GAZIT-GLOBE (1982) LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001

ADJUSTED TO THE NIS OF DECEMBER 2001

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ERNST & YOUNG

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AUDITORS' REPORT

To the shareholders of

GAZIT-GLOBE (1982) LTD.

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 2001 and 2000 and the consolidated balance sheets as of such dates and the related statements of income, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 96.1% and 96.5% of total consolidated assets as of December 31, 2001 and 2000, respectively, and whose revenues included in consolidation constitute approximately 99.6%, 99.5% and 91.9% of total consolidated rental income for the years ended December 31, 2001, 2000 and 1999, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2001 and 2000, and the results of operations, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

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

Tel-Aviv, Israel	KOST FORER & GABBAY
March 24, 2002	A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of December 2001

		December 31,	
		2001	**2000**
	Note	**Adjusted NIS in thousands**	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	213,917	103,863
Short-term investments	4	157,693	171,482
Tenants	5	37,543	36,255
Accounts receivable	6	55,946	35,888
Loans to former partners in jointly controlled entities	7	58,619	88,539
		523,718	436,027
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	9	83,531	154,697
Long-term loans	10	66,425	50,730
		149,956	205,427
FIXED ASSETS:	11		
Cost		5,719,812	4,397,048
Less - accumulated depreciation		216,078	112,247
		5,503,734	4,284,801
OTHER ASSETS AND DEFERRED CHARGES, NET	12	123,890	114,159
		6,301,298	5,040,414

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2001

		December 31,	
		2001	**2000**
	Note	**Adjusted NIS in thousands**	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	336,830	299,637
Trade payables	14	36,442	(* 29,519
Other accounts payable	15	104,902	(* 93,827
Dividend declared	16	18,444	6,931
		496,618	429,914
LONG-TERM LIABILITIES:			
Debentures	17	244,516	157,668
Liabilities to financial institutions and others	19	3,488,884	2,663,693
Tenants' security deposits	20	140,191	124,473
Accrued severance pay	21	755	610
Deferred taxes	22c	502	471
		3,874,848	2,946,915
CONVERTIBLE DEBENTURES REDEEMABLE INTO SUBSIDIARY'S SHARES	18a	707,451	925,698 *)
MINORITY INTEREST		557,191	275,265
CONTINGENT LIABILITIES AND COMMITMENTS	23		
CONVERTIBLE DEBENTURES	18c	-	1,022
SHAREHOLDERS' EQUITY	24	665,190	461,600
		6,301,298	5,040,414

*) Reclassified.

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

March 24, 2002		
Date of approval of the financial statements	C. Katzman Chairman of the Board of Directors	D. Segal Managing Director (via Varda Zuntz - by a power of attorney from March 24, 2002)

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY

Adjusted to the NIS of December 2001

	Note	December 31, 2001	December 31, 2000
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	27,524	1,547
Short-term investments	4	3,433	29,270
Accounts receivable	6	6,283	3,546
		37,240	34,363
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	979,073	715,517
Long-term investments	9	29,274	88,424
Long-term loans	10	140	150
		1,008,487	804,091
FIXED ASSETS:	11		
Cost		2,232	2,062
Less - accumulated depreciation		515	580
		1,717	1,482
OTHER ASSETS AND DEFERRED CHARGES, NET	12	3,447	688
		1,050,891	840,624

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

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY

Adjusted to the NIS of December 2001

		December 31,	
		2001	**2000**
	Note	**Adjusted NIS in thousands**	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	27,604	50,140
Trade payables	14	368	274
Other accounts payable	15	10,341	20,321
Dividend declared	16	18,444	6,931
		56,757	77,666
LONG-TERM LIABILITIES:			
Debentures	17	176,898	91,168
Liabilities to financial institutions and others	19	151,972	209,117
Accrued severance pay	21	74	51
		328,944	300,336
CONVERTIBLE DEBENTURES	18c	-	1,022
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	665,190	461,600
		1,050,891	840,624

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

March 24, 2002		
Date of approval of the financial statements	C. Katzman Chairman of the Board of Directors	D. Segal Managing Director (via Varda Zuntz - by a power of attorney from March 24, 2002)

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of December 2001

		Year ended December 31,		
		2001	**2000**	**1999**
	Note	**Adjusted NIS in thousands (except per share amounts)**		
Revenues:				
Rental income	27	677,423	362,965	131,553
Other income	28	88,429	71,566	17,716
		765,852	434,531	149,269
Costs and expenses:				
Operating properties for rent	29	230,992	121,589	37,446
Depreciation of properties for rent		94,772	48,705	18,682
General and administrative	30	56,337	35,533	15,949
Financial, net	31	224,313	105,058	28,247
Other expenses	32	15,646	8,406	101
		622,060	319,291	100,425
Income before taxes on income		143,792	115,240	48,844
Taxes on income	22	17,608	12,349	3,720
Income after taxes on income		126,184	102,891	45,124
Minority interest in earnings of subsidiaries		(45,122)	(26,312)	(23,613)
Equity of former shareholders in earnings of newly consolidated subsidiary	1b(3)e	-	(8,468)	-
Net income for the year		81,062	68,111	21,511
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		1.51	1.55	0.84
Diluted earnings		-	-	0.77

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF INCOME - THE COMPANY
Adjusted to the NIS of December 2001

	Note	Year ended December 31, 2001	2000	1999
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		66,095	52,499	20,531
Other income	28	23,419	36,612	4,294
Financial, net	31	1,183	-	-
		90,697	89,111	24,825
Costs and expenses:				
General and administrative	30	6,040	3,392	1,602
Financial, net	31	-	14,814	-
Other expenses	32	30	12	19
		6,070	18,218	1,621
Income before taxes on income		84,627	70,893	23,204
Taxes on income	22	3,565	2,782	1,693
Net income for the year		81,062	68,111	21,511
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		1.51	1.55	0.84
Diluted earnings		-	-	0.77

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of December 2001

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at January 1, 1999	74,589	150,038	1,629	9,426	(67,327)	-	168,355
Issuance of share capital, net	7,833	69,391	-	-	-	-	77,224
Foreign currency translation adjustments for foreign autonomous units	-	-	-	759	-	-	759
Net income for the year	-	-	-	-	21,511	-	21,511
Dividend paid	-	-	-	-	(11,466)	-	(11,466)
Balance at December 31, 1999	82,422	219,429	1,629	10,185	(57,282)	-	256,383
Issuance of share capital, net	7,025	73,960	-	-	-	(12,369)	68,616
Conversion of debentures into shares	2,475	24,057	-	-	-	-	26,532
Exercise of stock options into shares	4,837	39,888	-	-	-	(6,078)	38,647
Sale of shares by a subsidiary	-	3,361	-	-	-	17,815	21,176
Reimbursement of issuance expenses	-	661	-	-	-	-	661
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,129	-	-	1,129
Net income for the year	-	-	-	-	68,111	-	68,111
Dividend paid	-	-	-	-	(12,724)	-	(12,724)
Dividend declared	-	-	-	-	(6,931)	-	(6,931)
Balance as of December 31, 2000	96,759	361,356	1,629	11,314	(8,826)	(632)	461,600
Issuance of share capital, net	7,476	93,380	-	-	-	(17,894)	82,962
Conversion of debentures into shares	86	928	-	-	-	-	1,014
Exercise of stock options into shares	2,570	20,753	-	-	-	-	23,323
Sale of shares by a subsidiary	-	(699)	-	-	-	14,977	14,278
Foreign currency translation adjustments for foreign autonomous units	-	-	-	42,308	-	-	42,308
Net income for the year	-	-	-	-	81,062	-	81,062
Dividend paid	-	-	-	-	(22,913)	-	(22,913)
Dividend declared	-	-	-	-	(18,444)	-	(18,444)
Balance as of December 31, 2001	106,891	475,718	1,629	53,622	30,879	(3,549)	665,190

