

GAZIT-GLOBE (1982) LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003

ADJUSTED TO THE NIS OF DECEMBER 2003

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

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 2003 and 2002 and the consolidated balance sheets as of such dates and the related statements of income, changes in shareholders' equity and cash flows - Company and consolidated - for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 97.9% and 93.4% of total consolidated assets as of December 31, 2003 and 2002, respectively, and whose revenues constitute approximately 98.6%, 98% and 99.6% of total consolidated rental income for the years ended December 31, 2003, 2002 and 2001, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2003 and 2002, and the results of operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2003, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

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

Tel-Aviv, Israel
March 22, 2004**KOST FORER GABBAY & KASIERER**
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2003

	Note	December 31,	
		2003	2002
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	53,651	283,696
Short-term investments	4	67,709	80,087
Tenants	5	84,911	44,517
Accounts receivable	6	66,194	79,819
Loans to partners in property under development	7	57,522	44,971
Rental property held for sale	11	63,649	43,104
		<u>393,636</u>	<u>576,194</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	8k	15,706	33,945
Long-term investments	9	40,353	95,647
Long-term loans	10	58,517	82,914
		<u>114,576</u>	<u>212,506</u>
FIXED ASSETS:			
Cost	11	12,608,688	6,815,879
Less - accumulated depreciation		<u>530,276</u>	<u>331,422</u>
		<u>12,078,412</u>	<u>6,484,457</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	12	<u>229,624</u>	<u>154,726</u>
		<u><u>12,816,248</u></u>	<u><u>7,427,883</u></u>

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2003

	Note	December 31,	
		2003	2002
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	378,944	362,676
Trade payables	14	129,921	*) 87,135
Other accounts payable	15	187,094	*) 111,448
		<u>695,959</u>	<u>561,259</u>
LONG-TERM LIABILITIES:			
Debentures	16	1,084,222	283,095
Liabilities to financial institutions and others	17	6,143,093	3,928,597
Tenants' security deposits	18	146,260	137,374
Accrued severance pay	19	846	840
Deferred taxes	20	801	727
		<u>7,375,222</u>	<u>4,350,633</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	21	<u>649,463</u>	<u>709,594</u>
MINORITY INTEREST		<u>2,954,392</u>	<u>916,685</u>
CONTINGENT LIABILITIES AND COMMITMENTS	22		
SHAREHOLDERS' EQUITY	23	<u>1,141,212</u>	<u>889,712</u>
		<u>12,816,248</u>	<u>7,427,883</u>

*) Reclassified.

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

March 23, 2004

Date of approval of the
financial statementsChaim Katzmann
Chairman of the Board
of DirectorsDori Segal
President and DirectorGil Kotler
Chief Financial Officer

BALANCE SHEETS - THE COMPANY

Adjusted to the NIS of December 2003

	Note	December 31,	
		2003	2002
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	18,032	91,514
Short-term investments	4	252	280
Accounts receivable	6	4,646	4,831
		<u>22,930</u>	<u>96,625</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	1,741,143	1,352,945
Long-term investments	9	17,468	29,423
Long-term loans	10	353	138
		<u>1,758,964</u>	<u>1,382,506</u>
FIXED ASSETS:			
Cost	11	2,851	2,775
Less - accumulated depreciation		<u>877</u>	<u>771</u>
		<u>1,974</u>	<u>2,004</u>
OTHER ASSETS AND DEFERRED CHARGES, NET			
	12	<u>6,144</u>	<u>5,945</u>
		<u>1,790,012</u>	<u>1,487,080</u>

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

BALANCE SHEETS - THE COMPANY

Adjusted to the NIS of December 2003

	Note	December 31,	
		2003	2002
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	29,591	16,979
Trade payables	14	1,065	299
Other accounts payable	15	12,136	17,138
		<u>42,792</u>	<u>34,416</u>
LONG-TERM LIABILITIES:			
Debentures	16	375,297	404,141
Liabilities to financial institutions and others	17	230,668	158,724
Accrued severance pay	19	43	87
		<u>606,008</u>	<u>562,952</u>
CONTINGENT LIABILITIES AND COMMITMENTS	22		
SHAREHOLDERS' EQUITY	23	<u>1,141,212</u>	<u>889,712</u>
		<u>1,790,012</u>	<u>1,487,080</u>

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

<u>March 23, 2004</u>	<u>Chaim Katzmann</u>	<u>Dori Segal</u>	<u>Gil Kotler</u>
Date of approval of the financial statements	Chairman of the Board	President and Director	Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of December 2003

	Note	Year ended December 31,		
		2003	(*) 2002	(*) 2001
		Adjusted NIS in thousands (except per share amounts)		
Rental income	26	1,401,186	885,431	707,761
Rental property operating expenses	27	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	28	115,805	80,964	58,861
Operating income		630,102	387,504	308,549
Financial expenses, net	29	300,163	147,203	147,992
Other income (expenses), net	30	329,939	240,301	160,557
		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	8j	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 earning per NIS 1 par value of Ordinary shares (in adjusted NIS):	31			
Basic earnings		1.69	1.45	1.58

*) Reclassified, see Note 2e.

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

STATEMENTS OF INCOME - THE COMPANY

Adjusted to the NIS of December 2003

	Note	Year ended December 31,		
		2003	(*) 2002	(*) 2001
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		144,012	127,106	69,055
Other income, net	30	6,163	426	2,791
Financial, net	29	-	-	22,881
		<u>150,175</u>	<u>127,532</u>	<u>94,727</u>
Costs and expenses:				
General and administrative	28	8,134	7,783	6,310
Financial, net	29	1,684	11,714	-
		<u>9,818</u>	<u>19,497</u>	<u>6,310</u>
Income before taxes on income		140,357	108,035	88,417
Taxes on income	20e	3,781	3,882	3,725
Net income		<u>136,576</u>	<u>104,153</u>	<u>84,692</u>
Net earning per NIS 1 par value of Ordinary shares (in adjusted NIS):	31			
Basic earnings		<u>1.69</u>	<u>1.45</u>	<u>1.58</u>

*) Reclassified, see Note 2e.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of December 2003

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings (deficit)	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares (*)	Total
	Adjusted NIS in thousands								
Balance at January 1, 2001	101,090	377,539	1,702	11,821	(9,221)	-	(660)	-	482,271
Issuance of share capital, net	7,810	97,562	-	-	-	-	(18,695)	-	86,677
Conversion of debentures into shares	91	969	-	-	-	-	-	-	1,060
Exercise of stock options into shares	2,684	21,683	-	-	-	-	-	-	24,367
Sale of shares by subsidiary	-	(730)	-	-	-	-	15,648	-	14,918
Foreign currency translation adjustments for foreign consolidated units, net	-	-	-	44,202	-	-	-	-	44,202
Net income	-	-	-	-	84,692	-	-	-	84,692
Dividend paid	-	-	-	-	(23,938)	-	-	-	(23,938)
Dividend declared	-	-	-	-	(19,270)	-	-	-	(19,270)
Balance as of December 31, 2001	111,675	497,023	1,702	56,023	32,263	-	(3,707)	-	694,979
Issuance of share capital, net	6,198	80,299	-	-	-	-	-	(8,144)	78,353
Exercise of stock options into shares	9,338	132,590	-	-	-	-	(105,898)	-	36,030
Sale of shares by the Company	-	294	-	-	-	-	3,061	(2,032)	1,323
Foreign currency translation adjustments for foreign consolidated units, net	-	-	-	5,934	-	-	-	-	5,934
Net income	-	-	-	-	104,153	-	-	-	104,153
Dividend paid	-	-	-	-	(31,060)	-	-	-	(31,060)
Dividend declared	-	-	-	-	(11,374)	11,374	-	-	-
Balance as of December 31, 2002	127,211	710,206	1,702	61,957	93,982	11,374	(106,544)	(10,176)	889,712
Issuance of share capital, net	3,987	59,758	-	-	-	-	-	-	63,745
Exercise of stock options into shares	6,718	71,683	-	-	-	-	-	-	78,401
Repayment of loans for purchase of shares	-	-	-	-	-	-	-	738	738
Repurchase of shares	-	-	-	-	-	-	(60)	60	-
Foreign currency translation adjustments for foreign consolidated units, net	-	-	-	24,218	-	-	-	-	24,218
Net income	-	-	-	-	136,576	-	-	-	136,576
Dividend paid	-	-	-	-	(40,804)	(11,374)	-	-	(52,178)
Dividend declared	-	-	-	-	(14,583)	14,583	-	-	-
Balance as of December 31, 2003	137,916	841,647	1,702	86,175	175,171	14,583	(106,604)	(9,378)	1,141,212

*) As for loans to related parties in the Company for purchase of shares, see Note 32.
The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2003**

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income	136,576	104,153	84,692
Adjustments to reconcile net income to net cash provided by operating activities (a)	225,208	118,425	1,691
Net cash provided by operating activities	<u>361,784</u>	<u>222,578</u>	<u>86,383</u>
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated subsidiaries (b)	(827,451)	-	(165,949)
Investment in subsidiary and in jointly controlled entity	(57,988)	(12,761)	(20,530)
Investments in fixed assets	(2,310,376)	(954,834)	(483,615)
Repayment (grant) of loans to partners in property under development, net	(3,744)	16,816	(9,633)
Proceeds from sale of real estate	145,523	141,831	149,121
Long-term loans granted	(214)	(9,874)	(11,344)
Repayment of long-term loans granted	17,452	4,863	19,849
Short-term investments, net	108,964	27,223	91,154
Purchase of marketable securities and long-term investments	(76,269)	(193,975)	(114,603)
Proceeds from realization of long-term investments	74,938	229,525	181,800
Net cash used in investing activities	<u>(2,929,165)</u>	<u>(751,186)</u>	<u>(363,750)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
<u>Cash flows from financing activities:</u>			
Repayment of loans for the purchase of Company and subsidiary's shares	16,058	-	-
Issuance of share capital, net	63,745	78,353	86,677
Exercise of stock options into shares	78,401	36,030	24,367
Sale of shares by the Company and subsidiary	-	1,323	14,918
Issuance of shares to minorities in subsidiary, net	1,002,175	279,058	97,401
Deferred charges in respect of raising loans and debentures	(19,672)	(26,166)	(11,854)
Dividend paid	(52,178)	(50,330)	(31,180)
Dividend paid to minorities in subsidiary	(211,918)	(83,070)	(28,864)
Receipt of long-term loans	2,245,899	983,308	1,348,683
Repayment of long-term loans	(788,186)	(512,141)	(1,005,009)
Redemption and early redemption of debentures and convertible debentures	(123,379)	(145,551)	(226,811)
Sale of Company's debentures by subsidiaries	117,632	549	-
Short-term bank credit, net	313	(134,991)	10,106
Issuance of debentures and convertible debentures	-	154,135	101,221
Increase in tenants' security deposits	1,111	1,862	6,324
Net cash provided by financing activities	<u>2,330,001</u>	<u>582,369</u>	<u>385,979</u>
Effect of exchange rate differences from cash balances of foreign autonomous consolidated units on cash and cash equivalents	<u>7,335</u>	<u>6,438</u>	<u>6,370</u>
Increase (decrease) in cash and cash equivalents	(230,045)	60,199	114,982
Cash and cash equivalents at the beginning of the year	<u>283,696</u>	<u>223,497</u>	<u>108,515</u>
Cash and cash equivalents at the end of the year	<u><u>53,651</u></u>	<u><u>283,696</u></u>	<u><u>223,497</u></u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2003

