

GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2002

ADJUSTED TO THE NIS OF SEPTEMBER 2002

UNAUDITED

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

Re: Review report of unaudited interim consolidated financial statements
for the nine months and three months ended September 30, 2002

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of September 30, 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine months and three months then ended.

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

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 94.5% as of September 30, 2002, and total revenues constituting approximately 98% of the related consolidated totals for the nine 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 interim consolidated financial 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
November 18, 2002

KOST FORER & GABBAY
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of September 2002**

	<u>September 30,</u>		<u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Adjusted NIS in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	200,602	299,058	228,758
Short-term investments	65,323	183,684	168,634
Tenants	30,892	38,160	40,148
Accounts receivable	87,154	64,434	59,828
Loans to partners and to former partners	67,526	45,944	62,686
Properties held for sale	41,540	-	-
	<u>493,037</u>	<u>631,280</u>	<u>560,054</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	36,624	-	-
Long-term investments	151,380	131,236	89,326
Long-term loans	79,083	96,929	71,034
	<u>267,087</u>	<u>228,165</u>	<u>160,360</u>
FIXED ASSETS:			
Cost	7,011,263	5,937,814	6,116,654
Less - accumulated depreciation	360,694	204,240	231,070
	<u>6,650,569</u>	<u>5,733,574</u>	<u>5,885,584</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>158,239</u>	<u>123,947</u>	<u>132,486</u>
	<u><u>7,568,932</u></u>	<u><u>6,716,966</u></u>	<u><u>6,738,484</u></u>

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

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of September 2002**

	<u>September 30,</u>		<u>December 31,</u>
	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Adjusted NIS in thousands</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	300,401	336,853	360,202
Trade payables	42,923	24,862	38,970
Other accounts payable	140,671	135,070	112,180
Dividend declared	-	-	19,722
	<u>483,995</u>	<u>496,785</u>	<u>531,074</u>
LONG-TERM LIABILITIES:			
Liabilities to financial institutions and others	3,963,747	3,718,398	3,730,943
Debentures	389,294	285,000	261,481
Tenants' security deposits	144,567	147,376	149,918
Accrued severance pay, net	798	830	807
Deferred taxes	515	503	537
	<u>4,498,921</u>	<u>4,152,107</u>	<u>4,143,686</u>
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	<u>731,077</u>	<u>777,197</u>	<u>756,534</u>
MINORITY INTEREST	<u>945,806</u>	<u>610,985</u>	<u>595,849</u>
SHAREHOLDERS' EQUITY	<u>909,133</u>	<u>679,892</u>	<u>711,341</u>
	<u><u>7,568,932</u></u>	<u><u>6,716,966</u></u>	<u><u>6,738,484</u></u>

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

November 18, 2002

Date of approval of the
financial statements

D. Segal
President

G. Kotler
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME**Adjusted to the NIS of September 2002**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	676,048	514,906	229,331	182,110	724,423
Other income	68,493	67,784	13,593	29,706	94,564
	<u>744,541</u>	<u>582,690</u>	<u>242,924</u>	<u>211,816</u>	<u>818,987</u>
Costs and expenses:					
Operating properties for rent	234,359	176,058	78,325	62,232	247,019
Depreciation of properties for rent	88,795	74,889	31,254	27,793	101,347
General and administrative	65,299	44,840	19,094	14,924	60,246
Financial, net	100,830	106,438	42,637	63,299	239,876
Other expenses	36,136	8,556	12,328	1,527	16,730
	<u>525,419</u>	<u>410,781</u>	<u>183,638</u>	<u>169,775</u>	<u>665,218</u>
Income before taxes on income	219,122	171,909	59,286	42,041	153,769
Taxes on income	9,838	21,666	3,765	12,565	18,830
Income after taxes on income	209,284	150,243	55,521	29,476	134,939
Equity in earnings of affiliates	3,747	-	641	-	-
Minority interest in earnings of subsidiaries	<u>(108,855)</u>	<u>(51,379)</u>	<u>(34,119)</u>	<u>(10,259)</u>	<u>(48,252)</u>
Net income for the period	<u>104,176</u>	<u>98,864</u>	<u>22,043</u>	<u>19,217</u>	<u>86,687</u>
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic net earnings	<u>1.48</u>	<u>1.88</u>	<u>0.32</u>	<u>0.35</u>	<u>1.61</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2002

Unaudited

Nine months ended September 30, 2002

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous 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	114,307	508,723	1,742	57,338	33,025	(3,794)	-	711,341
Issuance of share capital (net of issuance expenses)	6,359	82,401	-	-	-	-	(8,333)	80,427
Exercise of stock options into shares	541	6,135	-	-	-	-	-	6,676
Sale of shares held by the Company	-	182	-	-	-	2,516	(1,444)	1,254
Foreign currency translation adjustments for foreign autonomous units	-	-	-	26,170	-	-	-	26,170
Net income for the period	-	-	-	-	104,176	-	-	104,176
Dividend paid	-	-	-	-	(20,911)	-	-	(20,911)
Balance at the end of the period	<u>121,207</u>	<u>597,441</u>	<u>1,742</u>	<u>83,508</u>	<u>116,290</u>	<u>(1,278)</u>	<u>(9,777)</u>	<u>909,133</u>

Nine months ended September 30, 2001

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	103,471	386,429	1,742	12,097	(9,437)	(675)	493,627
Issuance of share capital (net of issuance expenses)	4,368	55,729	-	-	-	(19,135)	40,962
Sale of shares held by the Company and subsidiary	-	(446)	-	-	-	12,917	12,471
Exercise of stock options into shares	2,727	21,942	-	-	-	-	24,669
Conversion of debentures into the Company's shares	94	990	-	-	-	-	1,084
Foreign currency translation adjustments for foreign autonomous units	-	-	-	32,718	-	-	32,718
Net income for the period	-	-	-	-	98,864	-	98,864
Dividend paid	-	-	-	-	(24,503)	-	(24,503)
Balance at the end of the period	<u>110,660</u>	<u>464,644</u>	<u>1,742</u>	<u>44,815</u>	<u>64,924</u>	<u>(6,893)</u>	<u>679,892</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2002

Unaudited

	Three months ended September 30, 2002							
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous 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	120,059	583,580	1,742	80,432	104,792	(1,278)	(1,444)	887,883
Exercise of stock options into shares	541	6,135	-	-	-	-	-	6,676
Issuance of share capital (net of issuance expenses)	607	7,726	-	-	-	-	(8,333)	-
Foreign currency translation adjustments for foreign autonomous units	-	-	-	3,076	-	-	-	3,076
Net income for the period	-	-	-	-	22,043	-	-	22,043
Dividend paid	-	-	-	-	(10,545)	-	-	(10,545)
Balance at the end of the period	<u>121,207</u>	<u>597,441</u>	<u>1,742</u>	<u>83,508</u>	<u>116,290</u>	<u>(1,278)</u>	<u>(9,777)</u>	<u>909,133</u>
	Three months ended September 30, 2001							
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less shares held by the Company	Total	
				Adjusted NIS in thousands				
Balance at the beginning of the period	109,902	458,808	1,742	32,513	54,118	(11,494)	645,589	
Sale of shares held by the Company and subsidiary	-	(309)	-	-	-	4,601	4,292	
Exercise of stock options into shares	758	6,145	-	-	-	-	6,903	
Foreign currency translation adjustments for foreign autonomous units	-	-	-	12,302	-	-	12,302	
Net income for the period	-	-	-	-	19,217	-	19,217	
Dividend paid	-	-	-	-	(8,411)	-	(8,411)	
Balance at the end of the period	<u>110,660</u>	<u>464,644</u>	<u>1,742</u>	<u>44,815</u>	<u>64,924</u>	<u>(6,893)</u>	<u>679,892</u>	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2002

