Bank of Israel. Additionally, from time to time, and in accordance with market developments, the Company converts adjustable interest rates to fixed rates with the aim of protecting the Company's loans from interest rate fluctuations.
4. In the course of 2003, no adjustments were made to the Company's policies of managing market risks.

D. Directors possessing financial accounting expertise

1. In accordance with Section 36A of the Securities Law (1968), the Company is required to appoint a minimum number of suitably qualified directors in the area of financial accounting.

Accordingly, the Company's Board of Directors decided the minimum number of suitably qualified directors in the area of financial accounting was 3 directors.

2. Those directors who have declared themselves as possessing financial accounting expertise are:
 - 2.1) Ms. Ariela Zochovitzky
 - 2.2) Mr. Chaim Ben Dor
 - 2.3) Mr. Eliahu Shaha
3. Regarding the educational background and business expertise of the 3 directors mentioned above, see Article 26 of the financial statements for 2003.

E. Reports on linkage and derivatives

1) Report on the basis of linkage

December 31, 2003						
	CPI-linked	U.S.\$ or \$- linked	C\$ or \$-linked	NIS or NIS- linked	Unlinked	Total
Adjusted NIS (in thousands)						
Financial assets						
Cash or cash equivalents	1,594	43,796	7,768	493	—	53,651
Short-term investments	—	32,650	1,567	—	33,492	67,709
Tenants, receivables and other debit balance	1,612	86,967	42,162	—	20,364	151,105
Loan to partners development properties	—	—	57,522	—	—	57,522
Long-term investments	13,263	—	5,694	—	21,396	40,353
Long-term loans	17,855	33,889	6,773	—	—	58,517
	34,324	197,302	121,486	493	75,252	428,857
Non-financial assets						
	—	—	—	—	12,387,391	12,387,391
	34,324	197,302	121,486	493	12,462,643	12,816,348
Liabilities						
Short-term credit from banks and other creditors	—	4	—	3,095	—	3,099
Liabilities to suppliers, creditor and the credit balance	3,212	117,064	146,495	15,574	23,882	306,227
Debentures	104,521	992,255	—	—	—	1,096,776
Liabilities to financial institutions and others	7,561	3,399,982	3,018,684	80,157	—	6,506,384
Deposits from tenants	4,106	126,052	8,226	56	18,608	157,048
Liabilities owing at employee terminations	—	—	—	846	—	846
Deferred taxes	—	—	—	—	801	801
Debentures convertible to shares of the consolidated company	—	—	649,463	—	—	649,463
	119,400	4,635,357	3,822,868	99,728	43,291	8,720,644
Minority interests					2,954,392	2,954,392
Shareholders' equity					1,141,212	1,141,212
	119,400	4,635,353	3,822,868	99,728	4,138,895	12,816,248

December 31, 2002						
	CPI-linked	U.S. \$ or \$- linked	C\$ or \$-linked	NIS or NIS- linked	Unlinked	Total
Adjusted NIS (in thousands)						
Financial assets						
Cash or cash equivalents	438	170,541	112,714	3	—	283,696
Short-term investments	—	40,992	1,567	—	33,492	67,709
Tenants, payer receivables and the debit balance	1,604	63,993	25,196	—	33,543	124,336
Loan to partners of properties for development	—	12,090	32,881	—	—	44,971
Long-term investments	14,852	3,621	—	—	77,174	95,647
Long-term loans	21,961	47,141	13,812	—	—	82,914
	38,855	338,378	194,566	3	139,849	711,651
Non-financial assets	—	—	—	—	6,716,232	6,716,232
	38,855	338,378	194,566	3	6,856,081	7,427,883
Liabilities						
Short-term credit from banks and other creditors	—	—	—	2,786	—	2,786
Liabilities to suppliers, creditor and other credit balance	3,414	65,883	100,725	10,074	8,716	188,812
Debentures	99,272	200,780	44,494	—	—	344,546
Liabilities to financial institutions and others	7,25,517	2,145,207	1,941,016	115,296	—	4,227,036
Deposits from tenants	5,867	116,431	4,506	—	20,341	147,145
Liabilities owing due to employee-terminations	—	—	—	840	—	840
Deferred taxes	—	—	—	—	727	727
Debentures convertible to shares of the consolidated company	—	—	709,594	—	—	709,594
	134,070	2,528,301	2,800,335	128,996	29,784	5,621,486
Minority interests					916,685	916,685
Shareholders' equity					889,712	889,712
	134,070	2,528,299	2,800,336	128,997	1,836,181	7,427,883

2. Derivatives

- A.** In January 2001, the Company secured a five-year transaction with the Bank of Israel, totaling US\$ 20 million, in which it swapped basis of linkage for some of its debentures linked to the consumer price index, which it issued in the same month, to the U.S. dollar. The Company's obligation under this transaction was approximately NIS 1.2 million as of December 31, 2003.
- B.** The Company and its consolidated subsidiaries swapped with banks its adjustable interest to fixed interest rates ("IRS"), to hedge the loans of the Company and its consolidated subsidiaries from currency fluctuations, in the following manner:
1. The Company and its wholly-owned subsidiaries have established IRS transactions, totaling US\$ 28 million, with an average duration of 2 years, paying a fixed interest rate of 5.6% on average, and receiving the interest rate of LIBOR for 3 months (1.15%).
 2. A wholly-owned subsidiary of the Company established IRS transactions, totaling approximately C\$ 35 million, for redemption in March 2006, paying an interest rate on average of 4.9%, and receiving an interest rate of LIBOR for 3 months (2.72%).
 3. A subsidiary of the Company established IRS transactions, totaling approximately US\$ 30 million, with an average duration of 10 years, paying an average interest rate of 4.34%, and receiving an interest rate of LIBOR for 3 months (1.15%).
 4. A subsidiary of the Company established IRS transactions, totaling approximately US\$ 70 million, with an average duration of six months, paying an average interest rate of 1.6%, and receiving an interest at the monthly LIBOR rate (1.13%).
- C.** A subsidiary of the Company established swap futures transactions, totaling US\$ 7 million, to the Canadian dollar for a period of 6 months, based on an average exchange rate of 1.33 Canadian dollars to one U.S. dollar.
- F. Means employed in supervising and executing policy**
1. The Company's management, as supervised by the Company's Board of Directors, tracks risk management and the means employed to reduce those risks, on an ongoing basis.
 2. The Company's Chairman of the Board, Chaim Katzman (who is also the Chairman of the Boards of FCR and EQY), and Dori Segal, Chief Executive Officer of the Company (and who is also President of FCR), as well as other senior executives of the Company, permanently reside in those countries where the Company's subsidiaries transact their business.
- G. Meetings of the Board of Directors**

In 2003, the Board of Directors assembled on twelve occasions.

Chaim Katzman
Chairman of the Board of Directors

Dori Segal
President and Director