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Gain from realization and revaluation of marketable securities, net	(11,334)	(14,994)	(79,627)
Minority interest in earnings of subsidiaries	209,839	124,639	47,143
Equity in earnings of affiliates, net of dividend received	(1,232)	84	-
Depreciation	199,406	114,221	99,344
Deferred taxes, net	17,081	(5,289)	(4,006)
Gain (loss) from early redemption of debentures and convertible debentures	288	(8,202)	(38,242)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(159,356)	(148,537)	(55,949)
Write-down of long-term investments	250	34,315	9,231
Amortization of other assets and deferred charges	23,848	14,539	12,174
Gain from sale of real estate	(11,070)	(27,923)	(235)
Increase in accrued severance pay	6	51	134
Gain from issuance to third party	(44,627)	(1,100)	(4,838)
Changes in asset and liability items:			
Decrease (increase) in tenants and other accounts receivable	(35,225)	(10,841)	6,758
Increase in trade payables and other accounts payable	29,259	45,307	13,699
Increase (decrease) in tenants' security deposits	8,075	2,155	(3,895)
	<u>225,208</u>	<u>118,425</u>	<u>1,691</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
(b) <u>Investment in newly consolidated subsidiaries:</u> (Note 1b2, 1b3 and 1b4)			
Subsidiaries' assets and liabilities at date of purchase:			
Working capital (excluding cash and cash equivalents):			
Current assets	(52,815)	-	(27,887)
Current liabilities	58,979	-	20,672
	6,164	-	(7,215)
Fixed assets, long-term investments and loans (mainly real estate)	(3,221,407)	-	(654,026)
Other assets	(90,323)	-	(55)
Long-term liabilities	1,402,741	-	357,239
Minority interest	53,394	-	116,320
	(1,855,595)	-	(180,522)
Increase in minority interest due to consideration paid in subsidiary's shares	1,021,980	-	21,788
	(827,451)	-	(165,949)
(c) <u>Significant non-cash operations:</u>			
Conversion of convertible debentures into subsidiary's shares	127,934	-	-
Dividend declared	-	-	19,270
Issuance of shares in subsidiary to minorities and related party against long-term loans	-	7,193	23,035
Purchase of fixed assets against liabilities	11,788	4,911	-
Purchase of fixed assets in consideration for subsidiary's shares	8,432	2,406	-
Conversion of convertible debentures into Company's shares	-	-	1,060
Conversion of debentures into convertible debentures	593	25,519	-
Sale of real estate against receivables	-	18,127	-
Sale of treasury shares to employees against long-term loans	-	2,032	-

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

STATEMENTS OF CASH FLOWS - THE COMPANY

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income	136,576	104,153	84,692
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(115,222)	(109,154)	(85,797)
Net cash provided by (used in) operating activities	21,354	(5,001)	(1,105)
<u>Cash flows from investing activities:</u>			
Investment in subsidiaries and jointly controlled entity	(2,892)	(65,941)	(15,446)
Loans granted to subsidiaries, net	(271,812)	(132,382)	(152,154)
Investments in fixed assets	(885)	(530)	(698)
Short-term investments, net	11,726	15,324	29,573
Purchase of marketable securities and long-term investments	(3,332)	(43,435)	(50,515)
Proceeds from sale of long-term marketable securities	8,868	27,291	130,938
Repayment (grant) of long-term loans granted	(215)	12	(8,550)
Proceeds from sale of fixed assets	474	-	122
Net cash used in investing activities	(258,068)	(199,661)	(66,730)
<u>Cash flows from financing activities:</u>			
Issuance of share capital, net	63,745	78,353	86,677
Exercise of stock options into Company's shares	78,401	36,030	24,367
Sale of shares by the Company and subsidiary, net	-	1,323	14,918
Deferred charges in respect of raising loans and debentures	(487)	(3,391)	(3,558)
Dividend paid	(52,178)	(50,330)	(31,180)
Receipt of long-term loans	172,468	78,108	155,091
Loan received from jointly controlled entity	-	-	1,336
Repayment of long-term loans	(74,803)	(72,031)	(226,564)
Short-term bank credit, net	69	(3,083)	130
Repayment of loans granted to purchase Company's shares	738	-	-
Issuance of debentures	-	261,500	101,219
Early redemption of debentures	(9,805)	(40,320)	-
Redemption of debentures	(14,916)	(18,739)	(27,460)
Net cash provided by financing activities	163,232	267,420	94,976
Increase (decrease) in cash and cash equivalents	(73,482)	62,758	27,141
Cash and cash equivalents at the beginning of the year	91,514	28,756	1,615
Cash and cash equivalents at the end of the year	18,032	91,514	28,756

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

STATEMENTS OF CASH FLOWS - THE COMPANY

Adjusted to the NIS of December 2003

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Write-down of long-term investments	-	3,943	-
Gain from marketable securities, net	(6,175)	1,234	(21,645)
Equity in earnings of subsidiaries, net of dividend received			
Depreciation	(138,382)	(121,342)	(63,515)
Adjustment differences on monetary assets and long-term monetary liabilities, net	369	321	305
Amortization of other assets and deferred charges	32,972	(1,796)	2,064
Loss from early redemption of debentures	288	812	357
Increase (decrease) in accrued severance pay	288	784	-
Loss (gain) from issuance to third party	(44)	9	24
Loss from sale of fixed assets	(3,721)	(1,798)	31
	72	-	26
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	196	1,966	(2,860)
Increase (decrease) in trade payables and other accounts payable	(1,085)	6,713	(584)
	<u>(115,222)</u>	<u>(109,154)</u>	<u>(85,797)</u>
(b) <u>Significant non-cash operations:</u>			
Dividend declared	-	-	19,270
Conversion of convertible debentures into Company's shares	-	-	1,060
Sale of treasury shares to employees against long-term loans	-	2,032	-

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Definitions:

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

b. The Company and its activity:

- The Company invests in income producing properties and it is engaged directly and through its subsidiaries in acquiring, developing and managing income producing properties in the U.S., Canada and Israel. The Company focuses mainly on supermarket-anchored shopping center sector. Additionally, the Company operates in the field of protected tenancy in the U.S. and Israel. As for the purchase of a 30.3% stake in a Finnish public company which holds about 150 commercial centers and buildings for rent subsequent to the balance sheet date, see Note 33 to the financial statements.

In U.S., the Company operates mainly through Equity One Inc. ("EQY"), a public company traded on the NYSE. EQY is a REIT for tax purposes. As of the date of the financial statements, the Company holds directly and through First Capital Reality Inc. ("FCR") 40.5% of the share capital of EQY. Additionally, the Group operates in the U.S. through Royal Senior Care ("RSC") (50%) which is engaged in the field of protected tenancy in the U.S.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

In Canada the Group operates through FCR, a public company traded on the Toronto Stock Exchange ("TSX"). As of the date of the financial statements, the Company holds 56.9% of the share capital of FCR.

In Israel, the Company holds half of the share capital of Mishkenot Clal (1982) Ltd. ("Mishkenot Clal") which is engaged in the establishment, operation, management and marketing of senior citizen residence centers in Israel. Similarly, the Company owns an office building in Tel Aviv.

2. Investment in EQY:

- a) Since the end of 1994, the Company has invested, directly and indirectly, in EQY, an American company specializing in the acquisition and management of income producing properties in the U.S., whose shares have been listed on the New York Stock Exchange ("NYSE") since 1998.
- b) In October 2000, EQY signed an agreement with Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") according to which it allocated in 2000 and 2001 2,950 thousand of EQY shares (20% of EQY shares at the date of closing) at a price of U.S.\$ 10.875 per share.

As for a shareholders' agreement between the Company and Alony-Hetz, see Note 22.

- c) In September 2001, EQY acquired the wholly owned subsidiary of FCR, which owns properties in the U.S., in consideration of 10.5 million of EQY shares.
- d) In September 2001, EQY acquired United Investors Reality Trust, a public company, designated as a REIT for tax purposes and whose shares were listed on NASDAQ in a share and cash transaction. The net value of the transaction was estimated at approximately U.S.\$ 66 million, whereby half was paid in cash and the other half in EQY shares.
- e) In October 2002, EQY signed an agreement for the acquisition of IRT Property Company ("IRT"), a public company, designated as a REIT for tax purposes and whose shares were listed on the New York Stock Exchange ("NYSE"), which owned 90 commercial centers in the southeast region of the U.S. for approximately U.S.\$ 426 million in a share and cash transaction. On February 12, 2003, the purchase transaction was closed. EQY paid using its shares and cash (approximately U.S.\$ 189 million) in consideration of an approximately 57% stake in IRT.

Simultaneously with the purchase agreement and as a means of financing the transaction, EQY signed an agreement whereby on the date of the transaction's closing, EQY issued to its principal shareholders 6.9 million shares, of which the Company acquired 4.3 million shares and FCR one million shares at the price of U.S.\$ 13.5 per share.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

- f) During the reported year, EQY raised in public issuance, private placements, its dividend reinvestment plan ("DRIP") and other offerings (excluding the IRT transaction) approximately U.S.\$ 159 million (in 2002 - U.S.\$ 69.4 million), of which U.S.\$ 17 million was received from the Company and its wholly owned subsidiaries (including FCR). In connection with these issuances, the Company's holding in EQY decreased, directly and indirectly, to 40.5%, and the Company recorded a gain from the decrease in the holding rate of approximately NIS 38.7 million. According to the position taken by the Israeli Securities Authority, and as accepted by the Company, the Company will continue to consolidate the accounts of EQY, as at present, since the test of effective control still exists.

3. Investment in FCR:

- a) In August 2000, the Company completed a tender offer in which it acquired, through a wholly owned Canadian subsidiary ("Gazit 97"), 72% of FCR shares, a Canadian income producing real estate company listed for trade on the Toronto Stock Exchange ("TSX"). Together with additional shares acquired on the stock exchange prior to the completion of this process, Gazit 97's stake reached 84% of the share capital of FCR.

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

As for additional details regarding the shareholders' agreement between the Company and a wholly owned subsidiary of Alony-Hetz, see Note 22.

The aggregate acquisition cost (without the portion sold to Alony-Hetz) amounted to approximately NIS 406 million.

- b) In March 2002, FCR published a prospectus for the issuance of options exercisable into FCR shares until 2008, by way of rights issued to its shareholders, so that anyone holding 1.25 of FCR shares is entitled to acquire one option for C\$ 0.05. The exercise increment per each option was fixed at C\$ 11.8.

The Company acquired 8.7 million options of the 12.3 million options issued by FCR.

During 2002, the Company exercised 1.4 million traded options into FCR shares for approximately C\$ 16 million, and during 2003, the Company exercised an additional 3.5 million traded options into FCR shares for an investment of approximately C\$ 40.9 million.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

- c) In May 2002, Gazit 97 entered into a transaction with FCR, whereby FCR acquired all of the issued capital of a wholly owned company of Gazit 97, which owns eight income producing properties in Quebec, Canada, in consideration of C\$ 31.6 million. Said consideration was paid through C\$ 28.2 million par value of FCR's convertible debentures (series D) valued at C\$ 24.2 million (C\$ 84.34 per C\$ 100 par value of debentures, including accrued interest) and 601,630 shares valued at C\$ 7.4 million (C\$ 12.30 per share). In addition, FCR received from Gazit 97 the right to issue it additional convertible debentures (series D) on the same terms, valued at C\$ 5 million, and which was realized at the end of May 2002.
- d) During 2002, FCR issued 1.2 million shares in consideration of for three semi-annual payments of interest on convertible debentures (series C and series D) in the amount of approximately C\$ 14.1 million. During 2003, FCR issued 1.4 million shares in return for four payments of interest, as above, in the amount of approximately C\$ 18.7 million, and this in accordance with the right conferred to FCR under the terms of the debentures.

Gazit 97, which holds convertible debentures of FCR, received in 2002 about 540 thousand shares in return for receipt of interest in the amount of approximately C\$ 6.3 million and in 2003 about 628 thousand shares in return for receipt of interest in the amount of approximately C\$ 8.6 million.

- e) On October 30, 2003 and December 31, 2003, FCR made an early redemption of all of the principle of convertible debentures (series A) in the amount of C\$ 57.4 million in return for the issuance of 3.9 million of FCR's shares. The Company, which before the redemption held approximately C\$ 18.3 of the convertible debentures (series A) received 1.3 million of FCR's shares.
- f) As a result of the mentioned in sections b, d and e above, and as a result of additional issuances effected by FCR, the Company's shareholdings in FCR decreased from 67.9% to 56.9% and the Company recorded, in the reported year, a gain from the decrease in the holding rate of approximately NIS 5.9 million.
4. Investment in Mishkenot Clal (1982) Ltd. ("Mishkenot Clal"):

In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the acquisition of shares and a private placement, 49% of the share capital of Mishkenot Clal, in return for the net consideration of approximately NIS 70 million. During May 2001, the Company acquired an additional 1% of the shares of Mishkenot Clal in consideration of approximately NIS 2 million, thereby increasing its stake in Mishkenot Clal to 50%.

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

Mishkenot Clal's financial statements are consolidated by the proportionate consolidation method.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

5. Investment in RSC:

RSC is engaged in the acquisition and management of senior citizen residence centers in the U.S. RSC is jointly owned by the Company (50%) and an American partner with vast experience in the establishment and management of protected tenancy centers in the U.S.