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	**2000**	**1999**
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	81,062	68,111	21,511
Adjustments to reconcile net income to net cash provided by operating activities (a)	1,618	12,590	33,289
Net cash provided by operating activities	82,680	80,701	54,800
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	(158,836)	(455,972)	-
Investment in subsidiary and in jointly controlled entity	(19,650)	(22,235)	(48,511)
Investments in fixed assets	(462,885)	(220,943)	(384,818)
Loans granted to partners in jointly controlled entities	(9,220)	-	-
Proceeds on sale of real estate	142,728	61,346	33,121
Long-term loans granted	(10,858)	(61,176)	-
Repayment of long-term loans	18,998	56,568	-
Short-term investments, net	87,246	(60,171)	12,611
Purchase of marketable securities and long-term investments	(109,691)	(187,610)	(168,134)
Proceeds from sale of long-term investments	174,007	220,651	-
Proceeds from sale of real estate to former minority in subsidiary	-	2,581	-
Net cash used in investing activities	(348,161)	(666,961)	(555,731)

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	**2000**	**1999**
	Adjusted NIS in thousands		
Cash flows from financing activities:			
Issuance of share capital, net	82,962	68,616	77,224
Exercise of stock options into shares	23,323	38,647	-
Sale of shares by the Company and a subsidiary	14,278	21,176	-
Reimbursement of issuance expenses	-	661	-
Issuance to minorities in subsidiary, net	93,226	44,575	-
Proceeds on exercise of options by minorities and related party in subsidiary	-	-	4,168
Purchase of options of a subsidiary by that subsidiary from a former related party	-	-	(8,957)
Deferred charges in respect of raising loans and debentures	(11,346)	(18,548)	(4,183)
Dividend paid	(29,844)	(12,724)	(16,786)
Dividend paid to minorities in subsidiary	(27,626)	(20,511)	(18,166)
Receipt of long-term loans	1,290,873	732,352	420,580
Repayment of long-term loans	(961,929)	(156,420)	(26,720)
Redemption of debentures	(27,114)	-	-
Early redemption of debentures and convertible debentures	(189,975)	(46,606)	-
Sale of Company's debentures by subsidiaries	-	7,326	5,298
Purchase of Company's debentures by subsidiary	-	-	(1,547)
Short-term bank credit, net	9,673	(3,158)	43,144
Debentures assigned to the Company	-	-	17,140
Issuance of convertible debentures	-	11,255	16,520
Issuance of debentures	96,882	-	-
Increase in tenants' security deposits	6,053	-	-
Net cash provided by financing activities	369,436	666,641	507,715
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	6,099	(1,587)	172
Increase in cash and cash equivalents	110,054	78,794	6,956
Cash and cash equivalents at the beginning of the year	103,863	25,069	18,113
Cash and cash equivalents at the end of the year	213,917	103,863	25,069

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	**2000**	**1999**
	Adjusted NIS in thousands		
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Loss (gain) from realization and revaluation of marketable securities, net	(69,208)	(36,110)	1,275
Minority interest in earnings of subsidiaries	45,122	26,312	23,613
Depreciation	95,086	48,705	18,838
Deferred taxes, net	(3,835)	(837)	(607)
Gain from early redemption of debentures and convertible debentures of a subsidiary	(36,603)	(9,639)	-
Adjustment differences on monetary assets and long-term liabilities, net	(53,548)	(53,182)	(5,264)
Write-down of long-term investments	1,828	-	1,834
Amortization of other assets and deferred charges	11,652	22,862	1,676
Gain from sale of fixed assets	(225)	(2,973)	(12,749)
Increase in accrued severance pay	129	28	12
Loss (gain) from issuance to third party and related party	(4,630)	(2,481)	98
Changes in asset and liability items:			
Decrease (increase) in tenants and other accounts receivable	6,468	16,190	(5,025)
Increase in trade payables and other accounts payable	13,112	3,421	7,945
Increase (decrease) in tenants' security deposits	(3,730)	294	1,643
	1,618	12,590	33,289

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31, 2001	2000	1999
	Adjusted NIS in thousands		
(b) Investment in newly consolidated subsidiaries: (Note 1b2, 1b3 and 1b4)			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	(26,691)	(55,007)	-
Current liabilities	19,786	136,163	-
	(6,905)	81,156	-
Fixed assets, long-term loans and investments (mainly real estate)	(625,992)	(3,293,437)	-
Other assets	(53)	(132,585)	-
Long-term liabilities	341,926	2,794,522	-
	(284,119)	(631,500)	-
Minority interest in subsidiary's shareholders' equity	111,334	94,372	-
Investment in newly consolidated subsidiary	20,854	-	-
	(158,836)	(455,972)	-
(c) Significant non-cash operations:			
Dividend declared	18,444	6,931	-
Capital issuance in subsidiary for minorities and related party against long-term loans	22,048	-	2,325
Purchase of fixed assets against long-term liabilities	-	30,007	4,268
Purchase of jointly controlled entity	-	14,609	-
Sale of real estate to former minority in subsidiary	-	17,694	-
Conversion of convertible debentures into Company shares	1,014	26,532	-

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	**2000**	**1999**
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	81,062	68,111	21,511
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(82,119)	(47,856)	(11,267)
Net cash provided by (used in) operating activities	(1,057)	20,255	10,244
Cash flows from investing activities:			
Investment in newly consolidated company by the proportionate consolidation method	-	(85,700)	-
Investment in subsidiaries and jointly controlled entity	(14,784)	(44,672)	-
Loans granted to subsidiaries, net	(145,632)	(142,366)	(92,880)
Investments in fixed assets	(668)	(1,377)	(108)
Long-term loans granted	(7)	-	-
Sale (purchase) of marketable securities and short-term deposits, net	28,305	(14,520)	1,146
Purchase of marketable securities and long-term investments	(48,350)	(37,186)	(128,040)
Proceeds from sale of long-term marketable securities	125,326	76,803	-
Repayment of long-term loans granted	(8,177)	56	-
Proceeds from the sale of fixed assets	116	106	-
Net cash used in investing activities	(63,871)	(248,856)	(219,882)

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	**2000**	**1999**
	Adjusted NIS in thousands		
Cash flows from financing activities:			
Issuance of share capital, net	82,962	68,616	77,224
Exercise of stock options into shares	23,323	38,647	-
Sale of shares by the Company and subsidiary, net	14,278	21,176	-
Reimbursement of issuance expenses	-	661	-
Deferred charges in respect of raising loans and debentures	(3,406)	(184)	(312)
Dividend paid	(29,844)	(12,724)	(16,786)
Receipt of long-term loans	148,444	123,217	113,901
Receipt of loan from jointly controlled entity	1,280	38,784	-
Repayment of long-term loans	(216,853)	(73,900)	(1,235)
Short-term bank credit, net	124	(4,848)	6,871
Issuance of convertible debentures	-	11,255	16,520
Issuance of debentures	96,882	-	-
Redemption of debentures	(26,285)	-	-
Debentures assigned to the Company	-	-	23,641
Net cash provided by financing activities	90,905	210,700	219,824
Increase (decrease) in cash and cash equivalents	25,977	(17,901)	10,186
Cash and cash equivalents at the beginning of the year	1,547	19,448	9,262
Cash and cash equivalents at the end of the year	27,524	1,547	19,448

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31, 2001	2000	1999
	Adjusted NIS in thousands		
(a) Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Income and expenses not involving cash flows:			
Gain from marketable securities, net	(20,717)	(14,505)	(569)
Equity in earnings of subsidiaries net of dividend received therefrom	(60,793)	(47,358)	(15,940)
Depreciation	292	163	100
Adjustment differences on monetary assets and long-term liabilities, net	1,975	12,326	(57)
Amortization of other assets and deferred charges	342	66	129
Increase (decrease) in accrued severance pay	23	3	(5)
Loss (gain) from issuance to third party	30	(356)	19
Loss from sale of fixed assets	25	-	-
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	(2,737)	(847)	2,860
Increase (decrease) in trade payables and other accounts payable	(559)	2,652	2,196
	(82,119)	(47,856)	(11,267)
(b) Significant non-cash operations:			
Dividend declared	18,444	6,931	-
Conversion of convertible debentures into Company shares	1,014	26,532	-
Purchase of jointly controlled entity	-	14,609	-

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

NOTE 1:- GENERAL

a. Definitions:

y - Gazit-Globe (1982) Ltd.

