

GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2003

ADJUSTED TO THE NIS OF MARCH 2003

UNAUDITED

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

Re: Review report of unaudited interim consolidated financial statements
for the three months period ended March 31, 2003

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of March 31, 2003, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the three months then ended.

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

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 97.9% as of March 31, 2003, and total revenues constituting approximately 98.5% of the related consolidated totals for the three months then ended. These statements were reviewed by other auditors whose reports have been furnished to us.

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

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

Tel-Aviv, Israel
May 27, 2003

KOST FORER & GABBAY
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of March 2003**

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

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

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of March 2003**

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

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

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

CONSOLIDATED STATEMENTS OF INCOME**Adjusted to the NIS of March 2003**

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

*) Reclassified, see Note 2b.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of March 2003

Unaudited

	Three months ended March 31, 2003								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Dividend declared	Less - shares held by the Company	Less - loans for acquisition of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the period	130,669	729,496	1,749	63,640	96,534	11,683	(109,438)	(10,453)	913,880
Foreign currency translation adjustments for foreign consolidated units	-	-	-	15,084	-	-	-	-	15,084
Net income for the period	-	-	-	-	63,621	-	-	-	63,621
Dividend declared	-	-	-	-	84	(11,683)	-	-	(11,599)
Balance at the end of the period	<u>130,669</u>	<u>729,496</u>	<u>1,749</u>	<u>78,724</u>	<u>160,239</u>	<u>-</u>	<u>(109,438)</u>	<u>(10,453)</u>	<u>980,986</u>
	Three months ended March 31, 2002								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Less - shares held by the Company	Less - loans for acquisition of shares	Total	
	Adjusted NIS in thousands								
Balance at the beginning of the period	114,711	510,523	1,749	57,545	33,139	(3,809)	-	713,858	
Issuance of share capital (net of issuance expenses)	3,663	49,597	-	-	-	-	-	53,260	
Foreign currency translation adjustments for foreign consolidated units	-	-	-	23,241	-	-	-	23,241	
Net income for the period	-	-	-	-	54,382	-	-	54,382	
Sale of shares held by the Company	-	181	-	-	-	2,483	(1,447)	1,217	
Balance at the end of the period	<u>118,374</u>	<u>560,301</u>	<u>1,749</u>	<u>80,786</u>	<u>87,521</u>	<u>(1,326)</u>	<u>(1,447)</u>	<u>845,958</u>	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of March 2003

Audited

	Year ended December 31, 2002								
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign consolidated units	Retained earnings	Dividend declared	Less - shares held by the Company	Less - loans for acquisition of shares	Total
	Adjusted NIS in thousands								
Balance at the beginning of the year	114,711	510,523	1,749	57,545	33,139	-	(3,809)	-	713,858
Issuance of share capital, net	6,366	82,481	-	-	-	-	-	(8,366)	80,481
Exercise of stock options into shares	9,592	136,191	-	-	-	-	(108,774)	-	37,009
Sale of shares held by the Company	-	301	-	-	-	-	3,145	(2,087)	1,359
Foreign currency translation adjustments for foreign consolidated units	-	-	-	6,095	-	-	-	-	6,095
Net income for the year	-	-	-	-	106,982	-	-	-	106,982
Dividend paid	-	-	-	-	(31,904)	-	-	-	(31,904)
Dividend declared	-	-	-	-	(11,683)	11,683	-	-	-
Balance at the end of the year	<u>130,669</u>	<u>729,496</u>	<u>1,749</u>	<u>63,640</u>	<u>96,534</u>	<u>11,683</u>	<u>(109,438)</u>	<u>(10,453)</u>	<u>913,880</u>

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1:- GENERAL**

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The significant accounting policies applied in the annual financial statements as of December 31, 2002 are applied consistently in these financial statements.
- b. Reclassification of the statement of income:

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

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

According to Accounting Standards No. 12 and No. 17, which deal with the discontinuance of adjusting financial statements, financial statements will discontinue to be adjusted for inflation in Israel commencing January 1, 2004. Until December 31, 2003, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

Company management is of the opinion that the discontinuance of adjusting financial statements to the CPI in environment of positive inflation, without regulating additional Standards that influence the results of income producing real estate companies, will have a significant negative effect on the reported accounting results of the Company beginning with the year of application of the Standard.

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

NOTE 5:- ADDITIONAL INFORMATION

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

IRT was a public company type REIT for tax purposes whose shares were listed for trade on the New York Stock Exchange and which owned 92 properties in South-East U.S.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- ADDITIONAL INFORMATION (cont.)

According to the merger agreement, each IRT shareholder was entitled to receive per each IRT share it owns \$ 12.15 in cash or 0.9 shares of EQY, provided that the cash component of the consideration is not more than 50% of the aggregate consideration of the transaction.

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

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

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

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

NOTE 6:- SUBSEQUENT EVENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INFORMATION ABOUT GEOGRAPHIC SEGMENTS

	Three months ended March 31, 2003 (unaudited)			
	U.S.	Canada	Israel	Total- consolidated
	Adjusted NIS in thousands			
Rental income	<u>180,760</u>	<u>115,728</u>	<u>4,461</u>	<u>300,949</u>
Segment results	<u>104,188</u>	<u>55,133</u>	<u>360</u>	<u>159,681</u>
	Year ended December 31, 2002 (audited)			
	U.S.	Canada	Israel	Total- consolidated
	Adjusted NIS in thousands			
Rental income	<u>499,653</u>	<u>391,902</u>	<u>17,929</u>	<u>909,484</u>
Segment results	<u>280,950</u>	<u>199,937</u>	<u>306</u>	<u>481,193</u>