RSC's financial statements are consolidated by the proportionate consolidation method.

6. Dividend distribution policy:

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

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

In March 2004, the Company's Board decided to update its decision from November 2003 and to announce that beginning in second quarter of 2004 a dividend of at least NIS 0.76 per share would be declared in each year (NIS 0.19 per share per quarter).

7. As for the exercise of options (series 4) into the Company's shares and private placements by the Company during the reported year, see Note 23.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Adjusted financial statements:

1. The Company and its Israeli subsidiaries maintain their current accounting records in nominal NIS. In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a stable purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2003, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2004 (112.9 points on the average basis of 1998 = 100).

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

2. The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets which have been adjusted according to the changes in the general purchasing power of the currency.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

3. The term "cost" in these financial statements signifies cost in adjusted NIS, unless otherwise indicated.
 4. A summary of the Company's nominal data is presented in Note 35.
- b. Principles of adjustment:
1. Balance sheet:
 - a) Non-monetary items (items whose amounts in the balance sheet reflect their nominal amounts upon acquisition or incurrence - see below) have been adjusted on the basis of the changes in the Israeli CPI since their acquisition or incurrence.

The following items have been treated as non-monetary items: prepaid expenses, fixed assets and the related accumulated depreciation, long-term investments, other assets and deferred charges, net and capital accounts and additional paid-in capital derived from cash received from shareholders.
 - b) The book value of the investments in subsidiaries is determined on the basis of the adjusted financial statements of these companies.
 - c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2003 in their nominal amounts (comparative data have been adjusted to the December 2003 Israeli CPI).
 2. Statement of income:
 - a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.
 - b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.
 - c) The components of the statement of income relating to provisions and accruals included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined on the basis of the changes in the balances of the related balance sheet items after their relative cash flows are taken into account.
 - d) Current tax expenses on income include the erosion in the value of the payments from the date of payment to the balance sheet date.
 - e) The equity and the minority interest in the results of operations of subsidiaries is determined on the basis of the adjusted financial statements of these companies.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f) The financing item, reflects real financial income or expenses including the erosion of monetary items during the reported year.

3. Statement of changes in shareholders' equity:

The dividend which was declared and actually paid during the reported year was adjusted on the basis of the Israeli CPI upon actual payment date. The dividend which was declared by the date of the approval of the financial statements and was not paid as of the balance sheet date was included without adjustment. The erosion of the dividend which was declared in the previous year and actually paid in the reported year is included in the statement of changes in shareholders' equity.

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

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

Following are the main principles as determined in interpretation 8 referring to autonomous units:

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

d. Principles of consolidation:

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

e. Reclassification of the statement of income:

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

f. Cash equivalents:

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

g. Marketable securities:

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

h. Allowance for doubtful accounts:

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

i. Fixed assets:

1. Fixed assets are stated at cost. Impairment loss is provided whenever the carrying amount of an asset exceeds its value in use. Financial expenses related to the financing of the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.
2. Improvements, renovations and material reconditioning are carried to cost whereas current maintenance and repair expenses are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)**

3. Depreciation is calculated using the straight-line method at annual rates which are deemed adequate to depreciate the assets over their estimated useful lives, as follows:

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

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

- j. Impairment of assets:

On January 1, 2003, the Company adopted Accounting Standard No. 15, "Impairment of Assets". This Standard prescribes the accounting treatment and disclosures required in the event of impairment of assets. The Standard applies to all assets recognized in the balance sheet other than inventories, assets generated by construction contracts, assets generated by employee benefits, deferred tax assets and financial assets (except investments in investees that are not subsidiaries). According to the new Standard, whenever there is an indication that an asset may be impaired, the Company should determine if there has been an impairment of the asset by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price or value in use, which is determined based on the present value of estimated future cash flows expected to be generated by the continuing use of an asset and by its disposal at the end of its useful life. If the carrying amount of an asset exceeds its recoverable amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss recognized should be reversed only if there has been changes in the estimates used to determine the asset's recoverable amount since the impairment loss was recognized.

The adoption of this Standard did not have a material effect on the Company's financial position and results of operations.

- k. Investments in investees:

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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

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

As for deferred taxes, see m. below.

l. Other assets and deferred charges, net:

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

m. Deferred taxes:

1. Deferred taxes are computed in respect of timing differences between the amounts included in the adjusted statements and the amounts to be considered for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel).
2. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are released to the statement of income, as known on the date the financial statements were prepared.
3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account by the Group in computing the deferred taxes, as it is the Company's intention to hold these investments. Similarly, deferred taxes that may be incurred in the event of distribution of earnings by certain investees as dividends have not been taken into account in computing the deferred taxes since the Company's policy is not to initiate distribution of dividends from these companies that involves an additional tax liability.
4. The Company records deferred tax assets on the basis of the Company's management estimate as to the likelihood of the utilization of the benefit.

n. Revenue recognition from rental income and management fees:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

- o. Revenue recognition from entrance fees and forfeiture of deposits:

In order to create an appropriate matching between revenues from tenants and expenses related to their occupation, the Company equally carries the expected revenues from entrance fees and from forfeiture of tenants deposits to the statement of income over a period of 10 years beginning with the date on which the tenant enters the apartment, a period which, in management's opinion, reflects the average time of stay of a tenant who has entered into an agreement with the Company.

Expected revenues from the forfeiture of tenants deposits based on period of stay of 10 years from the date of entering the center are presented as deferred revenue.

Financial income and expenses in connection with the expected balance of deposits to be refunded to tenants, revenues from forfeitures after 10 years of stay, as well as revenues from other services are carried to the statement of income as incurred.

- p. Debentures and convertible debentures:

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

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

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

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

Since 2002, the Company has acted in accordance with the Securities Authority's staff position whereby if the Company acquires convertible debentures of the subsidiary, the above difference will be deferred and recognized as a gain only when the debentures are converted or redeemed.

- q. Derivative financial instruments:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. Exchange rates and linkage basis:

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

	Consumer Price Index			Exchange rate of \$ 1 of	
	Israel	U.S. Points *)	Canada	U.S.	Canada
				NIS	
As of:					
December 31, 2003	112.9	184.3	122.8	4.379	3.4075
December 31, 2002	115.1	180.9	120.4	4.737	3.0013
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
December 31, 1999	106.6	168.3	11.5	4.153	2.8568
Increase (decrease) during the year:					
			%		
2003	(1.9)	1.9	2.0	(7.6)	13.5
2002	6.5	2.4	3.9	7.3	8.1
2001	1.4	1.6	0.7	9.3	3.2
2000	-	3.4	3.2	(2.7)	(5.8)

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

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

s. Earnings per share:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

t. Fair value of financial instruments:

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

As for derivative financial instruments, see q. above.

u. Use of estimates:

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

v. Effects of new accounting standards on the financial statements:

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

According to Accounting Standards No. 12 and No. 17, which deal with the discontinuance of the adjustment of financial statements, financial statements will cease to be adjusted for inflation in Israel beginning January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements in accordance 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.

Accounting Standard No. 13 prescribes principles with respect to the effect of changes in foreign exchange rates. This Standard replaces Interpretations No. 8 and No. 9 of Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which have been superseded upon the discontinuance of the adjustment of financial statements. The Standard deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the reporting enterprise. The translation principles of Accounting Standard No. 13 are different from those applied to date. Accounting Standard No. 13 will apply to financial statements for periods beginning January 1, 2004.

Management is of the opinion that the discontinuance of the adjustment of financial statements to the Israeli CPI in environment of positive inflation, without regulating additional Standards that influence the results of income producing real estate companies, will have a significant negative effect on the reported accounting results of the Company beginning with the year of adoption of the Standard, however, it is not expected to affect the gross profit, operating income and cash flows.

NOTES TO FINANCIAL STATEMENTS**NOTE 3:- CASH AND CASH EQUIVALENTS**

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	19,710	-	8,089	-
Deposits	33,941	283,696	9,943	91,514
	<u>53,651</u>	<u>283,696</u>	<u>18,032</u>	<u>91,514</u>

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value (1)	33,492	29,132	252	280
Deposits in dollars (2)	34,217	21,543	-	-
Restricted cash (3)	-	29,412	-	-
	<u>67,709</u>	<u>80,087</u>	<u>252</u>	<u>280</u>

- (1) Mainly investments in shares of income producing real estate companies in the U.S. and Canada.
- (2) Deposits for the examination of investments in real estate and other deposits. Most of these deposits do not bear interest.
- (3) Cash designated to secure various liabilities of subsidiaries. The restriction ended during 2003.

NOTE 5:- TENANTS

- a. Composition:

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Open accounts	90,658	49,139
Less - allowance for doubtful accounts	5,747	4,622
	<u>84,911</u>	<u>44,517</u>

- b. As for major lessees in subsidiaries, see Note 26.

NOTES TO FINANCIAL STATEMENTS

NOTE 6:- ACCOUNTS RECEIVABLE

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Government authorities (1)	32,693	22,953	216	387
Related party (2)	-	139	-	-
Prepaid expenses	20,364	33,543	4,419	4,351
Employees	679	3,085	2	-
Receivables for sale of land	6,240	11,560	-	-
Other	6,218	8,539	9	93
	<u>66,194</u>	<u>79,819</u>	<u>4,646</u>	<u>4,831</u>

(1) Mainly for municipal taxes.

(2) A loan amounting U.S.\$ 80 thousand which a subsidiary provided to the Company's CEO (a controlling shareholders by virtue of his holdings in Gazit, and a director in the Company) in August 1997 for relocating, within the framework of his position, to Canada. In January 2003, the Company's CEO repaid the outstanding loan in full.

NOTE 7:- LOANS TO PARTNERS IN PROPERTY UNDER DEVELOPMENT

Loans which FCR and EQY provided to partners in property under development for their share in financing the development of the properties of these companies. The loans are in U.S. dollars and in Canadian dollars, in accordance with the location of the property, and bear average interest of 10%. The loans are secured by the partners' rights to the properties. According to the partnership agreement and the agreement of loans to partners, these loans are intended to be repaid by December 2004, after receiving a loan in connection with the property when its development is completed or after its sale, whichever is earlier.

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES

a. Composition:

	<u>The Company</u>	
	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>	
1. Investments in subsidiaries:		
Cost of shares	621,405	450,715
Capital reserve from investments in subsidiaries	(32,252)	(32,252)
Equity in post-acquisition earnings	445,050	297,308
Dividend received from subsidiaries	(39,464)	(33,834)
Foreign currency translation adjustments for foreign consolidated units	89,259	76,215
	<u>1,083,998</u>	<u>758,152</u>
2. Investments in jointly controlled entity (*):		
Cost of shares	108,470	108,470
Equity in post-acquisition losses	(11,035)	(11,024)
	<u>97,435</u>	<u>97,446</u>
Loans (**)	<u>559,710</u>	<u>497,347</u>
	<u>1,741,143</u>	<u>1,352,945</u>

*) See h and i below.

**) Loans to subsidiaries in U.S. amounting approximately NIS 492 million are in U.S. dollars and bear interest at the rate of Libor + 0.5% to 2.2%. Loans to subsidiaries in Canada amounting to approximately NIS 75 million are in Canadian dollars and bear interest at the rate of 8.5%, or Libor + 2.5%, whichever is higher. Loans from subsidiaries in Israel amounting approximately NIS 7 million are linked to the Israeli CPI and bear interest at the rate of 4% to 6%. The principal and the interest are repayable upon the earlier of five years from the date of receipt of said loan or at the Company's request in the occurrence of certain events.

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

- b. The investment, directly and indirectly (net of minority interest), in EQY, which is listed for trade on the New York Stock Exchange:

	December 31, 2003		December 31, 2002	
	Carrying amount *	Market value	Carrying amount *	Market value
Adjusted NIS in thousands				
Shares	<u>1,310,643</u>	<u>1,696,060</u>	<u>934,092</u>	<u>1,061,815</u>

- *) Including initial difference.

As of the balance sheet date, the Company holds, directly and indirectly (net of minority interest), 33.1% (32.4% assuming full dilution) of the share capital of EQY.

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

Series	Average exercise increment per share *	Expiration date	Total number in units **
Options to employees and managers	U.S.\$ 13.22	2006 - 2013	***) 1,701

- *) The price for an EQY share as of the balance sheet date is U.S.\$ 16.88.