- Gazit Inc. ("Gazit") through its subsidiary.

- companies over which the Company exercises control (as defined in Statement No. 57) and whose accounts are consolidated with those of the Company.

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- a company owned by various entities that have a contractual consent for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.

- subsidiaries and the jointly controlled entity, as detailed in the Appendix.

- the Company and its investees.

es - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel and as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993.

b. The Company and its activity:

1. The Company is engaged, through its subsidiaries, in acquiring, developing and managing income producing properties in North America. Since October 2000, the Company is also engaged, through a jointly controlled entity, in establishing and managing senior citizen residence in Israel.

2. Investment in Equity One Inc. ("EQ1"):

a) Since the end of 1994, the Company commenced to invest, directly and indirectly, in EQ1, an American company which specializes in the acquisition and management of income producing properties in the U.S.(type REIT), whose shares are listed for trade on the New York Stock Exchange from 1998. As of balance sheet date, the Company holds in some 55.4% of the share capital of EQ1.

b) In October 2000, EQ1 signed an agreement with Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") for a private placement in stages of 2,950 thousand shares of EQ1 (some 20% of EQ1 shares at the date of closing) at a price of $ 10.875 per share.

NOTE 1:- GENERAL (cont.)

In November 2000, according to this agreement, EQ1 allocated to Alony-Hetz one million shares in consideration for approximately $ 10.9 million.

In August and September 2001, the remaining shares according to this agreement were allocated in consideration for approximately $ 21 million.

As a result of these allocations, the Company recorded gain from decrease in holding rate of approximately NIS 6.5 million and NIS 3.3 million in 2001 and 2000, respectively.

c) On May 18, 2001, The Company's subsidiaries, EQ1 and First Capital Reality Inc. ("FCR") (see 3 below), announced that they signed on a binding agreement whereby EQ1 will acquire FCR wholly owned subsidiary which is the owner of income producing properties in the United States ("CEFUS") in return for the allocation of 10.5 million of EQ1 shares. In September 2001, the transaction was closed after all the permits from the authorized entities were received.

d) In June 2001, EQ1 signed on an agreement from the acquisition of United Investors Reality Trust ("UIRT") (an income producing real estate company type REIT which is listed for trade on NASDAQ) in share and cash transaction. The net value of the transaction was estimated at approximately $ 66 million, whereby half was paid in cash and the remaining half in EQ1 shares. In September 2001, the transaction was closed after all the permits from the authorized entities were received.

e) In January 2002, in a private placement, EQ1 issued to the Company, Alony-Hetz and to other shareholders some 688 thousand shares at a price of $ 12.8 - $ 13.05 per share.

f) In January 2002, EQ1 effected "off-the-shelf" issue of up to $ 250 million, to be consummated from time to time in the future.

g) In March 2002, in a public issuance, EQ1 issued 3 million shares in consideration for the aggregate sum of approximately $ 40 million, of which some 200 thousand shares and 125 thousand shares were issued to the Company and to FCR, respectively.

3. Investment in First Capital Reality Inc. (formerly: Cetrefund Realty Corp.) ("FCR"):

a) In August 2000, the Company completed a procedure of a tender offer in which it acquired via a wholly-owned Canadian company ("Gazit 97"), 72% of FCR shares. Together with additional shares, which were acquired during trade on the stock exchange prior to completing this process, Gazit 97's shareholding reached some 84% of the share capital of FCR.

NOTE 1:- GENERAL (cont.)

FCR is a Canadian income producing real estate company which is listed for trade on the Toronto Stock Exchange.

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

c) In the context of financing the acquisition transaction of FCR shares, an agreement was signed with an Israeli bank, whereby the bank was granted the option to acquire from Gazit 97 some 1.5 million shares of FCR (which constituted approximately 10% of FCR shares), at like terms, through the acquisition of shares and/or cash payment of the amount of the difference between the market price and the acquisition price and this is at the Company's soll discretion until September 30, 2002.

d) The aggregate acquisition cost (without the portion sold to Alony-Hetz) amounted to approximately NIS 388.8 million.

e) FCR's financial statements were consolidated with the financial statements of the Company commencing July 1, 2000. Gains amounting to approximately NIS 8,468 thousand which were accumulated from the date of consolidation until the effective date of the acquisition (gains attributed to former shareholders) were presented under a separate item in the statements of income for 2000, "Equity of former shareholders in earnings of newly consolidated subsidiary".

4. Investment in Mishkenot Clal (1982) Ltd. ("Mishkenot Clal"):

In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the acquisition of shares and a private placement, 49% of the share capital of Mishkenot Clal (1982) Ltd. ("Mishkenot Clal") in return for the net consideration of approximately NIS 66 million. During May 2001, the Company acquired additional 1% of the shares of Mishkanot Clal in consideration of approximately NIS 2 million, thereby increasing its shareholdings in Mishkanot Clal to 50%.

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

Mishkenot Clal's financial statements were consolidated by the proportionate consolidation method commencing October 1, 2000 upon the closing of the acquisition transaction.

NOTE 1:- GENERAL (cont.)

5. Dividend distribution policy:

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

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

In December 2001, the Company's Board of Directors decided to distribute a dividend of at least 64 agorot per share (16 agorot per share per quarter) for 2002, similar to the amount determined for 2001. Upon the issuance of stock split of 11 to 10, in March 2002, the Company announced that despite the increase in the number of shares, the above policy shall not be modified and the Company will distribute dividend of 64 agorot per share.

6. As for private placements by the Company during the reported year, see Note 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Adjusted financial statements:

1. The Company and its Israeli subsidiaries maintain their current accounting records in nominal NIS. In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a stable purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2001, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2002 (108.1 points on the average basis of 1998 = 100).

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

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

3. The term "cost" in these financial statements signifies cost in adjusted NIS, unless otherwise indicated.

4. A summary of the Company's nominal data is presented in Note 37.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

b. Principles of adjustment:

1. Balance sheet:

a) Non-monetary items (items whose amounts in the balance sheet reflect their nominal amounts upon acquisition or incurrence - see below) have been adjusted on the basis of the changes in the Israeli CPI since their acquisition or incurrence.

The following items have been treated as non-monetary items: prepaid expenses, fixed assets and the related accumulated depreciation, long-term investments, other assets and deferred charges, net and capital accounts and additional paid-in capital derived from cash received from shareholders.

b) The book value of the investments in subsidiaries is determined on the basis of the adjusted financial statements of these companies.

c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2001 in their nominal amounts (comparative data have been adjusted to the December 2001 Israeli CPI).

2. Statement of income:

a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.

b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.

c) The components of the statement of income relating to provisions and accruals included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined on the basis of the changes in the balances of the related balance sheet items after their relative cash flows are taken into account.

d) Current tax expenses on income include the erosion in the value of the payments from the date of payment to the balance sheet date.

e) The equity and the minority interest in the results of operations of subsidiaries is determined on the basis of the adjusted financial statements of these companies.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

3. Statement of changes in shareholders' equity:

The dividend which was declared and actually paid during the reported year was adjusted on the basis of the Israeli CPI upon actual payment date. The dividend which was declared until the date of the approval of the financial statements and is designated to be distributed out of the current year's earnings and was not paid as of the balance sheet date was included without adjustment. The erosion of the dividend which was declared in the previous year and actually paid in the reported year is included among the statement of changes in shareholders' equity.

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

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

Following are the main principles determined in interpretation 8 which refer to autonomous units:

- All the items in the subsidiary's financial statements, including the statement of income items, were translated into Israeli currency at the exchange rate prevailing at balance sheet date.