Audited

	Year ended December 31, 2001						Total
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	
				Adjusted NIS in thousands			
Balance at the beginning of the year	103,471	386,429	1,742	12,097	(9,437)	(675)	493,627
Issuance of share capital, net	7,994	99,859	-	-	-	(19,135)	88,718
Conversion of debentures into shares	92	992	-	-	-	-	1,084
Exercise of stock options into shares	2,750	22,192	-	-	-	-	24,942
Sale of shares by subsidiary	-	(749)	-	-	-	16,016	15,267
Foreign currency translation adjustments for foreign autonomous units	-	-	-	45,241	-	-	45,241
Net income for the year	-	-	-	-	86,687	-	86,687
Dividend paid	-	-	-	-	(24,503)	-	(24,503)
Dividend declared	-	-	-	-	(19,722)	-	(19,722)
Balance at the end of the year	<u>114,307</u>	<u>508,723</u>	<u>1,742</u>	<u>57,338</u>	<u>33,025</u>	<u>(3,794)</u>	<u>711,341</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2002**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	104,176	98,864	22,043	19,217	86,687
Adjustments to reconcile net income to net cash provided by operating activities (a)	49,058	(24,718)	27,451	6,705	1,730
Net cash provided by operating activities	153,234	74,146	49,494	25,922	88,417
Cash flows from investing activities:					
Investment in newly consolidated subsidiaries (b)	-	(147,914)	-	(147,914)	(169,856)
Investment in subsidiary and in jointly controlled entity	(2,255)	(20,153)	(1,816)	-	(21,014)
Investment in fixed assets	(789,378)	(252,425)	(228,955)	(39,130)	(494,999)
Proceeds on sale of fixed assets	104,292	36,151	43,089	34,510	152,631
Loans granted to (repaid by) partners and former partners	(2,695)	(1,476)	2,272	-	(9,860)
Long-term loans granted	(8,999)	-	(1,237)	-	(11,611)
Repayment of long-term loans granted	4,710	6,965	1,634	4,847	20,316
Realization of short-term investments, net	47,083	70,416	46,335	6,770	93,298
Purchase of marketable securities and long-term investments	(167,616)	(64,602)	(18,600)	(19,027)	(117,300)
Proceeds from realization of long-term investments	162,399	102,701	67,028	5,713	186,081
Net cash used in investing activities	(652,459)	(270,337)	(90,254)	(154,231)	(372,314)
Cash flows from financing activities:					
Issuance of share capital, net	80,427	40,962	-	-	88,718
Exercise of stock options into shares	6,676	24,669	6,676	6,903	24,942
Sale of shares by the Company and a subsidiary	1,254	12,471	-	4,292	15,267
Issuance of shares to minorities in subsidiary, net	278,775	97,139	36,279	97,139	99,694
Deferred charges in respect of raising loans and debentures	(20,204)	(13,081)	(8,297)	(1,436)	(12,133)
Dividend paid	(40,633)	(31,914)	(20,911)	(16,635)	(31,914)
Dividend paid to minorities in subsidiaries	(63,227)	(19,920)	(22,976)	(2,227)	(29,542)
Receipt of long-term loans	675,429	763,575	175,734	307,256	1,380,434
Repayment of long-term loans	(392,027)	(436,627)	(72,266)	(78,502)	(1,028,668)
Redemption of debentures	-	-	-	-	(28,996)
Early redemption of debentures and convertible debentures	(110,628)	(176,412)	(44,370)	(18,557)	(203,155)
Short-term credit from banks and others, net	(129,507)	12,734	(37,322)	2,484	10,345
Issuance of debentures and convertible debentures	158,103	103,909	-	-	103,603
Increase (decrease) in tenants' security deposits, net	2,942	-	(358)	-	6,473
Net cash provided by financing activities	447,380	377,505	12,189	300,717	395,068
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents					
	23,689	6,674	6,151	2,303	6,517
Increase (decrease) in cash and cash equivalents	(28,156)	187,988	(22,420)	174,711	117,688
Cash and cash equivalents at the beginning of the period	228,758	111,070	223,022	124,347	111,070
Cash and cash equivalents at the end of the period	200,602	299,058	200,602	299,058	228,758

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2002**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	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:					
Gain from realization and revaluation of marketable securities, net	(23,728)	(42,490)	(2,554)	(17,135)	(74,010)
Minority interest in earnings of subsidiaries	108,855	51,379	34,119	10,259	48,252
Equity in earnings of affiliates net of dividend received	(924)	-	971	-	-
Depreciation	89,371	74,889	31,689	27,584	101,683
Deferred taxes, net	(3,178)	(8,649)	(1,693)	(5,510)	(4,101)
Loss (gain) from early redemption of debentures and convertible debentures	750	(37,709)	104	(1,286)	(39,142)
Adjustment differences on monetary assets and long-term monetary liabilities, net	(160,155)	(86,336)	(49,393)	(2,094)	(57,263)
Write-down of long-term investments	34,613	-	12,170	-	1,955
Amortization of other assets and deferred charges	9,928	14,038	2,569	8,691	12,460
Gain from sale of fixed assets	(25,691)	(508)	(334)	-	(240)
Accrued severance pay, net	-	161	53	3	138
Gain from issuance to third party and related party	(2,589)	(5,221)	(96)	(5,797)	(4,951)
Changes in asset and liability items:					
Decrease (increase) in tenants and accounts receivable	(7,972)	(774)	(16,594)	(15,793)	6,918
Increase in trade payables and other accounts payable	28,114	16,731	15,805	13,539	14,021
Increase (decrease) in tenants' security deposits	1,664	(229)	635	(5,756)	(3,990)
	<u>49,058</u>	<u>(24,718)</u>	<u>27,451</u>	<u>6,705</u>	<u>1,730</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2002**

	Nine and three months ended September 30,		Year ended December 31,
	2002	2001	2001
	Unaudited		Audited
Adjusted NIS in thousands			
(b) <u>Investment in newly consolidated subsidiaries:</u>			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)			
Current assets	-	(28,247)	(28,543)
Current liabilities	-	69,153	21,158
	-	40,906	(7,385)
Fixed assets, long-term loans and investments (mainly real estate)	-	(787,549)	(669,424)
Other assets	-	-	(57)
Long-term liabilities	-	437,107	365,649
	-	(350,442)	(303,832)
Minority interest	-	161,622	119,059
Investment balance in newly consolidated subsidiary	-	-	22,302
	-	(147,914)	(169,856)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	Unaudited				Audited
Adjusted NIS in thousands					

(c) <u>Significant non-cash operations:</u>					
Dividend declared	-	-	-	-	19,722
Issuance of shares to minorities and related party in subsidiary against long-term loans	-	-	-	-	23,577
Conversion of convertible debentures into Company shares	-	1,084	-	-	1,084
Long-term investment	-	9,344	-	-	-

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 September 30, 2002 and for the nine and three months periods then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 2001 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The significant accounting policies applied in the annual financial statements as of December 31, 2001 are applied consistently in these financial statements.
- b. 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 in the past these debentures, was previously carried to the statement of income or to a balance sheet item 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) of the debentures into shares at the time they were acquired by the Company.