**) Including all of the stock options which were issued to employees and managers, as well as the 993 thousand stock options which have not yet gained the minimal length of time required for their vesting rights. As of the balance sheet date, EQY has 69,353 thousand issued shares

***) In the context of the employment contract between the Company's Chairman of the Board and EQY, EQY has undertaken to issue him additional options in the coming years, see Note 32b(1).

- d. EQY is the general partner in several partnerships which acquired income producing properties. The partners in those partnerships are entitled to exchange their participating units for 827 thousand of EQY shares. The partners share in the partnerships' equity, amounting approximately NIS 55,491 thousand, is presented in minority interest in the consolidated balance sheet.

The Company	
December 31,	
2003	2002
Adjusted NIS in thousands	

- e. Dividend directly received by the Company from EQY during the reported year

<u>5,630</u>	<u>5,764</u>
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NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

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

	December 31, 2003		December 31, 2002	
	Carrying amount *	Market value	Carrying amount *	Market value
Adjusted NIS in thousands				
Shares and traded options	913,428	1,125,920	552,808	490,813

- *) Including initial difference.

The Company holds, through subsidiaries, 56.9% (52.8% assuming full dilution) of the share capital of FCR.

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

Series	Average exercise increment per share *	Expiration date	Total number in units *
Options to former controlling shareholders in FCR and others	C\$ 13.53	2010	1,000
Options to employees and managers in FCR and the property management company	C\$ 13.44	2008 - 2013	**) 1,318
Traded options	C\$ 11.8	2008	5,776

As for FCR debentures that are redeemable into FCR shares, see Note 21.

- *) The price for FCR share as of the balance sheet date is C\$ 15.89. As of the balance sheet date, FCR has 35,124 thousand issued shares
- **) Including all of the stock options which were issued to employees and managers of FCR and the property management company as well as the 543 thousand stock options which have not yet gained the minimal length of time required for their vesting rights (including issuance to the Company's Chairman of the Board and CEO, see Note 32).
- h. The investment, directly and indirectly, in jointly controlled entities which were consolidated using the proportionate consolidation method:

	December 31,	
	2003	2002
Adjusted NIS in thousands		
Current assets	3,011	1,823
Non-current assets	153,027	140,389
Current liabilities	19,969	17,245
Long-term liabilities	100,140	95,528

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

	Year ended December 31,	
	2003	2002
	Adjusted NIS in thousands	
Revenues	16,589	15,008
Expenses	14,839	16,824
i. Goodwill included in the investment in jointly controlled entities:		
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Goodwill created upon acquisition	15,149	15,149
Amortized goodwill	4,355	2,754
	10,794	12,395
j. As for the charge placed on part of the subsidiaries' shares as collateral for the Group's liabilities, see Note 24.		
k. Investment in affiliates - consolidated:		
<p>The investment in affiliates as of December 31, 2003, represents EQY's investments in 50% of two companies each of which is the owner of an income producing property. Additionally, this item includes the 33% holdings of Mishkenot Clal Ltd. in a protected tenancy project in Nordia.</p> <p>EQY and the Company's stake in the investment in the assets of these companies (mainly fixed assets) amounts to approximately NIS 68.9 million (2002 - NIS 163.6 million). EQY and the Company's stake in the liabilities of these companies amounts to approximately NIS 53.2 million (2002 - NIS 129.7 million).</p> <p>In 2003, EQY sold two affiliates in consideration of approximately U.S.\$ 6.7 million (NIS 29.3 million) at a gain of approximately U.S.\$ 1.9 million (NIS 8.1 million).</p>		

NOTES TO FINANCIAL STATEMENTS

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Long-term deposits (1)	18,957	18,473	13,263	14,853
Marketable securities presented at cost (2):				
Shares of companies in Israel	4,205	14,570	4,205	14,570
Shares of companies in the U.S. and Canada	17,191	62,604	-	-
	21,396	77,174	4,205	14,570
	40,353	95,647	17,468	29,423

- (1) A deposit of NIS 13,263 thousand (2002 - NIS 14,056 thousand) is an unrestricted deposit, deposited with an Israeli bank and bears interest at the rate of 1.6%. According to the agreement with the bank, as long as the deposit is maintained, the interest rate on loans, provided by the bank to the Company's employees, CEO and secretary for purchase of Company's shares issued to them, shall be 2%. If the deposit is withdrawn, the interest rate on these loans shall be as the interest rate in the market. The balance of the deposits was granted to the providers of the mortgages in order to secure the performance of renovations in the mortgaged properties as to maintain their value.
- (2) The market value of these shares as of the balance sheet date is approximately NIS 23.5 million (2002 - NIS 85.4 million).

NOTE 10:- LONG-TERM LOANS

- a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Employees (1)	16,148	18,429	353	138
Related parties (2)	-	14,767	-	-
Loan provided by a jointly controlled entity (3)	17,135	17,909	-	-
Loans to jointly controlled entities	369	3,914	-	-
Other (4)	24,865	27,895	-	-
	58,517	82,914	353	138

NOTES TO FINANCIAL STATEMENTS

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

- (1) Consolidated - mainly loans in U.S. dollars for which the weighted interest rate is 5%.
The Company - the loans are in NIS, linked to the Israeli CPI and bear annual interest at the rate of 4%.
- (2) The composition as of December 31, 2002 is as follows:
- (a) A loan amounting U.S.\$ 2,880 thousand which EQY provided to the Company's Chairman of the Board in September 2002 for exercising stock options issued to him by EQY, within the framework of the employee stock option plan. In June 2003, the Chairman of the Board repaid the outstanding loan in full.
- (b) A loan amounting U.S.\$ 297 thousand which EQY provided to the Company's Chairman of the Board in June 1999 for exercising stock options (series C) issued to him by EQY. In June 2003, the Chairman of the Board repaid the outstanding loan amount.
- (3) A loan that Mishkenot Clal provided to Azorim. The loan is linked to the U.S. dollar and bears annual interest at the rate of 4%.
- (4) Loans provided by FCR and EQY for the sale of fixed assets and loans provided to companies and other entities. The loans are in Canadian dollars and U.S. dollars, mostly bearing interest of 8% to 9% and mature from 2005 to 2021.

b. Maturity dates:

	<u>Consolidated</u> <u>December 31,</u> <u>2003</u>	<u>The Company</u> <u>December 31,</u> <u>2003</u>
	<u>Adjusted NIS in thousands</u>	
Second year	2,353	79
Third year	18,300	-
Fourth year	8,313	-
Fifth year	1,803	-
Sixth year and thereafter	7,203	-
Maturity date not yet determined	20,545	274
	<u>58,517</u>	<u>353</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS

a. Composition:

	Consolidated			The Company
	Fixed assets - abroad (1)	Fixed assets - Israel (1)	Total	Total
Adjusted NIS in thousands				
Cost:				
Balance at January 1, 2003	6,594,585	221,294	6,815,879	2,775
Foreign currency translation adjustments for foreign consolidated units	384,022	-	384,022	-
Purchases during the year	2,379,244	3,417	2,382,661	885
Disposals during the year	(128,979)	(1,317)	(130,296)	(809)
Additions for newly consolidated subsidiary	3,221,407	-	3,221,407	-
Rental property held for sale (2)	(64,985)	-	(64,985)	-
Balance at December 31, 2003	12,385,294	223,394	12,608,688	2,851
Accumulated depreciation:				
Balance at January 1, 2003	311,552	19,870	331,422	771
Foreign currency translation adjustments for foreign consolidated units	18,143	-	18,143	-
Additions during the year	193,835	5,571	199,406	369
Disposals during the year	(16,964)	(395)	(17,359)	(263)
Rental property held for sale (2)	(1,336)	-	(1,336)	-
Balance at December 31, 2003	505,230	25,046	530,276	877
Depreciated cost at December 31, 2003	11,880,064	198,348	12,078,412	1,974
Depreciated cost at December 31, 2002	6,283,033	201,424	6,484,457	2,004

(1) Mainly real estate.

(2) Two income producing properties and two plots of land which were designated for sale and sold in the course of the first quarter of 2004.

b. Initial difference attributed to real estate:

	December 31, 2003		December 31, 2002	
	Foreign	In Israel	Foreign	In Israel
Adjusted NIS in thousands				
Balance of initial difference attributed to real estate	182,417	49,828	197,236	49,828

NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS (cont.)

c. Rights to real estate:

The ownership rights to land in U.S. and Canada are registered in the names of the subsidiaries according to the registration regulations in their respective countries of residence, except for two leased real estate in Canada amounting to NIS 74,120 thousand (2002 - one leased real estate amounting to NIS 49,299).

Subsidiaries own real estate in Israel under a capitalized lease amounting to approximately NIS 30,886 thousand. The lease period terminates in 2011. The subsidiaries have an option to lease the land for an additional 49 years.

d. In 2003, financial expenses of NIS 28,642 thousand were capitalized to real estate under development (in 2002 - NIS 24,275 thousand were capitalized and in 2001 - NIS 14,645 thousand were capitalized).

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Cost:				
Deferred selling expenses	5,327	894	-	-
Expenses related to raising long-term loans and debentures and other expenses	134,916	87,315	6,961	6,671
Goodwill (1)	74,481	15,149	-	-
	<u>214,724</u>	<u>103,358</u>	<u>6,961</u>	<u>6,671</u>
Accumulated amortization:				
Deferred selling expenses	1,663	336	-	-
Expenses related to raising long-term loans and debentures and other expenses	45,964	21,385	817	726
Goodwill (1)	9,544	2,754	-	-
	<u>57,171</u>	<u>24,475</u>	<u>817</u>	<u>726</u>
Deferred taxes, see Note 20d	157,553	78,883	6,144	5,945
	<u>72,071</u>	<u>75,843</u>	<u>-</u>	<u>-</u>
	<u>229,624</u>	<u>154,726</u>	<u>6,144</u>	<u>5,945</u>

(1) Goodwill created upon the acquisition of IRT (see Note 1b(2)e) and upon the acquisition of Mishkenot Clal (see Note 1b4).

NOTES TO FINANCIAL STATEMENTS

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

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Short-term credit from banks	3,099	2,786	91	22
Current maturities of long-term liabilities (Note 17)	363,291	298,439	16,946	-
Current maturities of debentures (Note 16)	12,554	61,451	12,554	16,957
	<u>378,944</u>	<u>362,676</u>	<u>29,591</u>	<u>16,979</u>

b. To secure the credit it received, the Company recorded a charge on certain assets, see Note 24.

NOTE 14:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Open accounts	128,772	*) 86,893	142	79
Notes payable	1,149	242	923	220
	<u>129,921</u>	<u>87,135</u>	<u>1,065</u>	<u>299</u>

NOTE 15:- OTHER ACCOUNTS PAYABLE

Interest payable	69,709	39,923	9,991	12,061
Current maturity of deposits and entrance fees from tenants (see Note 18)	10,788	9,771	-	-
Government authorities (1)	39,692	*) 28,260	373	1,129
Revenues received in advance from tenants	23,435	8,269	-	-
Investee	-	-	-	3,151
Unrealized gain	-	-	447	447
Employees	16,700	8,536	143	350
Payables for acquisition of real estate and investments	250	4,911	-	-
Dividend declared by subsidiary	13,272	4,868	-	-
Other	13,248	*) 6,910	1,182	-
	<u>187,094</u>	<u>111,448</u>	<u>12,136</u>	<u>17,138</u>

(1) Mainly for municipal taxes.

*) Reclassified.