- The Group's investments in the subsidiary were adjusted to the changes in the general purchasing power of the Israeli currency in the reported year.

- Differences resulting from this treatment are carried to a separate item within the shareholders' equity ("Foreign currency translation adjustments for foreign autonomous units").

- The erosion of loans which were received for the direct financing of the investment in the autonomous units and which are stated in or linked to the respective currency in which the financial statements of that unit were prepared with the addition of the erosion of loans in relation to the changes in the purchasing power of that currency and erosion of monetary balances which have the nature of investment in these units, are also carried to the above item within shareholders' equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

2. For the presentation of the Company's investment in other foreign subsidiaries, which were classified as an integral part (as the term is defined in the aforesaid clarification 8), and for the inclusion of those other subsidiaries' data in the consolidated financial statements, the financial statements of these other subsidiaries were remeasured according to the principles determined in that clarification. Prior to the remeasurement, the financial statements of these other subsidiaries were adjusted to the accounting principles applied by the Group.

Following are the main principles determined in Interpretation 8, which refer to foreign subsidiaries whose activities represent an integral part.

- All non-monetary items of such subsidiary, including the respective statement of income items, and all other statement of income items, are remeasured into NIS according to the representative exchange rate prevailing at the date the transactions were carried out or paid by that subsidiary.

- After such translation, the said items are adjusted on the basis of the changes in the Israeli Consumer Price Index ("CPI") from the index published in respect of the month in which each transaction was carried out or paid to the index published in respect of balance sheet date.

- All the monetary items of that subsidiary are translated into Israeli currency according to the exchange rate prevailing at balance sheet date.

- Differences resulting from this treatment are carried to the statement of income, among financing.

d. Principles of consolidation:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Reclassification of the statement of income:

The Group's activities, the nature of its revenues and expenses and the Company's operating structure as a holding company, require classifications of the statement of income items according to the single-stage method and not according to the order prescribed in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993, which is in line with the qualification determined in these regulations.

f. Cash equivalents:

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

g. Marketable securities:

1. Marketable securities invested for the short-term and available for sale in the immediate term are presented at market value as of balance sheet date in accordance with
Opinion 44 of the Institute of Certified Public Accountants in Israel. Changes in their value are carried to the statement of income among financing.

2. Marketable securities invested to maturity are presented at cost net of a provision for impairment in value if the decline in value is of a permanent nature.

h. Allowance for doubtful accounts:

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

i. Fixed assets:

1. Fixed assets are stated at cost. Provision for impairment loss is provided when the carrying amount of the asset exceeds recoverability. Financial expenses related to the financing of the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.

2. Improvements, renovations and material reconditioning are carried to cost whereas current maintenance and repair expenses are expensed as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

	%	
Buildings for lease	2 - 4	(mainly 2% and 2.5%)
Office furniture and equipment	14 - 33	
Motor vehicles	15	
Improvements in buildings for lease *)	2 - 20	(mainly 7%)

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

4. Capitalized leasehold rights are depreciated over the lease period.

j. Investments in investees:

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

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

The excess value attributed to buildings is presented under fixed assets in the consolidated financial statements, and is amortized over the remaining depreciation period of the real estate to which they are attributed, up to 50 years.

The excess value attributed to land is also presented in the consolidated financial statements under fixed assets and is not depreciated.

The excess value attributed to monetary assets and liabilities and to commitments is presented under these items and is amortized according to their realization.

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

As for deferred taxes, see l. below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Other assets and deferred charges, net:

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

l. Deferred taxes:

1. Deferred taxes are computed in respect of temporary differences between the amounts included in the adjusted statements and the amounts to be considered for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel).

2. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to be released to the statement of income, as known on the date the financial statements were prepared.

3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's intention to hold these investments. Similarly, deferred taxes that may be incurred in the event of distribution of earnings by certain subsidiaries as dividends have not been taken into account in computing deferred taxes since the Company's policy is not to initiate distribution of dividend from these companies that involves an additional tax liability.

4. As it is uncertain whether there will be taxable income in the future, no deferred taxes were recorded in the Company's books.

m. Revenue recognition from rental income and management fees:

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

n. Revenue recognition from entrance fees and forfeiture of deposits:

Receipts from entrance fees are carried equally to the statement of income, over a period of 10 years beginning with the date on which the tenant enters the apartment.

Revenues from the forfeiture of deposits which were received from tenants are carried to the statement of income as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Debentures and convertible debentures:

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

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

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

The difference created between the cost of the acquisition of the debentures by the Company and their carrying value in the books of the subsidiary that issued in the past these debentures, is included in the statement of income or in 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 when they were acquired by the Company.

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

The Company will act from 2002 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 only when the debentures be converted into the subsidiary's shares or when the debentures be redeemed by the subsidiary, whichever is earlier.

p. Derivative financial instruments:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rates published by the Bank of Israel on December 31, 2001.

2. Assets and liabilities linked to the Israeli CPI are included according to the relevant index for each asset or liability.

3. Exchange rate and linkage differences are carried to the statement of income as incurred.

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

	Consumer Price Index			Exchange rate of $ 1 of	
	Israel	U.S.	Canada	U.S.	Canada
	Points *)			NIS	
As of:					
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
December 31, 1999	106.6	168.3	111.5	4.153	2.8568
December 31, 1998	105.2	163.9	108.7	4.160	2.6868
Increase (decrease) in:					
	%				
2001	1.4	1.6	0.7	9.3	3.2
2000	-	3.4	3.2	(2.7)	(5.8)
1999	1.3	2.7	2.6	(0.2)	6.3

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

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

r. Earnings per share:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

s. Fair value of financial instruments:

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

As for derivative financial instruments, see p. above.

t. Use of estimates:

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

u. Adoption of recently issued accounting standards and their impact on the financial statements:

1. In May 2001, the Israel Accounting Standards Board published Accounting Standard No. 7 regarding post balance sheet events, and Accounting Standard No. 8 regarding discontinuing operations and in July 2001, Accounting Standard No. 11 regarding segment reporting.

Accounting Standard No. 7 contains the conditions for post balance sheet events that require adjustments and post balance sheet events that are non-adjusting events, including rules such as accounting for dividend that are different from those applied until now. Accounting Standard No. 7 will apply to financial statements for periods ending on or after December 31, 2001. Since section 31 to the Securities Regulations (Preparation of Annual Financial Statements), 1993 was not eliminated, the treatment of dividend that was declared after the balance sheet date will be in accordance with these regulations, i.e., it will be disclosed as short-term liability and netted from shareholders' equity.

Accounting Standard No. 8 prescribes provisions for presentation and disclosure with regard to the treatment of discontinued operations, among them provisions regarding presentation which are different from those applied until now. Accounting Standard
No. 8 will apply to financial statements for periods beginning on or after January 1, 2002.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounting Standard No. 11 prescribes provisions with respect to segment reporting. Accounting Standard No. 11 is based on International Accounting Standard No. 14, pursuant to which the Company prepared its financial statements, since International Standard No. 14 constituted the accepted practice in Israel. Accounting Standard No. 11 will apply to financial statements for periods beginning January 1, 2002.

The management of the Company does not anticipate that the adoption of the new Standards, as discussed above, will have a significant effect on its results of operations, financial position and cash flows.

2. Discontinuance of adjusting 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.

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 for periods beginning after December 31, 2002.

The management of the Comapny 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.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	102,889	103,444	1,173	1,128
Short-term deposits	111,028	419	26,351	419
	213,917	103,863	27,524	1,547

NOTE 4:- SHORT-TERM INVESTMENTS

	Consolidated 2001	Consolidated 2000	The Company 2001	The Company 2000
Marketable securities presented at market value (1)	127,267	113,116	3,433	29,270
Debentures and convertible debentures of FCR (2)	-	13,145	-	-
	127,267	126,261	3,433	29,270
Deposits in dollars (3)	18,197	3,824	-	-
Restricted cash (4)	12,229	41,397	-	-
	157,693	171,482	3,433	29,270

(1) Mainly investment in shares of the income producing real estate companies in the U.S. and Canada. At December 31, 2000, the item includes also Supersol's shares which were held as a short-term investment (see Note 9(3)).