When the probability of conversion is low, the difference was carried in the past as gain or loss on early redemption and was included in the consolidated statement of income among financing. When the probability of conversion is high, the difference is carried as surplus acquisition cost.

From 2002, the Company acts according to the Securities Authority's staff position whereby if the Company acquires additional convertible debentures of the subsidiary, the above difference shall be deferred and recognized as gain only when the debentures are converted into the subsidiary's shares or when the debentures are redeemed.

- c.1. Future application of the accounting standards and their effect on the financial statements:

In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 which deals with the discontinuance of adjusting financial statements and Accounting Standard No. 13 regarding the effects of changes in foreign exchange rates.

According to Accounting Standard No. 12, beginning January 1, 2003, financial statements will discontinue to be adjusted for inflation in Israel. Until December 31, 2002, 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, 2002, will serve as the starting point for nominal financial reporting beginning January 1, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

On November 10, 2002, in the framework of the proposal for Standard No. 17, the Israel Accounting Standards Board decided to defer the implementation of Standard No. 12 to January 1, 2004

Accounting Standard No. 13 prescribes provisions with respect to the effects of changes in foreign exchange rates. This Standard replaces Interpretation No. 8 and Interpretation No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which are eliminated at the time of discontinuance of the adjustment of the financial statements. The Standard deals with translation of foreign transactions and translation of financial statements of foreign operations for the purpose of their inclusion in the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those applied until now. Accounting Standard No. 13 will apply to financial statements at the time of implementation of Accounting Standard No. 12.

Management is of the opinion that the discontinuance of adjusting financial statements to the Israeli CPI and the application of the provisions regarding the translation of financial statements of investees that are prepared in foreign currency in environment of positive inflation, without regulating additional Standards that influence the results of income producing real estate companies, will have a significant effect on the reported accounting results of the Company beginning with the year of change.

2. Accounting Standard No. 14 - financial reporting for interim periods:

In August 2002, Accounting Standard No. 14 was published which discusses financial reporting for interim periods. The objective of the Standard is to determine the minimal contents for the financial reporting for interim periods, as well as to determine the principles for recognition and measurement in financial statements for interim periods.

This accounting Standard, which is based on International Accounting Standard No. 34, "Financial Reporting for Interim Periods", replaces Opinion No. 43 of the Institute of Certified Public Accountants in Israel, which deals with financial statements for interim periods, and Opinion No. 60 which deals with the amendment of Opinion No. 43 with regard to the cancellation of the requirement to include information on nominal data in financial statements for interim periods. This Standard will apply with respect to financial statements for periods beginning on or after January 1, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**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 September 2002.

The following are details in the Consumer Price Index ("CPI") in Israel, U.S. and Canada and the exchange rates of the U.S. dollar and the Canadian dollar:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2002	2001	2002	2001	2001
			%		
CPI in Israel	7.0	2.0	0.6	0.8	1.4
CPI in U.S.	2.4	2.5	0.6	0.2	1.6
CPI in Canada	3.6	2.0	0.9	(0.1)	0.7
Exchange rate of one U.S. dollar	10.3	7.8	2.1	4.6	9.3
Exchange rate of one Canadian dollar	11.3	2.7	(2.6)	1.0	3.2

NOTE 4:- ADDITIONAL INFORMATION

- a. During the reported period, EQY raised in private placements and public issuance approximately \$ 66 million, of which \$ 16.4 million were received from the Company and its subsidiaries (including FCR). In connection with these issuances and the issuance of shares in FCR (see j. below), the Company recorded a gain from the decrease in the holding rate in the amount of approximately NIS 2.6 million.
- b. In January 2002, FCR issued at no consideration about 775 thousand warrants to officers and employees at FCR which are exercisable until January 2012 at an exercise price of CD 12.42 per share, after adjustments. The Company's CEO and the Company's chairman of the Board received 200 thousand and 100 thousand warrants, respectively.
- c. In March 2002, the Company issued bonus shares to its shareholders so that each shareholder who held at the date of record in 9 shares of the Company received, at no consideration, share of the Company as stock dividend. The Company issued a total of about 6.3 million shares as stock dividend.
- d. In February 2002, the Company issued through a private placement 3,442,720 shares of the Company, of which 200,000 shares were issued to Gmul Investment Ltd. and 1,721,360 shares were issued to Gazit Israel Ltd., the Company's parent company. In the aggregate, the Company rose in this issuance approximately NIS 53.1 million, net.
- e. In February 2002, the Company issued to institutional investors NIS 81.4 million of non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest of 5.65%. The redemption of the debentures is in 8 equal annual payments beginning in 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- ADDITIONAL INFORMATION (cont.)

- f. During the reported period, EQY sold 6 income producing properties and land for future development to third parties in consideration of the total of approximately NIS 116 million. As a result of these sales, the Company recorded a gross gain in the amount of approximately NIS 25.7 million, which is included among the caption "Other income" in the Company's statement of income. The Company's net share in the above gain is approximately NIS 12.4 million.
- g. Pursuant to a stock option award plan, which was approved by the shareholders' meeting in March 2002, 125 thousand warrants were issued at that month to the Company Board's members who do not hold in other positions in the Company, at no consideration. Each warrants is exercisable into 1.1177 shares of the Company and from the first to the fifth anniversaries of the grant date for an exercise increment of NIS 15.45, linked to the Israeli CPI and subject to adjustment of dividend that is paid by the Company.
- h. In May 2002, the Company issued to the public 140 million par value of debentures (series A), 700 thousand debentures options (series 1) and 7 million warrants (series 5) in consideration for NIS 137 million, of which approximately NIS 75.4 million were received from the Company's wholly owned subsidiary. Additionally, this subsidiary acquired, pursuant to its commitment, some 2.3 million warrants (series 5) in the course of the first two trading days at 20 agora per warrant.

Further to the aforementioned, under the prospectus, the Company issued, by a rights offer to its shareholders, 2,081,707 shares and 3,122,561 warrants (series 6) in consideration for approximately NIS 27.6 million.

The debentures are linked to the U.S. dollar (base rate - NIS 4.84 per dollar), redeemable in 11 equal annual payments from June 2007 and bear interest of 6.5%.

Each debentures option (series 1) is exercisable into NIS 100 par value of debentures (series A) until November 20, 2002, at NIS 98.5, linked to the dollar (base rate - NIS 4.84 per dollar).

Each warrants (series 5) is exercisable into one share of the Company until November 30, 2002, at NIS 16.5, linked to the dollar (base rate - NIS 4.904 per dollar). In any event, the exercise price will not be below NIS 16.5.

Each warrants (series 6) is exercisable into one share of the Company until December 20, 2002, at NIS 13, linked to the dollar (base rate - NIS 4.904 per dollar).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- ADDITIONAL INFORMATION (cont.)

- i. In May 2002, Gazit 97 (100% owned) entered into a transaction with FCR, whereby FCR acquired all of the issued capital of a wholly owned subsidiary of Gazit 97, which owns eight income producing properties in Quebec, Canada, in consideration for CD 31.6 million. Said consideration was paid through CD 28,156 thousand par value of convertible debentures (series D) of FCR valued at CD 24.2 million (CD 84.34 per CD 100 par value of debentures, including accrued interest) and 601,630 shares valued at CD 7.4 million (CD 12.30 per share).