NOTES TO FINANCIAL STATEMENTS

NOTE 16:- DEBENTURES

a. Composition:

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Debentures (series D), see b				
below	25,860	53,232	25,860	53,232
Less - discount	<u>752</u>	<u>2,361</u>	<u>752</u>	<u>2,361</u>
	25,108	50,871	25,108	50,871
Less - current maturities	<u>12,554</u>	<u>16,957</u>	<u>12,554</u>	<u>16,957</u>
	<u>12,554</u>	<u>33,914</u>	<u>12,554</u>	<u>33,914</u>
Debentures (series A), see c				
below	183,378	60,966	185,862	189,147
Less - discount	<u>8,190</u>	<u>2,315</u>	<u>8,279</u>	<u>9,450</u>
	<u>175,188</u>	<u>58,651</u>	<u>177,583</u>	<u>179,697</u>
Non-marketable debentures, see d below	112,097	118,114	112,097	118,114
Less - discount	<u>8,119</u>	<u>8,804</u>	<u>8,119</u>	<u>8,804</u>
	<u>103,978</u>	<u>109,310</u>	<u>103,978</u>	<u>109,310</u>
Non-marketable debentures, see e below	<u>81,182</u>	<u>81,220</u>	<u>81,182</u>	<u>81,220</u>
Debentures of FCR, see f				
below	-	44,874	-	-
Less - discount	<u>-</u>	<u>380</u>	<u>-</u>	<u>-</u>
	-	44,494	-	-
Less - current maturities	<u>-</u>	<u>44,494</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debentures of EQY, see g				
below	656,850	-	-	-
Add - premium	<u>54,470</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>711,320</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,084,222</u>	<u>283,095</u>	<u>375,297</u>	<u>404,141</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 16:- DEBENTURES (cont.)

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

The series included NIS 96.5 million par value of registered debentures, redeemable in five equal annual payments beginning December 2001, bearing annual interest payable every three months at the rate of Libor for dollar deposits for a period of 3 months + 0.5% per year and are linked (principal and interest) to the representative exchange rate of the dollar (base exchange rate of U.S.\$ 1 = NIS 3.23).

As of December 31, 2003, the Company redeemed 80% of the outstanding amount of debentures by payment of annual principal and by acquisition of debentures (series D) in the course of trade on the stock exchange and delisting them and, as a result, all of EQY shares pledged in favor of the debenture holders were released. As collateral for the outstanding amount of debentures (series D), there remained a senior fixed charge on income producing property known as "Gazit House" in Tel Aviv in the amount of U.S.\$ 9 million.

As of the balance sheet date, the Company holds 3 million par value of debentures (series D) which it acquired and which were delisted at the beginning of 2004.

- c. In May 2002, the Company issued to the public, among others, NIS 140 million par value of debentures (series A), of which approximately NIS 77 thousand par value were issued to the Company's wholly owned subsidiary. In November 2002, this subsidiary exercised stock options (series A) into additional NIS 57 million par value of debentures (series A). During the year, the Company's wholly owned subsidiary sold NIS 129 million par value of debentures (series A) which it held in consideration of a total of approximately NIS 117.6 million. As of the balance sheet date, NIS 197 million par value of debentures (series A) are outstanding (approximately NIS 3 million par value are held by the Company's wholly owned subsidiary). The debentures are linked to U.S. dollar (base exchange rate of U.S.\$ 1 = NIS 4.84), redeemable in 11 equal annual payments beginning June 2007 and bear interest at the rate of 6.5%.
- d. In January 2001, the Company issued non-marketable debentures in the approximate amount of NIS 104 million to two provident funds. The debentures are linked to the Israeli CPI, bear interest which reflects a gross annual yield of 8.25% and are redeemable in the years 2006 to 2015.

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

- e. In February 2002, the Company issued to institutional investors NIS 81.2 million of non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest at the rate of 5.65%. The redemption of the debentures is in 8 equal annual payments, beginning 2005.
- f. The remaining debentures amounting C\$ 15,057 thousand par value which were issued by FCR, were redeemed in December 2003.

NOTES TO FINANCIAL STATEMENTS

NOTE 16:- DEBENTURES (cont.)

- g. Debentures amounting U.S.\$ 150 million which were consolidated for the first time in the context of the acquisition of IRT by EQY in February 2003, see Note 1b(2)e.

Following are details pertaining to the terms of the debentures as of December 31, 2003:

Redemption date	Interest rate %	Par value U.S. dollars in thousands	Consolidated Balance
			Adjusted NIS in thousands
1.4.2006	7.77	50,000	218,950
15.8.2007	7.25	75,000	328,425
23.1.2012	7.84	25,000	109,475
		150,000	656,850
Add - premium			54,470
			711,320

NOTE 17:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

- a. Consolidated:

1. Composition:

	December 31,					
	2003					2002
	In NIS - linked to CPI	In NIS - unlinked	In C\$	In U.S. \$	Total	Total
	Adjusted NIS in thousands					
Banks	7,561	80,157	970,581	1,319,213	2,377,512	1,413,774
Other financial institutions	-	-	2,041,308	2,061,992	4,103,300	2,768,373
Loan from jointly controlled entity	-	-	-	16,180	16,180	17,947
Liability to sellers of properties	-	-	-	-	-	17,983
Other liabilities (1)	-	-	6,795	2,597	9,392	8,959
	7,561	80,157	3,018,684	3,399,982	6,506,384	4,227,036
Less - current maturities	-	6,366	242,938	113,987	363,291	298,439
	7,561	73,791	2,775,746	3,285,995	6,143,093	3,928,597
Weighted interest rate (2) (%)	6.9	6.6	6.7	5.4	6.0	6.1

- (1) Including an unrealized gain, long-term interest and commitment for future engagement.
- (2) For part of the loans, the interest is based on the Libor rate. The above rate constitutes the weighted interest based on the Libor interest at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

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

	In NIS - linked to CPI	In NIS - unlinked	In C\$	In U.S. \$	Total
Adjusted NIS in thousands					
First year - current maturities	-	6,366	242,938	113,987	363,291
Second year	1,080	6,526	159,385	239,812	406,803
Third year	1,080	6,526	558,353	931,597	1,497,556
Fourth year	1,080	6,526	277,200	460,141	744,947
Fifth year	1,080	6,526	220,765	230,539	458,910
Sixth year and thereafter	3,241	47,687	1,560,043	1,405,129	3,016,100
Maturity date was not yet determined	-	-	-	18,777	18,777
	<u>7,561</u>	<u>73,791</u>	<u>2,775,746</u>	<u>3,285,995</u>	<u>6,143,093</u>
	<u>7,561</u>	<u>80,157</u>	<u>3,018,684</u>	<u>3,399,982</u>	<u>6,506,384</u>

b. The Company:

1. Composition:

	December 31,					2002
	2003					
	In NIS - linked to CPI	In NIS - unlinked	In C\$	In U.S. \$	Total	
Adjusted NIS in thousands						
Banks	7,561	80,157	4,776	122,761	215,255	122,868
Loan from jointly controlled entity	-	-	-	32,359	32,359	35,856
	<u>7,561</u>	<u>80,157</u>	<u>4,776</u>	<u>155,120</u>	<u>247,614</u>	<u>158,724</u>
Less - current maturities	-	6,366	-	10,580	16,946	-
	<u>7,561</u>	<u>73,791</u>	<u>4,776</u>	<u>144,540</u>	<u>230,668</u>	<u>158,724</u>
Weighted interest rate (*) (%)	<u>6.9</u>	<u>6.6</u>	<u>4.3</u>	<u>3.4</u>	<u>4.6</u>	<u>8.2</u>

*) For part of the loans, the interest is based on the Libor rate. The above rate constitutes the weighted interest based on the Libor interest at balance sheet date.

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

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

	In NIS - linked to CPI	In NIS - unlinked	In C\$	In U.S. \$	Total
Adjusted NIS in thousands					
First year - current maturities	-	6,366	-	10,580	16,946
Second year	1,080	6,526	-	10,580	18,186
Third year	1,080	6,526	-	10,580	18,186
Fourth year	1,080	6,526	-	91,022	98,628
Fifth year	1,080	6,526	-		7,606
Sixth year and thereafter	3,241	12,473	-		15,714
Maturity date was not yet determined	-	35,214	4,776	32,358	72,348
	<u>7,561</u>	<u>73,791</u>	<u>4,776</u>	<u>144,540</u>	<u>230,668</u>
	<u>7,561</u>	<u>80,157</u>	<u>4,776</u>	<u>155,120</u>	<u>247,614</u>

- c. To secure the above loans, the subsidiaries recorded charges on specific assets, see Note 24.
- d. Contractual restrictions and financial covenants:
- For part of the loans and the credit facilities which the Company and its subsidiaries receive in the ordinary course of business, other than non-recourse loans, there exist, as is common practice, undertakings to satisfy financial and other covenants. The financial covenants refer, among other things, to the level of debt, total liabilities, maintaining debt coverage ratio, authorized investments, ratio of unpledged assets, minimal equity, minimal dividend from subsidiaries, value of securities to outstanding debt, EBITDA level and maximal dividend in subsidiaries. As of December 31, 2003, the Company and its subsidiaries have complied with all of the covenants as determined.
 - Part of the mortgages on EQY properties, which are non-recourse, contain restrictions as to the transfer of ownership in EQY in the absence of lender consent. It may be that such restrictions were violated due to former issuances of shares in EQY and they may be violated due to issuances in the future, if such exists. The violation of the provisions, as aforementioned, may constitute a cause for the acceleration of the repayment of the loans. As of December 31, 2003, the overall amount for loans that may be affected as a result of said issuances is placed at approximately U.S.\$ 182 million. The Company is of the opinion that the provisions were not violated, however, in view of the legal unclarity of the agreements with those lenders, EQY has referred to the lenders in order to settle the matter. Based on its negotiations with various lenders and based on market conditions and other factors, EQY estimates that either the consent of the lenders will be received or that the maturity of the loans will not be accelerated and, accordingly, this matter will not have an effect on its results and financial position. In any case, since we are speaking of non-recourse loans, even if the lenders claim that there was a violation and they demand the acceleration of the repayment of the loans, their only solution is selling the pledged asset in order to repay the loan. As of the date of the approval of the financial statements, EQY was not informed by any lender of its intention to accelerate the repayment of the loans.

NOTES TO FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

- e. The Company and its subsidiaries entered into swap transactions with banks for fixing floating interest to fixed interest (IRS), transactions which hedge the loans of the Company and its subsidiaries against changes in interest rates, as follows:
1. The Company and its wholly owned companies have commitments under IRS transactions in the amount of U.S.\$ 28 million with average life of two years which pay fixed interest at the average rate of 5.6% and receive interest of Libor for three months (1.15%).
 2. A wholly owned subsidiary of the Company has commitments under IRS transactions in the amount of C\$ 35 million until March 2006, paying interest at the average rate of 4.9% and receiving interest of Libor for three months (2.72%).
 3. A subsidiary of the Company has commitments under IRS transactions in the amount of U.S.\$ 30 million with an average maturity of 10 years, paying interest at the average rate of 4.34% and receiving interest of Libor for three months (1.15%).
 4. A subsidiary of the Company has commitments under IRS transactions in the amount of U.S.\$ 70 million with an average maturity of half year, paying interest at the average rate of 1.6% and receiving interest of the monthly Libor (1.13%).

NOTE 18:- TENANTS' SECURITY DEPOSITS

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Deposits from tenants (1)	41,966	24,688
Deposits and entrance fees from tenants (2)	115,082	122,457
Less - current maturity (3)	10,788	9,771
	<u>104,294</u>	<u>112,686</u>
	<u>146,260</u>	<u>137,374</u>

- (1) Deposits from tenants are received to secure their fulfillment of the terms of the rental agreements. Deposits are refunded to the tenants at their dollar value at the end of the rental period.
- (2) a) Mishkenot Clal and tenants have signed on agreements to occupy residential units in existing buildings. In addition, potential tenants have purchased options to occupy residential units in the future, in accordance with the terms specified in the agreements reached with them.

NOTES TO FINANCIAL STATEMENTS

NOTE 18:- TENANTS' SECURITY DEPOSITS (cont.)

- b) Amounts deposited by tenants which are mainly forfeited at the annual rate of 2.5% to 6% over the first 10 to 12 years, respectively, and partly at the annual rate of 1.4%, in the period thereafter or 4.8% for all of their period of stay at the center. Part of the deposits bear interest at the annual rate of 2%. From 2003, forfeiture of deposits at the rate of 1.4% in the period of after the first 10 to 12 years was discontinued and, the payment of interest at the annual rate of 2% terminated. As of the balance sheet date, the outstanding amount not forfeited includes exchange rate differences or linkage differences.
- (3) The amounts carried to the statement of income in the coming year in respect to forfeiture of deposits and amounts available for refunds to tenants in connection with the cancellation of agreements and options, as per the estimate of the management of Mishkenot Clal, are included in "Other accounts payable" among current liabilities.
- (4) In order to secure the commitment of Mishkenot Clal to the tenants, Mishkenot Clal has undertaken to provide a bank guarantee to certain tenants, if they so demand, and the cost of the guarantees shall be borne by the tenants. This commitment is not to exceed approximately NIS 39.7 million (the Company's share is approximately NIS 19.9 million). As of the balance sheet date, the tenants in Mishkenot Clal did not exercise this right, except for a guarantee of NIS 4.5 million (the Company's share is approximately NIS 0.75 million).
- (5) As of the balance sheet date, commitments to tenants which are secured by the guarantee of the Company, Azorim and I.D.B. Development Ltd. total NIS 18.3 million (the Company's share is approximately NIS 9 million, including guarantees to Azorim and I.D.B. Development Ltd.)