(2) In January 2001, the debentures were sold to Alony-Hetz at cost, pursuant to the agreement with that company, see Note 1b3b.

(3) Deposits for the examination of investments in real estate and other deposits. These deposits primarily do not bear interest.

(4) Cash designated to secure various liabilities of subsidiaries. The restriction is expected to end in the course of the coming year.

NOTE 5:- TENANTS

a. Composition:

	Consolidated	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Open accounts	43,201	(* 40,525
Less - allowance for doubtful accounts	5,658	(* 4,270
	37,543	36,255

b. As for principal tenants in subsidiaries, see Note 27.

NOTE 6:- ACCOUNTS RECEIVABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Dividend receivable	260	2,277	-	2,277
Interest receivable	146	143	-	-
Government authorities (1)	15,950	16,331	326	967
Related parties (2)	1,750	327	-	-
Loan to jointly controlled entity	1,562	470	-	-
Prepaid expenses	32,724	15,595	5,855	102
Employees	848	339	-	-
Others	2,706	406	102	200
	55,946	35,888	6,283	3,546

(1) Mainly for municipal taxes.

(2) The balance includes mainly a loan which EQ1 provided to the Company's chairman in June 1999 amounting to approximately $ 297 thousand for exercising stock options (series C) issued to him by EQ1. The loan bears annual interest of 6.35%, payable quarterly, maturing in December 2002 and is secured by a charge placed on EQ1 shares deriving from the said exercise as well as current maturities on a loan to the Company's CEO, see Note 10b(2)a.

NOTE 7:- LOANS TO FORMER PARTNERS IN JOINTLY CONTROLLED ENTITIES

Loans which FCR and CEFUS provided to former partners in property development companies are for their share in financing the development of the properties of these companies.

The loans are in U.S. dollars and in Canadian dollars, in accordance with the location of the property, and bear interest of 9% - 10%. The loans are secured by the partners' rights to the properties. According to the partnership agreement and the loan agreement for the sale of part of the properties by FCR and CEFUS, these loans will mature until December 2002.

During the reported year, FCR and CEFUS (see Note 1b(2)c) acquired the partners share in 10 properties (of which one land for future development) which were owned (in full or in part) by the development companies for the amount of approximately NIS 129 million (the partners' share) which was paid through assuming the partners' share in the mortgages associated with the properties and through waiving on the partners' indebtedness to the Company. Further, during the reported year, 5 properties which were owned by development companies were sold to the partners of those companies in consideration of approximately NIS 25 million (Company share).

In the context of the liquidation of these partnership during and the sale of the Company's share to the partners of these properties, as aforementioned, FCR received from the partners promissory notes amounting to approximately NIS 21.9 million. The promissory notes bear interest of 9% - 10%, mature in December 2002 and are secured by a charge placed on real estate properties.

In addition, in the context of the liquidation of the partnerships of said properties, 2 properties under development and lands for future development were transferred to a new partnership of the Company and the former partners.

NOTE 8:- INVESTMENTS IN INVESTEES

a. Composition:

	The Company	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
1. Investments in subsidiaries:		
Cost of shares	366,562	227,927
Capital reserves on investment in subsidiaries	(30,869)	(30,869)
Equity in post-acquisition earnings	159,707	85,848
Dividend received from subsidiaries	(26,868)	(20,932)
Foreign currency translation adjustments for foreign autonomous units	68,943	24,175
	537,475	286,149
2. Investments in jointly controlled entity *):		
Cost of shares	103,820	101,728
Equity in post-acquisition earnings (losses)	(7,352)	412
	96,468	102,140
Loans **)	345,130	327,228
	979,073	715,517

*) See g and h below.

**) As of December 31, 2001, the loans are in U.S. dollars and in Canadian dollars and bear interest of 6% to 6.5% (in the United States) and 8.5% or LIBOR + 2.5%, whichever is higher (in Canada). The principal and the interest are repayable upon the earlier of five years from the date of receipt of loan or at the Company's request.

b. The investment, directly and indirectly, in EQ1, which is listed for trade on the New York Stock Exchange:

	December 31, 2001		December 31, 2000	
	Carrying amount	Market value	Carrying amount	Market value
	Adjusted NIS in thousands			
Shares	764,686	968,236	339,260	331,804

As of the balance sheet date, the Company holds, directly and indirectly, in some 55.4% (54.9% assuming full dilution) of EQ1 share capital (see Note 1b2).

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

c. The stock options of EQ1 as of the balance sheet date are as follows:

Series	Exercise increment per share *)	Expiration date	Total number in units **)
Options issued to employees	$ 10	10.12.06 - 31.3.10	370,000
Options issued to employees	$ 12.375	31.12.2006	30,000
Options issued to employees	$ 9.9	31.8.09	175,000
Options issued to employees	$ 10.438	6.9.09	50,000

*) The price for an EQ1 share as of the balance sheet date is $ 13.74.

**) Including all of the stock options which were issued to employees, as well as the 300,000 stock options which have not yet gained the minimal span required for their vesting rights.

	The Company	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
d. Dividend directly received by the Company from EQ1 during the reported year	5,136	5,141

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

	December 31, 2001		December 31, 2000	
	Carrying amount	Market value	Carrying amount	Market value
	Adjusted NIS in thousands			
Shares	434,598	376,303	388,882	254,227

The Company holds, through a subsidiary, in some 68.08% (43.3% assuming full dilution) of FCR share capital (see Note 1b3).

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

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

Series	Exercise increment per share *) **)	Expiration date	Total number in units
Options to former employees and managers and employees of the property management company	CD 14.3	3.10.2008	480,000
Options to former controlling shareholders in FCR and others	CD 14	1.1.2010	1,000,000

As for FCR debentures that are redeemable into FCR shares, see Note 18b.

As for the issuance of options by FCR to shareholders, employees and its managers subsequent to the balance sheet date, see Note 35c.

*) The price for FCR share as of the balance sheet date is CD 12.95.

**) Following the rights issue subsequent to the balance sheet date, the exercise increment was changed to CD 13.54, see Note 35g.

g. Investment in jointly controlled entity which was consolidated using the proportionate consolidation method:

	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Current assets	4,297	2,085
Non-current assets	156,921	165,163
Current liabilities	28,284	22,229
Long-term liabilities	103,024	108,981

	Year ended December 31,	
	2001	2000
	Adjusted NIS in thousands	
Revenues	16,814	4,650
Expenses	23,652	4,055

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

h. Goodwill included in the investment in jointly controlled entity:

	December 31, 2001	December 31, 2000
	Adjusted NIS in thousands	
Goodwill created upon acquisition	14,500	14,211
Amortized goodwill	1,104	177
	13,396	14,034

i. As for the charge placed on part of the subsidiaries' shares as collateral for the Group's liabilities, see Note 25.

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated December 31, 2001	Consolidated December 31, 2000	The Company December 31, 2001	The Company December 31, 2000
	Adjusted NIS in thousands			
Long-term deposits (1)	17,604	5,152	816	1,609
Marketable securities presented at cost (2):				
Shares of companies in Israel (3)	28,458	86,200	28,458	86,815
Shares of companies in the United States and Canada (4)	37,469	63,345	-	-
	65,927	149,545	28,458	86,815
	83,531	154,697	29,274	88,424

(1) A deposit of NIS 13,625 thousand is unrestricted deposit, which was deposited with the Bank of Israel and which bears interest of 1.6%. According to the agreement with the Bank, as long as the deposit is maintained, the interest rate on loans which were provided by the Bank to the Company's employees and CEO in order to acquire the Company's shares issued to them shall be 2%. If the deposit is withdrawn, the interest rate on these loans shall be as the interest in the market. The balance of the deposits were granted to the providers of the mortgages in order to secure the performance of renovations in the mortgaged properties so to maintain their value.