Following the acquisition, right after the closing, the Company's shareholdings in FCR increased to 69.3%.

- j. During the reported period, FCR issued some 708 thousand shares as a the payment of interest on convertible debentures (series C and D) in the amount of approximately CD 8.4 million, and this in accordance with the terms of the debentures. Gazit 97, which holds convertible debentures of FCR has received about 285 thousand shares in return for receipt of interest in the amount of approximately CD 3.3 million.

- k. For the reported period, investments in affiliates represent EQY investments of 50% in three companies each of which is the owner of an income producing property. Additionally, this item includes the 33% holdings of Mishkanot Clal Ltd. in a protected tenancy project in Nordia.

The Company's share in the investment in the fixed assets of those companies amounts to approximately NIS 170 million. The Company's share in the liabilities of these companies amounts to approximately NIS 133 million.

- l. In august 2002, 425,000 shares were issued to the Company's CEO in consideration for the total amount of approximately NIS 5.9 million (NIS 13.88 per share). Additionally, 180,000 shares were issued to the Company's Secretary (who serves also as a director in the Company) in consideration for the total amount of approximately NIS 2.4 million (NIS 13.38 per share).

For financing the acquisition, a banking institution extended to the optionees a loan for a period of up to 5 years. The loan is linked to the Israeli CPI and bears interest of 2%. The Company provided adequate collaterals to the banking institution in order to secure the loan and the optionees placed a lien on the issued shares in favor of the Company.

- m. In the context of a financing agreement for the acquisition of FCR shares in August 2000, the Company provided to a bank in Israel an option for the acquisition of 10% of the shares it acquired at the price it paid in return for a lower interest. Further, in the context of a financing agreement for the acquisition of FCR debentures, in December 2000, the Company provided to the bank an option for the acquisition of 10% of the debentures it holds, at cost, in return for a lower interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- ADDITIONAL INFORMATION (cont.)

In September 2002, the Company redeemed from the aforementioned bank said options for CD 1,350 thousand (some NIS 4.2 million). As a result of the redemption of the options, the Company recognized a deferred gain from early redemption of debentures as it was recorded in its books during 2000-2001, thereby deriving a net gain in the amount of approximately NIS 2.8 million.

NOTE 5:- SUBSEQUENT EVENTS

In October 2002, EQY signed an agreement for the acquisition of an IRT Property Company ("IRT") in shares and cash transaction, in consideration of approximately \$ 426 million.

IRT is a public company type REIT for tax purposes whose shares are traded on the NASDAQ and which owns 93 properties of which 92 are commercial centers in South-East U.S.

According to the acquisition agreement, each IRT shareholder shall be entitled to receive for 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.

Simultaneously with the engagement, and for its financing, EQY has signed an agreement for the issuance of shares to its three principal shareholders: the Company, FCR and Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") ("the issuance agreement"). According to the issuance agreement, EQY is to issue to its said three shareholders a total amount of up to some 6.9 million shares, and the Company is to acquire 62% of the issued shares, FCR – 15% and Alony-Hetz – 23% of said issued shares. The exact number of shares to be issued shall be determined by EQY close to the consummation of the transaction, however it will not be less than 6 million shares.

The price per share at the private placement will be \$ 13.30 and may rise up to \$ 13.50, in the event of a decrease in the cash component of the transaction.

The issuance of the shares, as per the issuance agreement, may be in one or in three stages, as determined by EQY, but in any event, the first stage of the issuance where at least 3 million of EQY shares are to be issued, will be upon the consummation of the purchase agreement. The remaining shares which are not issued upon closing, as above, will be issued in equal portions on October 15, 2003 and on April 15, 2004. The performance of the issuance agreement is contingent upon the consummation of the IRT transaction.

It is expected that subsequent to the consummation of the transaction and based on its structure where 50% of the transaction is in cash and 6.9 million shares are issued to EQY shareholders, the Company will hold in 24% of EQY's share capital and the subsidiary, FCR, will hold in 21.3% of EQY's share capital. According to a shareholders agreement between the Company and Alony-Hetz, the Company will continue to appoint the majority of the members of EQY Board and to consolidate the accounts of EQY. Additionally, according to generally accepted accounting principles for exchange of assets transactions, as aforementioned, the Company will not record an accounting gain as a result of the expected decrease in its holdings in EQY.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- SUBSEQUENT EVENTS (cont.)

IRT will pay agreed upon break up fee of \$ 15 million in certain instances of cancellation of the transaction on its part as a result of the receipt of a preferable offer by a third party.

The closing of the transaction which is expected to occur in the first quarter of 2003 is subject to the approval of the shareholders meetings of IRT and EQY and to the fulfillment of certain additional acceptable conditions and it may be cancelled if certain conditions relating to the price of IRT share and to the price of EQY share before the closing occurs, are fulfilled.

Close after signing the agreement mentioned above, two of IRT shareholders filed a motion for class action against IRT, its directors and EQY alleging violations of fiduciary duty towards IRT shareholders. The companies are of the opinion that the claim is groundless.

GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended September 30, 2002

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – “the Company”) is honored to present the financial statements of the Company and its consolidated subsidiaries for the nine-month and three-month periods ended September 30, 2002:

1. A. General

The Company is an investment company engaged – through its subsidiaries – in the acquisition, development, and management of properties in the USA, Canada, and Israel. The Company focuses mainly on supermarket-anchored shopping centers. In addition, the Company pursues business opportunities in the acquisition of companies engaged in its areas of activity and/or in synergetic businesses.

The Company also invests in securities, mainly of other publicly traded real estate companies in the USA, Canada and Israel.

The Company's business strategy is characterized mainly by:

- Investment in economically and politically stable countries.
- Investment in properties, mainly anchored by supermarkets, which are considered “recession proof”, compared to other real estate.
- Operation in areas with high barriers to entry.
- Experienced local management teams.
- Growth through the acquisition and development of commercial properties while pursuing acquisition and merger opportunities with real estate companies engaged in the Company's area of activity.

As of the date of the financial statements, the Company owns 150 properties with a Gross Leasable Area (G.L.A.) of approximately 17 million square feet, as well as 3 properties that are jointly-owned and 4 additional properties under development. These properties have a book value of NIS 6.7 billion and generate annual rental income of NIS 880 million (gross annual rent calculated for the properties currently owned, at the exchange rate on the date of publishing these financial statements). The Company also owns 50% of a senior living company.