NOTE 19:- ACCRUED SEVERANCE PAY

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

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

The amounts accrued in managers' insurance policies, in other insurance policies and provident funds on behalf of the employees and the related liability are not reflected in the balance sheet since the funds are not controlled and managed by either the Company or the subsidiaries.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 20:- TAXES ON INCOME

- a. Tax laws applicable to the companies:

The provisions of the Income Tax (Inflationary Adjustments) Law, 1985 apply to the Company and certain of its Israeli investees. According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI. In November 2001, an amendment to the Income Tax (Inflationary Adjustments) Law (Amendment No. 14), 2001 was passed by the "Knesset" (Israeli parliament), pursuant to which until February 28 of the year following the reported tax year, the Minister of Finance, with the approval of the finance committee of the Knesset, is entitled to determine by an order that the provisions of the aforesaid law, in whole or in part, will not apply with respect to a certain tax year if the Israeli CPI in that year did not increase by more than 3%. In February 2004, the Minister of Finance and the finance committee decided that the Inflationary Adjustments Law will be implemented with respect to 2003.

The tax liability for 2003 is computed according to the law, while taking into account the decrease in the Israeli CPI in that year.

- b. Taxation in the U.S.:

Since January 1, 1995, EQY has not recorded taxes on income in its statements because its tax status in the U.S. has been changed to that of a REIT, as effective from the above date. The implication of this status is that its income is tax-exempt, requiring it to distribute at least 90% of the earnings and the recipients being subject to taxation.

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

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

- c. Taxation in Canada:

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

NOTES TO FINANCIAL STATEMENTS

NOTE 20:- TAXES ON INCOME (cont.)

d. Deferred taxes, net:

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

	<u>Depreciable fixed assets</u>	<u>Carryforward tax losses</u>	<u>Other</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>			
Balance as of January 1, 2002	20,601	47,676	(525)	67,752
Foreign currency translation adjustments for foreign consolidated units and other differences	2,461	(742)	356	2,075
Amounts carried to statement of income	<u>30,200</u>	<u>(19,318)</u>	<u>(5,593)</u>	<u>5,289</u>
Balance as of December 31, 2002	53,262	27,616	(5,762)	75,116
Foreign currency translation adjustments for foreign consolidated units and other differences	11,094	2,221	(80)	13,235
Amounts carried to statement of income	<u>(22,720)</u>	<u>21,418</u>	<u>(15,779)</u>	<u>(17,081)</u>
Balance as of December 31, 2003	<u>41,636</u>	<u>51,255</u>	<u>(21,621)</u>	<u>(1) 71,270</u>

- (1) Of this balance, NIS 72,071 thousand (December 31, 2002 - NIS 75,843 thousand) is presented in the balance sheet in "Other assets" and the balance, NIS 801 thousand (December 31, 2002 - NIS 727 thousand) is presented in the balance sheet in "Long-term liabilities".

The deferred taxes are computed at tax rates varying between 33% and 43% (the tax rates expected to be in effect at the time of reversal).

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

Composition:

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>					
Current taxes (1)	26,548	23,198	22,402	3,781	3,882	3,725
Deferred taxes	17,081	(5,289)	(4,006)	-	-	-
	<u>43,629</u>	<u>17,909</u>	<u>18,396</u>	<u>3,781</u>	<u>3,882</u>	<u>3,725</u>

- (1) The Company - including mainly withholding tax of 30% on dividend paid to the Company by EQY, and withholding tax on interest paid to the Company by other foreign subsidiaries.

Consolidated - including, in addition to the aforementioned, current tax expenses in respect of the activities of foreign subsidiaries.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 20:- TAXES ON INCOME (cont.)

- f. The Company and its Israeli subsidiaries have operating loss carryforward for tax purposes estimated at approximately NIS 37.5 million (2002 - NIS 40.1 million). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other timing differences.
- g. The Company and its wholly owned companies in Israel have received assessments considered as final up to and including the fiscal year of 1998. Mishkenot Clal and its subsidiaries have received final assessments up to and including the fiscal year of 1999. A jointly controlled entity in Israel has not received tax assessments since its incorporation.
- h. Below is a reconciliation between the tax expense assuming that all the income was taxed at the regular tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Consolidated		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Income before taxes on income	386,431	243,449	150,231
Statutory tax rate	36%	36%	36%
Tax expense computed at the statutory tax rate	139,115	87,642	54,083
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Income subject to special tax rates	(11,295)	(5,059)	(2,554)
Increase (decrease) in taxes resulting from incurrence (utilization) of losses for tax purposes for which deferred taxes were not provided	(1,530)	6,813	(4,706)
Tax on minority interest in earnings of investee designated as a REIT	(61,775)	(30,191)	(7,925)
Adjustment for CPI of statements of foreign investees	(31,966)	(48,857)	(9,866)
Tax difference applicable on income of foreign companies and other differences	11,080	7,561	(10,636)
Taxes on income	43,629	17,909	18,396

NOTES TO FINANCIAL STATEMENTS

NOTE 21:- CONVERTIBLE DEBENTURES

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

Three series of debentures which FCR issued in an aggregate of C\$ 359.2 million par value (after the redemption of convertible debentures (series A) for FCR shares, as discussed below) are convertible into FCR shares and bear interest as detailed below, payable semi-annually. FCR is entitled to enforce the conversion of the debentures at the determined dates. The conversion ratio in this case will be determined according to the share price on the Stock Exchange during the period prior to the conversion multiplied by the rate of 95% (in connection with two of the series, FCR is also entitled to pay the accrued interest in shares, at terms identical to the terms for the repayment of the principal of the debentures). In view of the aforesaid, these debentures were presented under a separate item among long-term liabilities and minority interest.

During 2003, FCR made all interest payments in connection with two of the series in FCR shares, and this according to its right, as detailed above.

On October 30, 2003 and December 31, 2003, FCR made an early redemption of all of the principle of convertible debentures (series A) in the amount of C\$ 57.4 million for 3.9 million of FCR's shares at the average price of C\$ 14.82 per share and this by virtue of its right to enforce the conversion of the debentures, as detailed above.

As of the balance sheet date, the Company's subsidiary holds approximately C\$ 164.6 million par value of FCR's convertible debentures (45.8% of the issued amount). The majority of the convertible debentures which are held by the subsidiary are pledged as a security for the credit received in connection with their acquisition by a bank in Israel.

As a result of the acquisition of the above convertible debentures, the Company recorded in 2001 a gross gain on early redemption in the amount of approximately NIS 38.2 million (NIS 18.8 million, net after provision for tax and minority interest).

Since 2002, the Company has not recorded a gain from early redemption of debentures derived upon the acquisition of convertible debentures, see Note 2p.

In September 2002, the Company forfeited an option granted to a bank in Israel to acquire part of FCR convertible debentures it holds. As a result of the above, the Company carried to the statement of income the deferred gain from early redemption of debentures in 2000 and 2001 which was recorded in its books in the net amount of approximately NIS 6.1 million.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 21:- CONVERTIBLE DEBENTURES (cont.)

Below are details of the composition and terms of the convertible debentures as of December 31, 2003:

First redemption date **	Redemption date	Interest rate	Conversion price per share *	Consolidated Balance
		%	In C\$	Adjusted NIS in thousands
31.1.2003	31.1.2007	7.875	16.43	197,304
28.2.2004	28.2.2008	7.0	22.71	212,482
30.6.2004	30.6.2008	7.25	24.40	253,194
				662,980
				13,517
				<u>649,463</u>

*) The price for an FCR share as of the balance sheet date is C\$ 15.89.

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

NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

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

In October 2000, concurrent with an agreement for the issuance of shares which was signed between Alony-Hetz and EQY (see Note 1(b)2), the Company and Alony-Hetz signed a shareholders agreement (which was amended in December 2001, in October 2002 and in June 2003) in which it is determined that the Company supports the nomination of one representative of Alony-Hetz for the EQY Board as long as Alony-Hetz holds at least 3% of EQY's share capital (fully diluted) and, simultaneously, Alony-Hetz has undertaken to support the nomination of all of the Company's representatives for the EQY Board (to date, 9 members serve on the EQY Board). Additionally, the agreement stipulates provisions as to the participating right of Alony-Hetz in the sale of EQY shares in the event of a sale of shares, as above, by the Company (with certain exceptions to this right) and also provisions as to the Company's right to compel Alony-Hetz to participate in the sale of its shares in EQY under certain conditions, in the event of a sale of shares, as above, by the Company.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

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

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

In October 2000, in furtherance to the sell of FCR shares to Alony-Hetz, as described in Note 1(b)3, the Company and Alony-Hetz (and their subsidiaries) signed a shareholders agreement (which was amended in February 2001) in which the Company undertook to support the nomination of two representatives of Alony-Hetz for the FCR Board, and if the number of FCR shares held by Alony-Hetz and the rate which they constitute are below that stated in the agreement, Alony-Hetz will have the right to nominate one member for FCR Board (this right is also conditioned upon the fulfillment of minimal level of holdings in FCR share capital). Simultaneously, Alony-Hetz has undertaken to support the nomination of the Company's representatives for the remaining members of FCR Board, which will be comprised of no more than 15 members (to date, 9 members serve on the FCR Board).

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

Further, it was stated in the agreement that if one of the parties acquires additional securities of FCR (shares, debentures and other securities) then (subject to certain exceptions) the buyer will offer the other party to acquire a relative share in these securities at the purchase terms as effected by the buyer. Alony-Hetz has undertaken that it will not interfere and affect the way FCR is managed, except in the context of its rights to nominate directors, as aforementioned, and that it will not act alone or with others to execute a takeover of FCR.

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

3. As for commitments with related parties, see Note 32.
- b. Guarantees:

FCR is a guarantor for loans from various parties to its jointly controlled entities, which are engaged the development of properties, in the amount of approximately NIS 64.9 million (C\$ 19.1 million).

In addition, FCR provided bank guarantees in the ordinary course of its business in the amount of approximately NIS 39.4 million (C\$ 11.6 million).

To secure various commitments to third parties, EQY provided a bank guarantee in the amount of approximately NIS 6.3 million (U.S.\$ 1.4 million).

NOTES TO FINANCIAL STATEMENTS**NOTE 22:- CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**

As for guarantees of the Company and a jointly controlled entity to tenants, see Note 18(4)(5).

c. Legal claims:

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

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

NOTE 23:- SHAREHOLDERS' EQUITY

a. Composition:

	December 31, 2003		December 31, 2002	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 1 par value each	<u>200,000,000</u>	<u>*) 85,548,677</u>	<u>200,000,000</u>	<u>74,765,581</u>

*) Of which, NIS 6,588,464 par value of shares are held by the Company and by its wholly owned company.

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

As of December 31, 2003, the Company has 2,288 thousand options (series 4), of which 642 thousand options (series 4) are held by the Company. Each stock option (series 4) is exercisable into 1.2418 shares in exchange for NIS 13.6, linked to the dollar (base exchange rate of U.S.\$ 1 = NIS 4.15) until February 20, 2004. Under no circumstance will the exercise price fall below NIS 13.6.

c. In September 2003, the Company effected a private placement of 4 million Ordinary shares of the Company of which a total of 2 million shares was issued to two institutional investors each of which purchased one million shares for their portfolios and a total of 2 million shares was issued to the parent company. The total aggregate capital raised by the Company was NIS 64 million, net.

NOTES TO FINANCIAL STATEMENTS**NOTE 23:- SHAREHOLDERS' EQUITY (cont.)**

- d. Pursuant to a stock option award plan, which was approved by the shareholders' meeting in March 2002, in 2003, 125 thousand options were issued to five of the Company's Board members who do not hold other positions in the Company, at no consideration. Each option is exercisable into one share of the Company from the first to the fifth anniversaries of the date of grant for an average exercise increment of NIS 12.84, linked to the Israeli CPI and subject to adjustment of the dividend, benefit components and rights.
- e. In 2003, about 5,462 thousand stock options (series 4) were exercised into 6,783 thousand shares of the Company for the aggregate consideration of approximately NIS 78.4 million.
- f. As for the exercise of the remaining stock options (series 4) subsequent to the balance sheet date, see Note 33.