(2) The market value of these shares as of the balance sheet date is approximately NIS 75 million (in 2000 - approximately NIS 190 million).

(3) At December 31, 2000, mainly shares of Supersol Ltd.

(4) Mainly income producing real estate companies.

NOTE 10:- LONG-TERM LOANS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Employees (1)	12,491	2,789	140	150
Related parties (2)	12,850	5,843	-	-
Loan provided by a jointly controlled entity (3)	18,846	19,781	-	-
Others (4)	22,238	22,317	-	-
	66,425	50,730	140	150

b. Maturity dates:

	Consolidated	The Company
	December 31, 2001	December 31, 2001
	Adjusted NIS in thousands	
Second year	586	-
Third year	149	-
Fourth year	83	-
Fifth year	31,415	-
Sixth year and thereafter	14,989	-
Amounts for which a maturity date was not yet determined	19,203	140
	66,425	140

(1) Consolidated - mainly loans in U.S. dollars for which the weighted interest rate is 5.1%.

The Company - the loans are in NIS, linked to the Israeli CPI and bear annual interest of 4%.

(2) The composition as of December 31, 2001 is as follows:

(a) A loan amounting to $ 80 thousand which a subsidiary provided to the Company's CEO (a related party by virtue of his holdings in Gazit and a director of the Company) in August 1997 for relocating, within the framework of his position, to Canada. The loan matured in August 2001, bearing interest of LIBOR + 1% payable quarterly. In August 2001, the loan maturity was extended so that it is repayable in eight quarterly payments commencing from October 1, 2001. As of December 31, 2001, approximately $ 30 thousand are presented under the caption "Accounts receivable".

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

(b) A loan amounting to $ 2,880 thousand which a subsidiary provided to the Company's chairman of the Board in September 2001 for exercising stock options issued to him by EQ1, within the framework of employee stock option plan. The loan bears interest of 5%, payable quarterly and matures within 5 years.

(3) A loan that Mishkanot Clal provided to Azorim. The loan is linked to the Israeli CPI and bears annual interest of 4%.

(4) Loans provided by FCR and EQ1 to various entities and companies. The loans are in Canadian dollars and U.S. dollars, primarily bear interest of 8% - 10% and mature from 2006 to 2021.

NOTE 11:- FIXED ASSETS

a. Consolidated:

	Foreign real estate *)	Real estate in Israel *)	Total
	Adjusted NIS in thousands		
Cost:			
Balance at January 1, 2001	4,184,420	212,628	4,397,048
Foreign currency translation adjustments for foreign autonomous units	268,272	-	268,272
Newly consolidated subsidiaries	614,840	4,901	619,741
Purchases during the year	539,149	13,321	552,470
Disposals during the year	(115,999)	(1,720)	(117,719)
Balance at December 31, 2001	5,490,682	229,130	5,719,812
Accumulated depreciation:			
Balance at January 1, 2001	102,623	9,624	112,247
Foreign currency translation adjustments for foreign autonomous units	8,002	-	8,002
Newly consolidated subsidiaries	-	806	806
Additions during the year	90,195	4,891	95,086
Disposals during the year	-	(63)	(63)
Balance at December 31, 2001	200,820	15,258	216,078
Depreciated cost at December 31, 2001	5,289,862	213,872	5,503,734
Depreciated cost at December 31, 2000	4,081,797	203,004	4,284,801

*) Mainly real estate.

NOTE 11:- FIXED ASSETS (cont.)

b. The Company:

	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	Adjusted NIS in thousands			
Cost:				
Balance at January 1, 2001	510	827	725	2,062
Additions during the year	159	168	341	668
Disposals during the year	(204)	(294)	-	(498)
Balance at December 31, 2001	465	701	1,066	2,232
Accumulated depreciation:				
Balance at January 1, 2001	46	510	24	580
Additions during the year	71	122	99	292
Disposal during the year	(63)	(294)	-	(357)
Balance at December 31, 2001	54	338	123	515
Depreciated cost at December 31, 2001	411	363	943	1,717
Depreciated cost at December 31, 2000	464	317	701	1,482

NOTE 11:- FIXED ASSETS (cont.)

c. Initial difference attributed to real estate:

	December 31, 2001		December 31, 2000	
	Foreign	In Israel	Foreign	In Israel
	Adjusted NIS in thousands			
Balance of initial difference attributed to land	209,002	54,082	185,375	46,704

d. Rights to real estate:

The ownership rights to land in the United States and Canada are registered in the names of the subsidiaries according to the registration regulations in their respective places of residence.

Subsidiaries and a jointly controlled entity own land in Israel under capitalized lease amounting to approximately NIS 45,457 thousand (As of December 31, 2000 - NIS 50,314 thousand). The lease periods terminate between 2011 to 2050. The subsidiaries have an option to lease the land for additional 49 years.

As for charges, see Note 25.

e. In 2001, financial expenses of NIS 14,018 thousand were capitalized to real estate under development, in 2000 - NIS 13,640 thousand were capitalized and in 1999 - NIS 7,656 thousand.

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Cost:				
Deferred selling expenses (1)	1,595	1,306	-	-
Expenses related to raising long-term loans and debentures and other expenses	59,541	59,646	4,056	1,019
Goodwill (2)	14,500	14,211	-	-
	75,636	75,163	4,056	1,019
Accumulated amortization:				
Deferred selling expenses (1)	197	55	-	-
Expenses related to raising long-term loans and debentures and other expenses	15,795	9,137	609	331
Goodwill (2)	1,104	178	-	-
	17,096	9,370	609	331
	58,540	65,793	3,447	688
Deferred taxes, see Note 22c	65,350	(* 48,366	-	-
	123,890	114,159	3,447	688

(1) Expenses for selling protected residential units in a jointly controlled entity.

(2) Goodwill created upon the acquisition of Mishkanot Clal, see Note 2j.

*) Reclassified.

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

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Short-term credit from banks (b)	21,426	11,494	2,973	2,849
Current maturities of long-term liabilities (Note 19)	290,773	265,351	-	24,499
Current maturities of debentures (Note 17)	24,631	22,792	24,631	22,792
	336,830	299,637	27,604	50,140

b. Linkage terms and interest rates of short-term credit from banks:

	Weighted interest rate December 31, 2001	Consolidated		The Company	
		December 31,		December 31,	
		2001	2000	2001	2000
	%	Adjusted NIS in thousands			
In NIS	5.3	15,199	8,288	2,973	52
In U.S. dollar	4.05	6,227	3,172	-	2,763
In Canadian dollar	-	-	34	-	34
		21,426	11,494	2,973	2,849

c. To secure the credit it received, the Company recorded a charge on certain assets, see Note 25.

NOTE 14:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Open accounts	35,982	(* 29,158	149	124
Notes payable	460	361	219	150
	36,442	29,519	368	274

NOTE 15:- OTHER ACCOUNTS PAYABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Interest payable	35,852	(* 27,122	-	-
Current maturity of deposits and entrance fees from tenants (see Note 20(2))	10,245	9,346	-	-
Government authorities (1)	45,704	(* 30,620	1,046	1,103
Related parties	-	80	-	80
Revenues received in advance from tenants	3,891	3,222	-	-
Investee	-	-	8,728	3,971
Unrealized gain	-	-	428	428
Employees	5,529	(* 5,316	139	130
Payables for acquisition of real estate and investments	-	14,906	-	14,609
Dividend declared by subsidiary	3,681	3,215	-	-
	104,902	(* 93,827	10,341	20,321

(1) Mainly for municipal taxes.

*) Reclassified.

NOTE 16:- DIVIDEND DECLARED

In December 2001, the Company declared an interim dividend for 2001 in the amount of NIS 8,452 thousand. The dividend was paid at the beginning of January 2002. The caption also includes dividend which was declared subsequent to the balance sheet date in the amount of NIS 9,992 thousand, see Note 35h.

As for the dividend distribution policy, see Note 1b5.