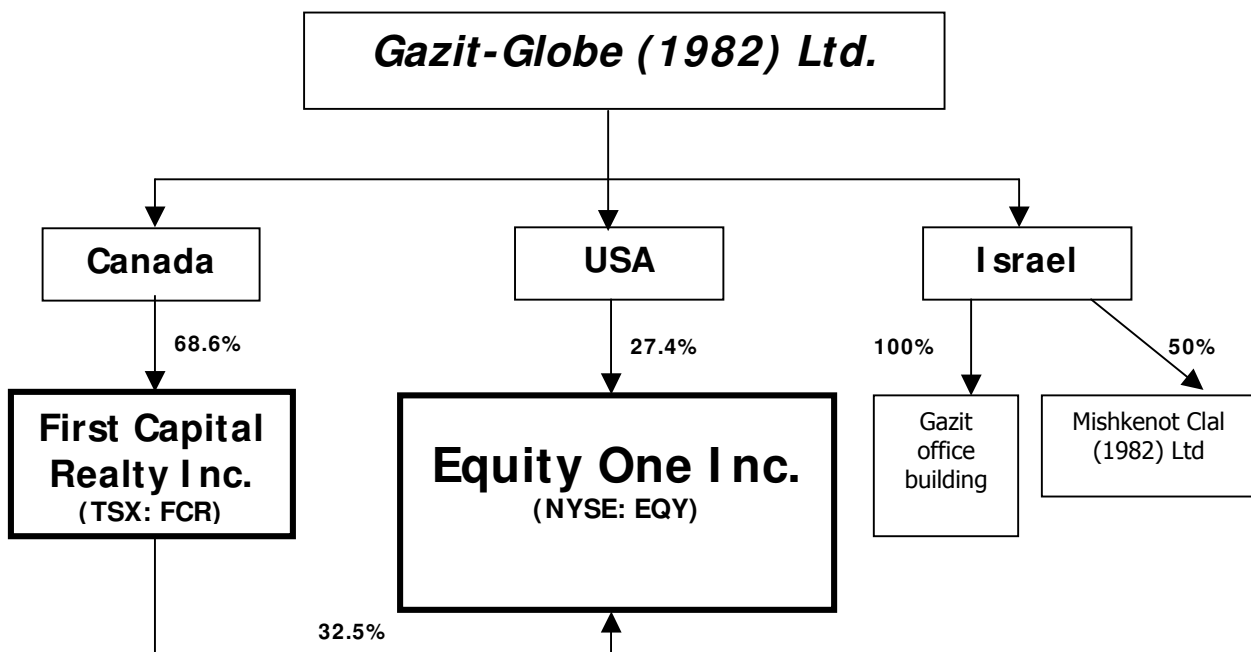
In the USA, the Company operates mainly through Equity One Inc. (hereinafter – “EQY”); a self-administered, self-managed REIT (Real Estate Investment Trust) traded on the NYSE. As of the date of the financial statements, the Company owns – directly, and indirectly through wholly-owned subsidiaries and through FCR - 50% of EQY. EQY operates primarily in the states of Florida and Texas, owning 85 properties (primarily supermarket-anchored shopping centers), with a G.L.A. of 8.7 million square feet, as well as 3 properties that are jointly-owned and 3 additional properties under development. Generally, the anchor tenants of EQY’s properties are national and regional chains.

Regarding the agreement entered into by EQY for the acquisition of IRT Property Company (hereinafter – “IRT”), see section 6A below.

Operations in Canada are carried out through First Capital Realty Inc. (hereinafter – “FCR”), a public company traded on the Toronto Stock Exchange (TSX). As of the date of the financial statements, the Company owns 68.6% of FCR. FCR operates mainly in the Canadian provinces of Ontario, Quebec and Alberta, owning 64 properties (primarily supermarket-anchored shopping centers), with a total G.L.A. of approx. 8.2 million square feet, as well as one additional property under development. The anchor tenants of FCR’s properties are national and regional chains. FCR also owns 32.5% of the share capital of EQY.

In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (hereinafter – “Mishkenot Clal”), which is engaged in the construction, operation, management and marketing of senior living facilities in Israel. In addition, the Company owns an office building in Tel-Aviv.

B. The Company's Major Holdings (ownership percentages are as of the date of the financial statements):



C. Key Points

- Net income for the third quarter of the year amounted to NIS 22 million, NIS 0.32 per share, compared with net income of NIS 19.2 million, NIS 0.35 per share, in the same quarter last year.
- F.F.O. (see section 3) for the third quarter of the year amounted to NIS 39.8 million, NIS 0.52 per share, compared to NIS 34.3 million, NIS 0.63 per share for the same quarter last year.
- Rental income, at NIS 229 million, grew in the third quarter of the year by 26% compared to the same quarter last year, mainly due to the purchase of additional properties and the acquisition of UIRT at the end of the third quarter last year.
- Cash flows from operating activities totalled NIS 49.5 million for the third quarter of the year, an increase of 91% compared to the same quarter last year.
- The Company's investment portfolio yielded a loss of NIS 5.4 million in the third quarter of the year (primarily from writing down the value of investments in traded securities that are presented as long-term investments), compared to a gain of NIS 18.9million in the same quarter last year.

- Inflation in the USA and Canada during the third quarter of the year was moderate, compared to almost no inflation during the same quarter last year. As a result, financing expenses (in real terms) were lower in the third quarter of the year than in the same quarter last year.
- As of September 30, 2002, shareholders' equity per share (of NIS 1 par value) amounted to NIS 13.98 per share, compared to NIS 12.17 as of December 31, 2001. Taking into account the dividend paid by the Company, the shareholders' equity per share grew in the period by 17.5%.
- Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 1.85 billion, representing 24.5% of the total assets, compared to NIS 1.31 billion at the end of 2001, which represented 19.4% of the total assets, and compared to NIS 1.29 billion at the end of the same quarter last year, which represented 19.2% of the total assets.
- All "per share" data have been adjusted for the stock dividend (split) distribution made during 2002.

The "per share" data for 2002 include the affect of the option warrants (Series 4 and Series 6), while the data for 2001 do not.

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

General

During the reporting period, the Company invested – directly and through subsidiaries – the sum of NIS 795 million, in the acquisition, development, and improvement of properties and long-term investments. The affect of these acquisitions on the operating results will be reflected mainly in the coming quarters.

A. Acquisition and Sale of Properties:

Acquisitions

1. In January 2002, FCR acquired six shopping centers for an aggregate consideration (including transaction expenses) of C\$ 58 million (NIS 179 million). The properties acquired are neighborhood and community shopping centers in the GMA, Quebec. The G.L.A. of these shopping centers totals some 810 thousand square feet.

2. In February 2002, EQY acquired two properties in consideration for US\$ 6.2 million (NIS 30.2 million). Both properties are leased to a pharmacy chain.
3. In May 2002, EQY acquired 3 supermarket-anchored shopping centers in Florida and Texas, with a total G.L.A. of approx. 250 thousand square feet and a 13-acre site for future development in Florida, which is adjacent to land that has been zoned for residential development. The acquisition also included land for future development next to one of the properties, The total cost of the acquisitions was US\$ 32 million (NIS 156 million).
4. In May 2002, FCR acquired a supermarket-anchored shopping center in Montreal, Quebec, with a total G.L.A. of approx. 160 thousand square feet, and with a partner land for future development, with an area of approx. 30 acres, in Calgary, Alberta. The total cost of the acquisitions was C\$ 13 million (NIS 40.2 million).
5. In June 2002, EQY acquired a supermarket-anchored shopping center in Orlando, Florida, with a total G.L.A. of approx. 70 thousand square feet, for US\$ 8.6 million (NIS 41.9 million).
6. During July 2002, EQY acquired a supermarket-anchored shopping center in Palm Beach, Florida, with a total G.L.A. of approx. 80 thousand square feet, for US\$ 9.25 million (NIS 45 million).
7. In August 2002, FCR acquired a shopping center, with a G.L.A. of some 150 thousand square feet, in the city of Ajax, Ontario for C\$ 21 million (NIS 65 million). The anchor tenants of the center will be a supermarket and a pharmacy.
8. In September and November 2002, FCR acquired – in two stages - a shopping center, with a G.L.A. of some 75 thousand square feet, in Toronto, Ontario, for C\$ 8 million (NIS 21.7 million). The consideration was paid in cash and by issuing 72,000 shares in FCR at a price of C\$ 12.3 per share.
9. During the third quarter, FCR acquired, for future development, sites adjacent to some of its existing shopping centers for C\$ 10.5 million (NIS 32.5 million).