NOTE 24:- CHARGES (ASSETS PLEDGED)

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

The balances of the secured liabilities are as follows:

	Consolidated		The Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Short-term loans and credit	3,099	2,786	91	22
Long-term liabilities (including current maturities)	5,771,414	4,189,134	215,255	122,868
Debentures (including current maturities)	25,108	95,365	25,108	50,871
	<u>5,799,621</u>	<u>4,287,285</u>	<u>240,454</u>	<u>173,761</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2003				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C\$ or linked thereto	In NIS - unlinked	
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	1,594	43,796	7,768	493	53,651
Short-term investments	-	32,650	1,567	-	34,217
Tenants and accounts receivable	1,612	86,967	42,162	-	130,741
Loans to partners in property under development	-	-	57,522	-	57,522
Long-term investments	13,263	-	5,694	-	18,957
Long-term loans	17,855	33,889	6,773	-	58,517
	<u>34,324</u>	<u>197,302</u>	<u>121,486</u>	<u>493</u>	<u>353,605</u>
Liabilities:					
Short-term credit from banks and others	-	4	-	3,095	3,099
Trade payables and other accounts payable	3,212	117,064	146,495	15,574	282,345
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
Tenants' security deposits	4,106	126,052	8,226	56	138,440
Accrued severance pay	-	-	-	846	846
Convertible debentures redeemable for subsidiary's shares	-	-	649,463	-	649,463
	<u>119,400</u>	<u>4,635,357</u>	<u>3,822,868</u>	<u>99,728</u>	<u>8,677,353</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 25:- LINKAGE TERMS OF MONETARY BALANCES (cont.)

b. The Company:

	December 31, 2003				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In C\$ or linked thereto	In NIS - unlinked	
Assets:					
Cash and cash equivalents	-	10,021	7,768	243	18,032
Accounts receivable	227	-	-	-	227
Investments in investees	(6,945)	491,628	75,027	-	559,710
Long-term investments	13,263	-	-	-	13,263
Long-term loans	353	-	-	-	353
	<u>6,898</u>	<u>501,649</u>	<u>82,795</u>	<u>243</u>	<u>591,585</u>
Liabilities:					
Short-term credit from banks and others	-	-	-	91	91
Trade payables and other accounts payable	-	-	-	12,754	12,754
Debentures	104,521	283,330	-	-	387,851
Liabilities to financial institutions and others	7,561	155,120	4,776	80,157	247,614
Accrued severance pay	-	-	-	43	43
	<u>112,082</u>	<u>438,450</u>	<u>4,776</u>	<u>93,045</u>	<u>648,353</u>

NOTE 26:- INCOME FROM RENTAL OF BUILDINGS - MAJOR CUSTOMERS

	Year ended December 31,		
	(*) 2003	(*) 2002	2001
	Adjusted NIS in thousands		
Lessee A	-	-	38,070
Others	<u>1,401,186</u>	<u>885,431</u>	<u>669,691</u>
	<u>1,401,186</u>	<u>885,431</u>	<u>707,761</u>

*) In 2003 and 2002, the Company had no lessee who accounted for more than 5% of total income from the rental of buildings.

NOTES TO FINANCIAL STATEMENTS

NOTE 27:- RENTAL PROPERTY OPERATING EXPENSES

	Consolidated		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Salaries and related expenses	42,235	22,240	13,080
Fees and taxes on properties	212,035	141,876	128,855
Maintenance and repairs	92,770	59,338	42,089
Utilities	34,804	27,887	18,385
Insurance and security expenses	37,345	15,354	11,086
Other	38,601	36,402	27,841
	<u>457,790</u>	<u>303,097</u>	<u>241,336</u>

NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Salaries and management fees (*)	75,135	51,160	30,081	3,610	3,584	2,645
Professional fees	9,617	10,631	8,807	1,228	2,086	2,006
Depreciation	1,917	354	542	369	321	305
Amortization of goodwill	6,790	1,600	968	-	-	-
Other (including office and office maintenance)	22,346	17,219	18,463	2,927	1,792	1,354
	<u>115,805</u>	<u>80,964</u>	<u>58,861</u>	<u>8,134</u>	<u>7,783</u>	<u>6,310</u>

*) As for salaries and management fees to related parties, see Note 32.

NOTES TO FINANCIAL STATEMENTS

NOTE 29:- FINANCIAL EXPENSES (INCOME), NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Loss (gain) from investments in marketable securities, net	(14,122)	(25,098)	(86,367)	(6,558)	86	(21,645)
Financial expenses for debentures	47,849	18,036	15,855	18,336	15,957	10,971
Financial expenses for convertible debentures	47,061	27,824	54,903	-	-	15
Financial expenses for liabilities to financial institutions and others	256,349	158,004	212,415	6,632	4,666	7,737
Loss (gain) from early redemption of debentures and convertible debentures (*)	288	(8,202)	(38,242)	288	784	-
Other financial expenses (income) (**)	(8,620)	914	4,073	(17,014)	(9,779)	(19,959)
Less - expenses carried to cost of fixed assets	(28,642)	(24,275)	(14,645)	-	-	-
	<u>300,163</u>	<u>147,203</u>	<u>147,992</u>	<u>1,684</u>	<u>11,714</u>	<u>(22,881)</u>

*) See Note 16b and Note 21.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 30:- OTHER INCOME (EXPENSES)

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Gain (loss) from issuance to third party, net	44,627	1,100	4,838	3,721	1,798	(31)
Capital gain (loss)	11,070	*) 35,025	235	(72)	-	646
Management fees from related company and third parties	1,660	1,296	912	2,514	2,529	2,140
Oil and gas explorations, net (**)	-	42	36	-	42	36
Provision for impairment of long-term investments	(250)	(32,899)	-	-	(3,943)	-
Activity and provision for impairment of Internet ventures in the real estate sector	-	(1,416)	(9,231)	-	-	-
Expenses related to early repayment of mortgage	(2,732)	-	(7,116)	-	-	-
Other income	2,117	-	-	-	-	-
	<u>56,492</u>	<u>3,148</u>	<u>(10,326)</u>	<u>6,163</u>	<u>426</u>	<u>2,791</u>

*) Including a partial waive of mortgage on property in the amount of NIS 7,102 thousand.

***) The Company has rights to oil wells Star 29 and Star 30 at the participation rate of 10%, as well as rights to drilling to Emuna 1, drilling in search of oil, at the participation rate of 4%. All of the Company's investments in oil and gas producing wells, as described above, were written down in full, primarily in 1996. The Company did not make any significant investments in the oil and gas exploration sector during the seven years ending December 31, 2003. At this time, the Company does not have any specific plans to invest in this sector.

NOTE 31:- EARNINGS PER SHARE

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

	Year ended December 31,					
	2003		2002		2001	
	Weighted number of shares	Net income	Weighted number of shares	Net income	Weighted number of shares	Net income
	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands
Number of shares and net income, according to the statement of income	76,198	136,576	65,290	104,153	53,774	84,692
Effect of convertible securities whose conversion is likely	2,044	(4,678)	8,826	3,834	-	-
Number of shares and basic net income	<u>78,242</u>	<u>131,898</u>	<u>74,116</u>	<u>107,987</u>	<u>53,774</u>	<u>84,692</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Financial income for loans to related parties (1)	355	764	577	-	-	-
Management fees from the parent company	219	226	215	219	226	214
Management fees from subsidiaries	-	-	-	2,295	2,303	1,496
Financial income for balances with subsidiaries, net	-	-	-	19,271	21,795	29,857

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

b. Other expenses and payments:

	Consolidated					
	Year ended December 31,					
	2003		2002		2001	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees	5	296	5	302	5	288
Salaries and related expenses, see below	3	23,329	3	17,022	3	14,614

	The Company					
	Year ended December 31,					
	2003		2002		2001	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees	5	296	5	302	5	288
Salaries and related expenses	1	790	1	818	1	728

NOTES TO FINANCIAL STATEMENTS

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

- (1) In July 2002, EQY entered into an updated employment contract, which was updated once again in September 2003, with its Chairman of the Board and CEO, who also serves as Chairman of the Company and who is a related party in the Company. The aforementioned contract is for a period of five years beginning 2002 (after this period, the contract renews automatically in each year).

According to the contract, the related party is entitled to an annual base salary of U.S.\$ 430 thousand which is updated annually at the greater of the rate of the increase in the Consumer Price Index in U.S. or 6% (for 2003 - approximately U.S.\$ 456 thousand).

The contract also stipulates the related party's entitlement to an annual cash bonus, taking into account the fulfillment of annual targets to be determined by the EQY remuneration committee and, in such case that 50% or less of the predetermined targets are met, the related party shall not be entitled to any bonus whereas the maximum possible amount of bonus according to this criteria equals 150% of the aforementioned base salary if EQY doubles the performances determined by the remuneration committee. The related party shall be entitled to convert the bonus (or part of it) into EQY shares to be issued to him at 85% of the market price. The contract also stipulates that if in a given year the performances surpass the targets determined by the remuneration committee, the related party shall be entitled to receive additional capped shares at the value of U.S.\$ 300 thousand (if EQY's performances is 1.5 times the determined targets) or at the value of U.S.\$ 850 thousand (if EQY's performances is 2.5 times the determined targets).

In addition, according to the contract, 850 thousand options exercisable into EQY shares would be issued to the related party. About 300 thousand stock options were issued in 2002 for an exercise increment of U.S.\$ 13.25 per share and 250 thousand stock options were issued in 2003 for an exercise increment of U.S.\$ 17.17 per share and the remainder will be issued in 2004 for an exercise price that reflects the weighted market price for the shares at the eve of the issuance of the options. The options are exercisable ratably so that 170,000 may be exercised at the end of each calendar year and, in any case, they will expire at the end of the tenth anniversary. During 2003, the Chairman of the Board exercised 170,000 stock options into shares. Additionally, according to the contract, the related party was issued at no consideration 103 thousand EQY shares that are capped, and the entitlement to those shares will be divided into five equal parts at the beginning of each employment year from 2003.

Likewise, according to an update of the employment contract from September 2003, the related party was issued, at no consideration, an additional 124 thousand EQY shares that are capped, and the entitlement to those shares will be divided into four equal parts at the beginning of each employment year from September 2003.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

- (2) Furthermore, the Chairman of the Company's Board is entitled to an annual salary from the Company (through a wholly owned subsidiary) at cost of U.S.\$ 136 thousand since October 2001 (updated annually at the greater of the rate of the inflation in U.S. or 6%) (for 2003 - approximately U.S.\$ 155 thousand). Since July 1998, the Chairman is also entitled to a bonus at the rate of 5% of the pre-tax income of the Company, adjusted to the Israeli CPI. The above individual is also entitled to life insurance policy of U.S.\$ 1 million in which his family members are beneficiaries.

The Company's CEO is entitled to an annual salary from the Company (through a wholly owned subsidiary) at cost of U.S.\$ 153 thousand since October 2001 (updated annually at the greater of the rate of the inflation in the U.S. or 6%) (for 2003 - approximately U.S.\$ 175 thousand). The Company's CEO is also entitled to a bonus at the rate of 2% of the pre-tax income of the Company. The above individual is also entitled to life insurance policy at the scope of U.S.\$ 2 million in which his family members are beneficiaries.

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

- (3) In 2003, in the context of a compensation plan for directors in EQY, the Company's CEO, who serves also as a director in EQY, received at no consideration about 2,350 shares that are capped, and the entitlement to those shares will be formed in two equal parts from their issuance.
- (4) In October 2001, FCR entered into an employment contract with the CEO of FCR (who also serves as the Company's CEO), whereby beginning that month, the CEO in FCR is entitled to an annual salary of C\$ 400 thousand (for 2003 - approximately C\$ 420 thousand). The above individual is also entitled to annual grants and participation in FCR's compensation plans, at the discretion of FCR Board.

At the same date, FCR also entered into an employment contract with the Chairman of the FCR Board (who serves also as the Chairman of the Company's Board), whereby beginning that month, FCR's Chairman is entitled to an annual salary of C\$ 150 thousand (for 2003 - approximately C\$ 157 thousand). The above individual is also entitled to 50% of the grants and participation in compensation plans to be received by the CEO of FCR.