NOTE 17:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Debentures (series D), see b below	105,140	122,427	105,140	122,427
Less - bond discount	6,141	7,985	6,617	8,467
	98,999	114,442	98,523	113,960
Less - current maturities	24,631	22,792	24,631	22,792
	74,368	91,650	73,892	91,168
Non-marketable debentures, see c below	112,062	-	112,062	-
Less - bond discount	9,056	-	9,056	-
	103,006	-	103,006	-
Debentures of FCR, see d below	67,892	(* 67,153	-	-
Less - bond discount	750	(* 1,135	-	-
	67,142	66,018	-	-
	244,516	157,668	176,898	91,168

*) Reclassified.

b. In the context of an agreement signed between the Company and Gazit Group in August 1998, the Company assumed the liabilities in respect of debentures (series D) which were issued to the public primarily in November 1996 by Gazit, to Gazit and the holders of these debentures as of July 1, 1998.

The series included NIS 76,498,200 par value of registered debentures, redeemable in five annually equal payments commencing December 2001, bearing annual interest, payable every three months at the rate of LIBOR for dollar deposits for a period of 3 months + 0.5% per year and are linked (principal and interest) to the representative exchange rate of the dollar (base exchange rate of $ 1 = NIS 3.23).

NOTE 17:- DEBENTURES (cont.)

By virtue of an agreement dated April 12, 1999, the Company's parent company issued in May 1999, under a private placement, an additional NIS 20,000,000 par value of debentures (series D) in consideration of approximately NIS 23,465 thousand. NIS 14,500,000 par value of debentures was issued to the underwriters and the balance was issued to the Company's subsidiary. By virtue of the above agreement, Gazit Inc. loaned the Company the raised funds at identical terms and for an identical period as the terms of the debentures, and the Company, on its part, has committed towards the parent company in respect of all the obligations that the parent company has to fulfill towards the holders of the issued debentures. As of the balance sheet date, all the debentures (series D) which were held by the Group were sold.

On December 31, 2001, the Company redeemed 19,299,640 par value of debentures (20% of the outstanding amount of debentures) and, as a result, about 350 thousand of EQ1 shares which were pledged in favor of the debenture holders were released.

As for the remaining collaterals provided in order to secure these debentures, see Note 25b.

c. In January 2001, the Company issued non-marketable debentures in the amount of NIS 97 million to two provident funds. The debentures are linked to the Israeli CPI, bear interest which reflects a gross annual yield of 8.25% and are redeemable in the years 2006 - 2015.

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

d. Debentures in the amount of CD 38,166 thousand par value were issued by FCR in consideration of their par value and they bear interest of 7.5% payable twice per year. The debentures are redeemable in December 2003.

In December 2000, a subsidiary acquired CD 17,193 thousand par value of debentures. In January 2001, the subsidiary sold at cost approximately 22% of the debentures it held to Alony-Hetz, see Note 1b3b. In addition, in the context of obtaining credit from a bank in order to acquire the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the acquisition of an additional some 10% of the debentures it holds at cost. As for the gain on early redemption which resulted from the acquisition of the debentures, see Note 18b below.

NOTE 17:- DEBENTURES (cont.)

During the year, FCR acquired during the trade on the Toronto Stock Exchange some CD 300 thousand par value of debentures. As of the balance sheet date, total balance of outstanding debentures is CD 37,866 thousand par value.

As of the balance sheet date, the subsidiary holds in approximately CD 13.4 million par value of FCR debentures (35% of the issued amount).

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

NOTE 18:- CONVERTIBLE DEBENTURES

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

Four series of debentures which FCR issued in an aggregate to CD 354,963 thousand par value, which were issued in consideration of their par value, are convertible into FCR shares and bear interest as detailed below, payable semi-annually. FCR is entitled to enforce the conversion of the debentures at the determined dates. The conversion ratio in this case will be determined according to the share price on the Stock Exchange during the period prior to the conversion multiplied by the rate of 95%. (In respect to two of the series, FCR is entitled to also pay the accrued interest in shares, at terms identical to the terms for the repayment of the principal of the debentures.) In view of the aforesaid, these debentures were presented under a separate item among long-term liabilities and minority interest.

b. In December 2000, a subsidiary acquired CD 11,783 thousand par value of convertible debentures which are redeemable into FCR shares. In January 2001, the subsidiary sold at cost approximately 22% of the debentures it held to Aloni-Hetz, see Note 1b3b. In addition, in the context of obtaining credit from a bank in order to acquire the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the acquisition of an additional some 10% of the debentures it holds at cost.

As a result of the acquisition of the debentures and the debentures redeemable into FCR shares in 2000, the Company recorded a gross gain on early redemption in the amount of approximately NIS 9.6 million (approximately NIS 3.7 million net after the provision for tax and the minority interest).

NOTE 18:- CONVERTIBLE DEBENTURES (cont.)

c. In 2001, a subsidiary published two tender offers for three series of FCR convertible debentures. In the tender offers, about CD 12 million par value of convertible debentures (which bear interest of 7.875%) were acquired at 80% of their par value, about CD 22.4 million par value of convertible debentures (which bear interest of 7%) were acquired at the average of 77% of their par value and about CD 28.5 million par value of convertible debentures (which bear interest of 7.25%) were acquired at 80% of their par value. By virtue of the agreement with Alony-Hetz, about 22% of the debentures which were acquired through the tender offers were sold to Alony-Hetz at their purchase prices. Further to the above, in 2001, a subsidiary acquired additional convertible debentures of FCR during trade on the stock exchange.

In respect of the acquisition of said debentures, in 2001, the Company derived a net gain on early redemption in the amount of approximately NIS 36.6 million (approximately NIS 18 million net after the provision for tax and the minority interest).

As of the balance sheet date, the subsidiary holds in approximately CD 94 million par value of FCR convertible debentures (26.5% of the issued amount) and in CD 13.4 million par value of FCR debentures (35% of the issued amount).

The debentures and the convertible debentures which are held by the subsidiary are pledged as a security for the credit received in connection with their acquisition from a bank in Israel.

As for additional acquisitions of FCR convertible debentures subsequent to the balance sheet date, see Note 35a.

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

NOTE 18:- CONVERTIBLE DEBENTURES (cont.)

Below are details of the composition and terms of the convertible debentures as of December 31, 2001:

First repayment date	Last repayment date	Interest rate	Conversion price per share *)	Balance
		%	In CD	Adjusted NIS in thousands
30.11.2002	30.11.2006	8.5	15.5	138,301
31.1.2003	31.1.2007	7.875	17	197,884
28.2.2004	28.2.2008	7.0	23.5	198,575
30.6.2004	30.6.2008	7.25	25.25	188,791
				723,551
Less - discount of convertible debentures				16,100
				707,451

*) The price for an FCR share as of the balance sheet date is CD 12.95. The above conversion prices represent the right of conversion of the debenture holders. Subsequent to the balance sheet date, following rights issue effected by FCR, the conversion prices of debentures into shares were changed to 3.4%, reflecting the compensation component in the rights issue.

d. In January 2000, agreements were signed between the Company and 11 provident funds, whereby the Company allocated convertible debentures in the aggregate par value of NIS 11,000 thousand in consideration of their par value.

In October 2000, convertible debentures in the amount of NIS 10 million par value were converted into NIS 768 thousand par value of the Company's shares. In April 2001, the outstanding debentures, NIS 1 million par value, were converted into NIS 85 thousand par value of the Company's shares.