Sales

10. In February 2002, EQY sold an office building located in Miami Beach, Florida in consideration for US\$ 6.05 million (NIS 29.5 million). The gain recognized by the Company from the sale of this property amounted to NIS 9.6 million, net. In addition, as part of the settlement of a claim filed against the municipality of Miami Beach (the acquirer), EQY received a further sum of US\$ 0.45 million (NIS 2.2 million).
11. In February 2002, EQY sold an undeveloped site for US\$ 1.7 million (NIS 8.3 million). The gain recognized by the Company from the sale of this land amounted to NIS 0.6 million, net.
12. In February 2002, EQY sold a shopping center in Texas for US\$ 2.6 million (NIS 12.7 million). No gain accrued to the Company from this sale.
13. In June 2002, EQY sold a residential building and adjacent land in Miami Beach, Florida for US\$ 2.45 million (NIS 11.9 million). The gain recognized by the Company from the sale of this property amounted to NIS 1.6 million, net.
14. In July 2002, EQY sold a shopping center, with no anchor tenants, located in Miami, Florida for US\$ 5.2 million (NIS 25.3 million). The shopping center had a G.L.A. of some 33 thousand square feet. The Company has not recorded any gain on the sale of this property.
15. In July 2002, FCR sold a 9 acre plot of land, adjacent to a development site, in which it holds a 50% share, for C\$ 3.7 million (NIS 11.4 million). As a result of this sale, the Company recorded a net gain of NIS 0.6 million.
16. In August 2002, EQY sold a supermarket-anchored shopping center, located in Orlando, Florida for US\$ 3.5 million (NIS 17 million). The shopping center had a G.L.A. of some 70 thousand square feet. Approx. US\$ 1 million (NIS 4.9 million) of the consideration was paid in cash, while the balance was financed by a one-year loan to the purchaser that bears interest at 8% per annum. The Company has not recorded any gain on the sale of this property.
17. In September 2002, EQY sold a shopping center, with no anchor tenants, located in Dallas, Texas for US\$ 2.35 million (NIS 11.4 million). The shopping center had a G.L.A. of some 33 thousand square feet. The Company has not recorded any gain on the sale of this property.

B. Additional Investments

As of September 30, 2002, the Company's investments in the shares of public real estate companies (REITs) and other securities, mainly in the USA and Canada (excluding subsidiaries) totalled NIS 172.9 million.

The investment in these securities, part of which is presented as short-term investments and part as long-term investments, is primarily in companies whose activity is similar in nature to that of the subsidiaries, and includes an investment of NIS 19.6 million in the shares of IRT (see section 6A below). For the nine months and three months ended September 30, 2002, the investment portfolio yielded net losses of NIS 3.1 million and NIS 5.4 million, respectively (after taking into account allowances made for impairment to the value of the investments). In the corresponding periods last year, the investments yielded net gains of NIS 52.7 million and NIS 18.9 million, respectively.

As of the date of the financial statements, the market value of these investments was not less than their carrying value.

As of December 31, 2001 and September 30, 2001, the Company's investments in traded securities totalled NIS 206.7 million and NIS 203.2 million, respectively.

C. Acquisition of FCR Debentures by the Company in the Reporting Period

During the reporting period, the Company – through a wholly-owned Canadian subsidiary (hereinafter – “Gazit 97”) – acquired on the Toronto Stock Exchange (TSX) convertible debentures of FCR with a nominal value of some C\$ 24.9 million, at a cost of NIS 71.4 million. During the corresponding period last year, the Company acquired debentures of FCR with a nominal value of some C\$ 74.9 million, at a cost of NIS 173.5 million.

In the nine months and three months ended September 30, 2002, the Company recognized gross gains of NIS 38 million and NIS 2 million, respectively, on the acquisition of the aforementioned debentures (the company's net share in the gain amounted to NIS 18.1 million and NIS 1 million, respectively).

As from 2002, the Company is adopting the treatment recommended by the Securities Authority's staff, whereby any difference between the cost of the debentures and their book value is recognized as a gain or loss only when those debentures are redeemed or converted.

Within the framework of the bank financing agreement for the acquisition of the debentures referred to above, the Company – instead of paying higher interest - granted an Israeli bank an option to acquire 10% of its debenture holdings at their cost price. In September 2002, the Company redeemed this option (and at the same time also redeemed an option granted to the bank in 2000 for the acquisition of FCR shares) for an aggregate amount of NIS 4.2 million. Consequently, the Company has released to income the deferred gain from the early redemption of the debentures, which it had recorded in its books in 2000 and 2001. The amount of the gain taken to income in respect of the redemption of the options and the release of the deferred gain totalled NIS 2.8 million.

D. Issue of FCR Option Warrants by Way of Rights Issue

In March 2002, FCR published a prospectus for the issue of option warrants for FCR shares, exercisable until 2008. FCR issued to shareholders a total of 12,302 thousand warrants for the purchase of its shares.

The exercise price for each warrant has been set at C\$ 11.8. At the time of issue, the Company purchased some 8,662 thousand warrants.

During the third quarter, the Company exercised some 1,362 thousand option warrants into FCR shares for a consideration of C\$ 16.1 million, while other parties exercised some 511 thousand option warrants into FCR shares for a consideration of C\$ 6 million. In total, FCR raised C\$ 22.1 million from the exercise of the above option warrants during the third quarter of the year

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

Ma'alot, the Israeli rating company, has rated the Company's debentures at A+ rating.

In October 2002, following EQY's signing of an agreement for the acquisition of IRT as described in section 6A below, Ma'alot announced that it is to review the Company's aforementioned credit rating.

F. Issue of FCR Shares

In September 2002, following a similar issue made in June 2002, FCR issued some 295 thousand shares in consideration for the half-yearly interest on convertible debentures (Series C), in the amount of C\$ 3.5 million (NIS 10 million).

Gazit 97, which is a holder of FCR's convertible debentures, received some 95 thousand shares, instead of receiving interest in the amount of C\$ 1.1 million (NIS 3.2 million).

G. Issue of Shares to Officers of the Company

In July 2002, the Company approved in a general meeting the issue of shares to its CEO and the Company Secretary (who also serves as a director of the Company).

In August 2002, the Company's CEO was allotted 425,000 shares for a consideration of NIS 5.9 million (NIS 13.88 per share) and the Company Secretary was allotted 180,000 shares for a consideration of NIS 2.4 million (NIS 13.38 per share).

The acquisition of the above shares was financed by a bank granting the allottees a loan. The loan is linked to the consumer price index, bears interest at 2% per annum and has a term of up to 5 years. A subsidiary of the Company has placed appropriate collateral with the bank in connection with the grant of the loan to the allottees, and the allottees have registered a first lien on the shares allotted to them.

H. Dividend Policy

Pursuant to the Company's annual dividend policy, whereby the Company announces at the end of each year the dividend for the subsequent year, the Company announces that the dividend in 2003 will be at least NIS 0.68 per share.

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

I. Changes in Accounting Standards

In October 2001 and in November 2002, the Israeli Accounting Standards Board issued Standards No. 12, 13 and 17 dealing with discontinuation of the measurement of financial statements based on changes in purchasing power in countries in which companies' real activities are conducted. Application of this standard is expected from 2004. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, which adjust their financial statements for changes in purchasing power in their domicile countries.