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

c. Balances:

As collateral for loans provided in August 2002 by a banking institution to the Company's CEO and to the Company's Secretary (who also serves as a director in the Company) for purchase of Company's shares in the amount of approximately NIS 5.9 million and approximately NIS 2.4 million, respectively, the Company provided a deposit linked to the Israeli CPI and a deposit linked to the dollar which bear interest at the rate of 1.5%. The outstanding deposit amount is presented in shareholders' equity. The optionees placed a charge on the issued shares in favor of the Company's wholly owned company.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

d. Convertible securities in FCR:

In the context of issuance of options to officers and employees at FCR, the CEO and Chairman of FCR received 200 thousand and 100 thousand options, respectively which are exercisable until January 2012 at an exercise price of C\$ 12.43 per share.

During 2003, the CEO of FCR exercised 8 thousand options into FCR shares and the Chairman of FCR exercised 50 thousand options into FCR shares.

NOTE 33:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a. Subsequent to the balance sheet date, 1.6 million stock options (series 4) of the Company were exercised into 2 million shares of the Company for the total consideration of approximately NIS 24 million. Additionally, the Company exercised additional 0.6 million stock options which it held into 0.8 million shares. About 3 thousand stock options which were not exercised by February 20, 2004, the last exercise day, expired.
- b. During January 2004, Maalot - the Israeli rating company, raised the rating for the Company's debentures to AA-.
- c. On January 27, 2004, the Company made the following securities offering to institutional investors:
 1. A series of debentures (not to be listed) at the total par value of NIS 120 million in consideration of their par value. Said debentures are linked to the increase in the Israeli CPI and bear fixed annual interest at the rate of 5.55%, payable annually. The principal of the debentures is payable in one sum in February 2010.
 2. Debentures (series A) of 90 million par value at a price of NIS 101 per NIS 100 par value of debentures and for the total consideration of approximately NIS 91 million. The above issuance was by the extension of the series of debentures (series A) which was first issued to the public according to the Company's prospectus from May 2, 2002 and the terms of the issued debentures are similar to the terms of the series, as described in said Company's prospectus (see Note 16c).
- d. In March 2004, FCR issued to institutional investors and other 3.4 million shares (including 0.8 million shares to the Company) for the total consideration of approximately C\$ 55 million (NIS 187 million). As a result of the issuance of shares, it is expected that the Company will record in the first quarter of 2004 a gain amounting approximately NIS 8.5 million from a decrease in its shareholding.
- e. In February 2004, the Company's Board authorized the Company's management, based on the experience and the abilities which the Group gained in its activity in the field of commercial centers in North America, to examine the expansion of its activity also into Europe, in the field of commercial centers, and to North America - protected tenancy and other income producing properties.

NOTES TO FINANCIAL STATEMENTS

NOTE 33:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- f. During February and March 2004, the Company acquired 30.9 million shares of Citycon Oyj. ("Citycon") thereby conferring it holdings in 29.2% of the share capital of Citycon (30.3% of the share capital net of shares held by Citycon). On March 15, 2004, the general meeting of Citycon nominated a Board of seven members among which two directors were based on the Company's recommendation. The Company's total investment in Citycon shares is placed at approximately Euro 59 million (NIS 324 million). In March 2004, Citycon announced that on March 25, 2004 it will pay to its shareholders a dividend amounting to approximately Euro 14 million. The Company's share in said dividend totals approximately Euro 4 million (NIS 22 million).

Citycon is a Finnish public company which focuses on the field of income producing properties in Finland. Its properties portfolio as of December 31, 2003 consisted of about 150 properties, some of which are supermarket-anchored shopping centers and some are commercial buildings with a total area of approximately 500 thousand sq. which are principally leased to supermarket chains. As per the financial statements of Citycon as of December 31, 2003, the carrying amount of its properties is approximately Euro 722 million (NIS 4.1 billion).

The price for a Citycon share on the stock exchange in Helsinki as of the date of the approval of the financial statements reflects a market value of approximately Euro 194 million (NIS 1.1 billion).

- g. On January 31, 2004, Mishkenot Clal signed an agreement with Polar Investments Ltd. and Niduran Ltd. for the acquisition of 91.2% of Hazerot Hadar Ltd., which is Mishkenot Clal's partner in the holding of Mediterranean Towers Kfar Saba (50%) and Mediterranean Towers Nordia (33%).

On March 1, 2004, after receiving the approval of the Anti Trust Commissioner, the transaction was closed. Subsequent to the closing, Mishkenot Clal now holds, through its subsidiaries, full ownership of Mediterranean Towers Kfar Saba and 66.7% of Mediterranean Towers Nordia.

- h. In March 2004, the Company declared a dividend of NIS 0.18 per share payable at the beginning of April 2004. The record date for the entitlement to the dividend is March 24, 2004.

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- GEOGRAPHIC INFORMATION

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

Consolidated:

	Year ended December 31, 2003			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total rental income	<u>854,484</u>	<u>529,069</u>	<u>17,633</u>	<u>1,401,186</u>
Segment results	<u>482,063</u>	<u>262,415</u>	<u>1,429</u>	745,907
General and administrative expenses				<u>115,805</u>
Operating income				630,102
Financial expenses, net				300,163
Other income, net				<u>56,492</u>
Income before taxes on income				386,431
Taxes on income				<u>43,629</u>
Income after taxes on income				342,802
Equity in earnings of affiliates				3,613
Minority interest in earnings of subsidiaries				<u>(209,839)</u>
Net income				<u>136,576</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2002			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total rental income	486,438	381,538	17,455	885,431
Segment results	273,522	194,649	297	468,468
General and administrative expenses				80,964
Operating income				387,504
Financial expenses, net				147,203
Other income, net				3,148
Income before taxes on income				243,449
Taxes on income				17,909
Income after taxes on income				225,540
Equity in earnings of affiliates				3,252
Minority interest in earnings of subsidiaries				(124,639)
Net income				104,153

	Year ended December 31, 2001			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total rental income	380,150	309,233	18,378	707,761
Segment results	205,538	161,316	556	367,410
General and administrative expenses				58,861
Operating income				308,549
Financial expenses, net				147,992
Other expenses, net				10,326
Income before taxes on income				150,231
Taxes on income				18,396
Income after taxes on income				131,835
Minority interest in earnings of subsidiaries				(47,143)
Net income				84,692

NOTES TO FINANCIAL STATEMENTS

NOTE 34:- GEOGRAPHIC INFORMATION (cont.)

Additional information:

	December 31, 2003			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Segment assets	<u>7,480,343</u>	<u>210,984</u>	<u>4,646,412</u>	12,337,739
Corporate assets - unallocated				<u>478,509</u>
Total consolidated assets				<u>12,816,248</u>
Segment liabilities	<u>136,212</u>	<u>30,232</u>	<u>150,571</u>	317,015
Corporate liabilities - unallocated				<u>8,403,629</u>
Total consolidated liabilities				<u>8,720,644</u>
	December 31, 2002			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	<u>3,351,003</u>	<u>3,018,885</u>	<u>214,585</u>	6,584,473
Corporate assets - unallocated				<u>843,410</u>
Total consolidated assets				<u>7,427,883</u>
Segment liabilities	<u>74,269</u>	<u>100,750</u>	<u>23,564</u>	198,583
Corporate liabilities - unallocated				<u>5,422,903</u>
Total consolidated liabilities				<u>5,621,486</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 35:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE

a. Balance sheets - the Company:

	December 31,	
	2003	2002
	NIS in thousands	
ASSETS		
Current assets	22,930	98,473
Long-term investments and loans	1,230,241	1,017,116
Fixed assets, net	1,933	1,897
Other assets and deferred charges, net	5,997	5,765
	<u>1,261,101</u>	<u>1,123,251</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	42,611	34,882
Long-term liabilities	606,008	573,713
Shareholders' equity	612,482	514,656
	<u>1,261,101</u>	<u>1,123,251</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 35:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

b. Statements of operations - the Company:

	Year ended December 31,		
	2003	2002	2001
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	*) -	*) -	*) -
Other income	3,655	5,378	8,239
Financial, net	14,907	-	21,419
	18,562	5,378	29,658
Costs and expenses:			
General and administrative	8,222	7,809	6,016
Financial, net	-	8,313	-
	8,222	16,122	6,016
Income (loss) before taxes on income	10,340	(10,744)	23,642
Taxes on income	3,832	3,906	3,548
Net income (loss)	*) 6,508	*) (14,650)	*) 20,094

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

NOTES TO FINANCIAL STATEMENTS

NOTE 35:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign consolidated units	Accumulated deficit	Dividend declared	Less - shares held by the Company	Less - loans for purchase of shares	Total
	NIS in thousands							
Balance at January 1, 2001	42,788	271,757	36,172	(4,164)	-	(614)	-	345,939
Issuance of share capital, net	7,411	92,033	-	-	-	-	-	99,444
Conversion of debentures into shares	84	920	-	-	-	-	-	1,004
Exercise of stock options into shares	2,564	20,695	-	-	-	-	-	23,259
Purchase of shares by subsidiary, net	-	-	-	-	-	(2,862)	-	(2,862)
Net income	-	-	-	20,094	-	-	-	20,094
Dividend paid	-	-	-	(22,688)	-	-	-	(22,688)
Dividend declared	-	-	-	(18,444)	-	-	-	(18,444)
Balance as of December 31, 2001	52,847	385,405	36,172	(25,202)	-	(3,476)	-	445,746
Issuance of share capital, net	6,130	79,436	-	-	-	-	(8,362)	77,204
Exercise of stock options into shares	9,535	135,413	-	-	-	(108,203)	-	36,745
Issuance of stock divided	6,254	-	-	(6,254)	-	-	-	-
Sale of shares by the Company	-	387	-	-	-	2,914	(2,009)	1,292
Loss	-	-	-	(14,650)	-	-	-	(14,650)
Dividend paid	-	-	-	(31,681)	-	-	-	(31,681)
Dividend declared	-	-	-	(11,591)	11,591	-	-	-
Balance as of December 31, 2002	74,766	600,641	36,172	(89,378)	11,591	(108,765)	(10,371)	514,656
Issuance of share capital, net	4,000	60,000	-	-	-	-	-	64,000
Exercise of stock options into shares	6,783	72,322	-	-	-	-	-	79,105
Repurchase of shares	-	-	-	-	-	(63)	63	-
Repayment of loans for purchase of shares	-	-	-	-	-	-	930	930
Net income	-	-	-	6,508	-	-	-	6,508
Dividend paid	-	-	-	(41,126)	(11,591)	-	-	(52,717)
Dividend declared	-	-	-	(14,583)	14,583	-	-	-
Balance as of December 31, 2003	85,549	732,963	36,172	(138,579)	14,583	(108,828)	(9,378)	612,482

APPENDIX TO FINANCIAL STATEMENTS

List of Group companies as of December 31, 2003 (1)

	Percentage of ownership as of December 31, 2003		Country of registration
		%	
Equity One Inc.	40.5	***) (2)	U.S.
First Capital Reality Inc.	56.9	***) (3)	Canada
Mishkenot Clal (1982) Ltd.	50	*) (4)	Israel
Hashalom Boulevard House Ltd.	100	**)	Israel
M.G.N USA Inc.	100	***)	U.S.
Gazit (1995) Inc.	100	**)	U.S.
Gazit Group USA Inc.	100	**)	U.S.
M.G.N America Inc.	100	**)	U.S.
Gazit Senior Care Inc.	100	**)	U.S.
Royal Senior Care Inc.	50	***) (5)	U.S.
Gazit (1997) Inc.	100	***)	U.S.
Gazit (2003) Inc.	100	*)	Canada
Golden Oak Inc.	100	*)	Cayman Islands
Hollywood Properties Ltd.	100	*)	Cayman Islands
Gazit Globe Israel Ltd.	100	*)	Israel
Automart (founded by Gazit Financing Group) Ltd. (previously: Gazit B.C. Ltd.)	100	**)	Israel

*) Held directly by the Company.

***) Held through subsidiaries.

***) Held directly and through subsidiaries.

(1) The list does not include companies held by EQY, FCR, Mishkenot Clal and Gazit Senior Care Inc.

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

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

(4) See Note 1b4.

(5) See Note 1b5.