The Company's management estimates that discontinuation of such measurement, without the enactment of other accounting standards that affect the results of real estate companies, would have a material adverse effect on the Company's reported accounting results beginning from the year of the change.

3. A. Results of Operations

	For the 9 months ended September 30, 2002		For the 3 months ended September 30, 2002		For the year ended December 31
	2002	2001	2002	2001	2001
Adjusted NIS in thousands (except per share amounts)					
<u>Revenues:</u>					
Rental income	676,048	514,906	229,331	182,110	724,423
Other income	68,493	67,784	13,593	29,706	94,564
Total	744,541	582,690	242,924	211,816	818,987
<u>Costs and expenses:</u>					
Operating rental properties	234,359	176,058	78,325	62,232	247,019
Depreciation of rental properties	88,795	74,889	31,254	27,793	101,347
General and administrative	65,299	44,840	19,094	14,924	60,246
Financial, net	100,830	106,438	42,637	63,299	239,876
Other expenses	36,136	8,556	12,328	1,527	16,730
Total	525,419	410,781	183,638	169,775	665,218
Income before taxes on income	219,122	171,909	59,286	42,041	153,769
Taxes on income	9,838	21,666	3,765	12,565	18,830
Income after taxes on income	209,284	150,243	55,521	29,476	134,939
Company's share in profits of associated companies	3,747	-	641	-	-
Minority interest in earnings of subsidiaries	(108,855)	(51,379)	(34,119)	(10,259)	(48,252)
Net income for the period	104,176	98,864	22,043	19,217	86,687
Net earnings per share (of NIS 1 par value)	1.48	1.88	0.32	0.35	1.61
* F.F.O. for the period	144,869	147,623	39,765	34,295	156,780
* F.F.O. per share (of NIS 1 par value)	1.98	2.79	0.52	0.63	2.92

* F.F.O. - Funds From Operations – net income, which includes gains and dividends from investments in securities, less non-recurring income and expenses, plus the Company's share in depreciation and amortization.

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

Rental income

The increase in the third quarter of the year compared to the same quarter last year stems from the continuing acquisition of new properties and the acquisition of the properties of UIRT at the end of the third quarter of 2001.

Other income

Other income includes income from dividends and from investments in traded securities, as well as the gain arising from the forgiveness of part of a loan taken to finance one of EQY's properties. The decrease in the third quarter of the year compared to the same quarter last year is due mainly to the fall in income from investments in traded securities.

Dividend income for the third quarter of 2002 totalled NIS 3.027 million, compared to NIS 4.016 million for the same quarter of 2001.

Income from investments in traded securities for the third quarter of 2002 totalled NIS 2.554 million, compared to NIS 19.746 million for the same quarter of 2001.

During the third quarter of the year, EQY recorded a gain of NIS 7.4 million from the forgiveness of part of a loan taken to finance one of its properties (the Company's share in the gain was NIS 3.2 million, net). EQY has reviewed the value of the property, which was mortgaged in order to secure the above loan, and did not find any changes of a permanent nature that would necessitate making an allowance for impairment in its value.

In addition, during the third quarter of 2002, the Company recorded a gain of NIS 0.1 million from the dilution of its holdings in subsidiaries, compared to a gain of NIS 5.8 million from the dilution of its holdings in EQY, resulting from the completion of the issuance of shares in EQY to Alony Hetz Properties & Investments Ltd. (hereinafter –“Alony Hetz”) and other parties, during the same quarter last year.

Operating expenses

The increase in operating expenses is attributable to the same factors that caused an increase in rental income.

Operating income for the third quarter of the year amounted to 66% of revenues, similar to that for the same quarter last year.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 19.5 million for the third quarter of the year, representing NIS 0.3 depreciation per share; this compares with NIS 21.1 million, representing NIS 0.39 depreciation per share, for the same quarter last year.

The decrease in the Company's share in depreciation for the third quarter of the year compared to the same quarter in 2001 stems from the dilution of the Company's holdings in EQY.

General and administrative expenses

The increase in general and administrative expenses for the third quarter of the year, compared to the same quarter in 2001, stems mainly from the increase in EQY's administrative costs, which was caused by the growth in its properties and operations, compared to the same quarter last year.

General and administrative expenses for the third quarter of the year amounted to 7.9% of revenues, compared to 7% for the same quarter last year.

Financing

The reduction in financing expenses in the third quarter of 2002, compared to the same quarter in 2001, is due mainly to the higher inflation in the USA and Canada during the third quarter of the year (2.4% in the USA and 3.7% in Canada, on an annualized basis), compared to almost zero inflation during the same quarter in 2001. Because most of the Company's loans are not linked to the change in the consumer price index, an increase in the inflation rate decreases the Company's financing expenses (in real terms), while, on the other hand, a decrease in the inflation rate increases its financing expenses.

Furthermore, due to the release of the deferred gain due to the redemption of the options to the Israeli bank, as described in section 2C above, financing expenses decreased in the third quarter of the year by NIS 5.1 million, gross (NIS 2.8 million, net).

Other expenses

The increase in other expenses in the third quarter of the year is due to allowances amounting to NIS 12.2 million made for the impairment to the value of long-term investments, as described in section 2B.

Earnings per share and F.F.O. per share

The calculation of the primary earnings per share and F.F.O. per share data for the third quarter of the year include option warrants (Series 4) and option warrants (Series 6). The effect of these options is to add NIS 2.6 million to earnings and F.F.O., and to add 11.8 million shares to the aggregate number of shares; thus the overall effect is a decrease of NIS 0.02 and NIS 0.05 in the earnings per share and F.F.O. per share, respectively, for the quarter.

4. Liquidity and Financing Sources

The Company has set a conservative policy of maintaining a high level of liquidity while striving to increase its shareholders' equity, so as to be able to pursue business opportunities in its areas of operation.

- A. At September 30, 2002, the Company's shareholders' equity, totalling an aggregate of NIS 1.85 billion, financed 24.5% of total assets; this compares to NIS 1.31 billion, which financed 19.4% of total assets, at December 31, 2001, and NIS 1.29 billion, which financed 19.2% of total assets, at September 30, 2001 (including the convertible debentures in FCR, which may be converted into shares by FCR, the above percentages would be 34.2%, 30.8% and 30.8%, respectively).
- B. The current ratio (current assets to current liabilities) was 1.02 at September 30, 2002, compared to 1.27 at September 30, 2001 and 1.05 at December 31, 2001.
- C. Cash flows from operating activities in the third quarter of the year totalled NIS 49.5 million, compared to NIS 25.9 million in the same quarter last year.
- D. As of September 30, 2002, the Company and its subsidiaries have unutilized bank facilities totalling NIS 457 million.

5. Financial Status

Most of the balances and transactions included in the consolidated financial statements are in U.S. dollars and Canadian dollars, deriving from the operations of FCR and EQY, except for short-term and long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of September 30, 2002, the cash reserves available to the Company and its subsidiaries, including short-term investments, amount to NIS 265.9 million, compared to NIS 397.4 million as of December 31, 2001. The decrease in cash reserves stems mainly from the acquisition of new properties, which was partly offset by proceeds from the sale of properties and short-term investments and funds raised by the capital and long-term debt offerings of the Company and its subsidiaries to the public and other parties.

The increase in shareholders' equity from NIS 711.3 million at December 31, 2001 to NIS 909.1 million at September 30, 2002 stems from offerings and sale of shares and exercising options into shares, amounting to NIS 88.3 million, net, from an increase of NIS 26.2 million in the item "translation adjustments deriving from translation of the financial statements of FCR and EQY", resulting from the devaluation (in real terms) of the shekel against the U.S. dollar and the Canadian dollar, and, in addition, the Company's net income for the reporting period of NIS 104.2 million. These were partly offset by the NIS 20.9 million dividend paid by the Company.

6. Additional Information and Subsequent Events

A. Agreement for the acquisition of IRT by EQY

1. On October 29, 2002, EQY reported that it had entered into an agreement for the acquisition of IRT for US\$ 426 million, to be paid in cash and shares (hereinafter - "the acquisition agreement").

IRT is a self-administered, self-managed REIT (Real Estate Investment Trust), whose shares are traded on the NYSE. IRT operates in the south-eastern part of the United States and its head office is located in Atlanta, Georgia. It owns 93 properties, 92 of which are shopping centers (mainly supermarket-anchored), having a G.L.A of some 10 million square feet.

Based on the consideration and taking into account the debts of IRT totalling US\$ 297 million that were assumed by EQY as a result of the acquisition, IRT's asset value is estimated at US\$ 730 million

Pursuant to the acquisition agreement, each of IRT's shareholders is entitled to receive, for every IRT share owned, US\$ 12.15 in cash or 0.9 shares in EQY, subject to the condition that the cash portion of the consideration shall not exceed 50% of the total consideration for the deal.

EQY will finance the cash portion of the acquisition from its own resources, using its existing unutilized bank facilities and the proceeds from a private offering to its principal shareholders, as detailed in section 3 below.

2. Upon completion of the deal and subject thereto, EQY is expected to more than double the number of shopping centers it owns, and is expected to become one of the largest REITs in this sector in the south-eastern part of the United States and the largest in Florida. Upon completion of the deal, EQY will own 181 properties outright and a further 3 properties in partnership with other parties. The properties will have a total G.L.A. of nearly 19 million square feet, being located in the following US states: Florida, Texas, Georgia, Alabama, Mississippi, Louisiana, South Carolina, North Carolina, Tennessee, Kentucky, Virginia and Arizona. Upon completion of the deal and taking into account the acquisition consideration, EQY's total asset value will be in excess of US\$ 1.56 billion.
3. At the same time as it entered into the acquisition agreement and to assist in financing the acquisition, EQY made an agreement for the issuance of shares to its three principal shareholders: the Company, FCR, and Alony Hetz (hereinafter - "the issuance agreement"). Pursuant to the issuance agreement, EQY is expected to issue to the three abovementioned shareholders a total of 6.9 million shares, with the company taking 62% of the above issue, FCR - 15% and Alony Hetz - 23%. The exact number of shares to be issued will be determined by EQY, at a date close to the closing of the transaction, but will not be less than 6 million shares.

The price for the private offering has been set at US\$ 13.30 per share but might increase to US\$ 13.50 per share, should there be a reduction in the cash component of the IRT acquisition agreement.

The shares to be allotted pursuant to the issuance agreement can be issued all at once or in three installments, at EQY's discretion, but - in any event - the first portion is to be issued on the date of completing the acquisition agreement, at which time a minimum of 3 million EQY shares are to be issued. The remaining shares, which were not issued at the time of completing the acquisition agreement, are to be issued in equal amounts on October 15, 2003 and on April 15, 2004. Implementation of the issuance agreement is conditional on completion of the acquisition.

The Company and FCR will finance the above mentioned investment in EQY shares from their own resources and from a credit facility that Bank Leumi Le Israel Ltd. has undertaken to grant them.

4. IRT has committed to pay a break-up fee of US\$ 15 million in certain circumstances resulting in its cancellation of the deal due to receiving a better offer from a third party.
 5. Completion of the deal, which is expected to take place during the first quarter of 2003, is subject to the approval of the shareholders of IRT and EQY in general meetings, as well as the existence of other generally accepted conditions. The deal could be cancelled in certain circumstances relating to the price of IRT's and/ or EQY's shares prior to the completion date.
 6. Once the deal is completed, and assuming that the cash component of the consideration is 50% and that 6.9 million shares are issued to EQY's principal shareholders, the Company's and FCR's holdings in EQY's share capital are expected to amount to 24% and 21.3%, respectively. As agreed between the Company and Alony Hetz, the Company will continue to appoint the majority of the directors of EQY's board and will continue to include EQY in its consolidated financial statements. Furthermore, in accordance with generally accepted accounting principles relating to corporate acquisitions, as referred to above, the Company will not record any accounting gain from the expected dilution of its holding in EQY.
 7. Soon after signing the above agreement, 2 of IRT's shareholders filed a class action claim against IRT, IRT's directors and EQY, alleging breach of fiduciary obligations to IRT's shareholders. In the opinion of the managements of EQY and IRT, these claims are groundless.
- B.** During November 2002, FCR published an offer to the holders of its ordinary debentures (nominal value - C\$ 37.3 million), which are due for redemption on December 1, 2003. Under the terms of the offer, the debenture holders have until December 13, 2002 to decide whether to receive C\$ 1.25 nominal value in convertible debentures (Series D) in exchange for every C\$ 1 of ordinary debentures currently held. The Company, which at the date of the financial statements held ordinary debentures with a nominal value of C\$ 14.4 million, has given notice that it intends to accept FCR's aforementioned offer.
- C.** During October 2002, FCR acquired a shopping center in London, Ontario for C\$ 11 million (NIS 34 million). The shopping center has a G.L.A. of some 90 thousand square feet.
- D.** During October 2002, FCR received a one-time payment of C\$ 1.6 million from the principal tenant (Zeller) at its shopping center in Alberta for the termination of that tenant's lease. The above amount will be credited to income in the fourth quarter of the year. The vacant space has been sold to another party (Home Depot) for C\$ 4.4 million.

- E. During November 2002, EQY entered into an agreement for the acquisition of a shopping center in Del-Ray, Florida for US\$ 52.8 million (NIS 257 million). The shopping center has a G.L.A. of some 335 thousand square feet. The transaction is expected to be closed during December 2002, subject to certain generally accepted commercial conditions. To finance the deal, EQY has received a commitment from a financial institution to grant it a US\$ 36 million (NIS 175 million) mortgage, at a fixed annual interest rate of 5.28%.
- F. During November 2002, EQY entered into an agreement for the acquisition of a shopping center in Houston, Texas for US\$ 10.3 million (NIS 50.3 million). The shopping center has a G.L.A. of some 90 thousand square feet. The transaction is expected to be closed during December 2002, subject to certain generally accepted commercial conditions. To finance the deal, EQY has received a commitment from a financial institution to grant it a US\$ 7.4 million (NIS 36.2 million) mortgage, at a fixed annual interest rate of 5.07%.

7. Donations

The Company makes donations to charities and community welfare projects.

The Company's donations during 2001 amounted to NIS 729,000.

During the nine-month and three-month periods ended September 30, 2002, the Company's donations amounted to NIS 556,000 and NIS 123,000 respectively.

8. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting the Company's market risks are Mr. Dori Segal, the Company's President, and Mr. Gil Kotler, the Company's Chief Financial Officer.

Since the presentation of the Company's annual report on March 24, 2002, there have been no significant changes in the market risks or the way in which they are managed.

Chaim Katzman
Chairman of the Board of Directors

Dori Segal
President and Director