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31,					
	2001					2000
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. $	Total	Total
	Adjusted NIS in thousands					
To banks	61,095	57,001	453,208	758,897	1,330,201	1,133,399
Other financial institutions	-	-	997,924	1,394,674	2,392,598	1,716,565
Provision for termination of commitment with former management of FCR (1)	-	-	-	-	-	34,961
Loan from jointly controlled entity	17,354	-	-	-	17,354	19,781
Liabilities to sellers of properties	-	-	-	17,086	17,086	15,879
Other liabilities (2)	-	-	22,418	-	22,418	8,459
	78,449	57,001	1,473,550	2,170,657	3,779,657	2,929,044
Less - current maturities	-	-	170,163	120,610	290,773	265,351
	78,449	57,001	1,303,387	2,050,047	3,488,884	2,663,693
Weighted interest rate (%)	5.18	9.71	6.34	6.22	6.28	7.82

(1) During 2001, an agreement was signed with the former management of FCR whereby the amounts which were paid as an advance until now represent the extinguishment of all of FCR liabilities towards them and, accordingly, the above provision was written off against the decrease in the initial difference created upon the acquisition of FCR shares in August 2000 which was attributed to fixed assets.

(2) Including unrealized gain, long-term interest and commitment for future engagement.

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

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

	December 31, 2001				
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. $	Total
	Adjusted NIS in thousands				
First year - current maturities	-	-	170,163	120,610	290,773
Second year	32,097	15,963	65,549	246,943	360,552
Third year	1,033	5,862	60,746	159,608	227,249
Fourth year	1,033	5,867	46,931	141,188	195,019
Fifth year	14,140	5,867	451,854	173,394	645,255
Sixth year and thereafter	11,958	23,442	670,651	1,221,985	1,928,036
Repayment date yet undetermined	18,188	-	7,656	106,929	132,773
	78,449	57,001	1,303,387	2,050,047	3,488,884
	78,449	57,001	1,473,550	2,170,657	3,779,657

b. The Company:

1. Composition:

	December 31,			
	2001			2000
	In NIS - linked to CPI	In NIS - unlinked	Total	Total
	Adjusted NIS in thousands			
Banks	60,262	57,001	117,263	181,374
Investees	34,709	-	34,709	52,242
	94,971	57,001	151,972	233,616
Less - current maturities	-	-	-	24,499
	94,971	57,001	151,972	209,117
Weighted interest rate (%)	4.95	9.71	7.55	9.52

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

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

	December 31, 2001		
	In NIS - linked to CPI	In NIS - unlinked	Total
	Adjusted NIS in thousands		
First year - current maturities	-	-	-
Second year	32,096	15,964	48,060
Third year	1,033	5,862	6,895
Fourth year	1,033	5,862	6,895
Fifth year	14,140	5,862	20,002
Sixth year and thereafter	11,960	23,451	35,411
Repayment date yet undetermined	34,709	-	34,709
	94,971	57,001	151,972

c. To secure the above loans, the subsidiaries recorded charges on specific assets, see Note 25.

NOTE 20:- TENANTS' SECURITY DEPOSITS

	Consolidated	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Deposits from tenants (1)	21,310	16,494
Deposits and entrance fees from tenants (2)	129,126	117,325
Less - current maturities	10,245	9,346
	118,881	107,979
	140,191	124,473

(1) Deposits from tenants are received to secure their fulfillment of the terms of the rental agreements. The deposit is refunded to the tenants at its dollar value at the end of the rental period.

(2) Mishkanot Clal and tenants signed on agreements to occupy residential units in existing buildings. In addition, potential tenants purchased options to occupy residential units in the future, in accordance with the terms specified in the agreements which were reached with them.

NOTE 20:- TENANTS' SECURITY DEPOSITS (cont.)

Below are the types of commitments with the tenants in Mishkenot Clal:

deposit - amounts deposited by tenants which are forfeited at an annual rate of 2.5% - 6% during the initial 10 years, and part of them at an annual rate of 1.4% during the subsequent period. Part of the deposits bear annual interest of 2%. The balance of the forfeited amount includes exchange rate differences and linkage differences, according to the agreement with the tenants.

- amounts deposited by tenants which are refunded at the end of the period of the use of the property, primarily linked to the dollar and part are linked to the Israeli CPI.

fees - amounts paid by tenants to purchase the right of occupancy and which, primarily, are forfeited during 60 months and part during 36 months.

- amounts received from potential tenants for periods of up to 15 years in respect to options to occupy residential units in the future which are refunded at the end of the period. The amounts are linked partially to the exchange rate of the U.S. dollar and bear interest of up to 9% and part are linked to the Israeli CPI and bear interest of 1% - 7.5%.

The amounts carried to the statement of income in the coming year, and the amounts available for refunds to tenants in respect to the cancellation of agreements and options, as per the estimate of the management of Mishkenot Clal, in addition to amounts which will be carried to the statement of income in respect to the balance of forfeited deposits and forfeited entrance fees, are included under the caption "Other accounts payable" among current liabilities.

NOTE 21:- ACCRUED SEVERANCE PAY

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

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

NOTE 21:- ACCRUED SEVERANCE PAY (cont.)

All the liabilities of these subsidiaries for severance pay, according to labor laws and specific employment contracts, are provided for on a current basis and are fully reflected in the financial statements.

The amounts accrued in managers' insurance policies, in other insurance policies and provident funds on behalf of the employees and the related liability are not reflected in the balance sheet since the funds are not under the control and management of the Company and the subsidiaries.

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

NOTE 22:- TAXES ON INCOME

a. Effective January 1, 1995, EQ1 does not record taxes on income in its statements because its tax status in the United States has been changed to a REIT, in effect from the above date. The implication of this status is that its income is tax-exempt, it is required to distribute at least 90% of the earnings and subject their recipient to tax.

b. In accordance with the Income Tax (Inflationary Adjustments) Law, 1985, the results for tax purposes are measured in real terms, based on the changes in the Israeli CPI.

   In November 2001, an amendment to the Income Tax (Inflationary Adjustments) Law (Amendment No. 14), 2001 was passed by the "Knesset" (Israeli parliament), pursuant to which until February 28, 2002, the Minister of Finance with the approval of the finance committee of the Knesset, is entitled to determine by an order that the provisions of the aforesaid law, in whole or in part, will not apply with respect to a certain tax year if the rate of increase in the Israeli CPI in that year did not exceed 3%. On February 28, 2002, the finance committee of the Knesset determined that the provision of the law will apply to all corporations, which are subject to the law, also in 2001.

NOTE 22:- TAXES ON INCOME (cont.)

c. Deferred taxes:

Composition and changes in deferred taxes as presented in the consolidated balance sheet are as follows:

	Depreciable fixed assets	Other	Carryforward tax losses	Total
	Adjusted NIS in thousands			
Balance as of January 1, 2000	(950)	-	1,112	162
Changes in respect of newly consolidated subsidiaries (*)	(94,604)	9,845	131,655	46,896
Amounts carried to statement of income	42,128	27,291	(68,582)	837
Balance as of December 31, 2000	(53,426)	37,136	64,185	47,895 (1)
Acquisition of shares in jointly controlled entity shares	-	-	160	160
Foreign currency translation adjustments for foreign autonomous units and other differences	(2,134)	345	599	(1,190)
Amounts carried to statement of income	61,132	(37,985)	(19,312)	3,835
Transfer of CEFUS assets to EQ1 (see Note 1c)	14,148	-	-	14,148
Balance as of December 31, 2001 (1)	19,720	(504)	45,632	64,848

(1) The balance of NIS 68,848 thousand is presented in the balance sheet among "Other assets" (NIS 63,350 thousand) and the remaining balance among "Long-term liabilities" (NIS 502 thousand). The deferred taxes are computed at tax rates varying between 36% and 43% (the tax rates expected to be in effect at the time of reversal).

*) Reclassified.

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

Composition:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Current taxes (1)	21,443	13,186	4,327	3,565	2,782	1,693
Deferred taxes	(3,835)	(837)	(607)	-	-	-
	17,608	12,349	3,720	3,565	2,782	1,693

(1) The Company - including mainly withholding tax of 30% on dividend paid to the Company by EQ1 and withholding tax on interest paid to the Company by other foreign subsidiaries. Consolidated - including, in addition to the aforementioned, current tax expenses in respect of the activities of foreign subsidiaries.

NOTE 22:- TAXES ON INCOME (cont.)

e. The Company has operating loss carry forward for tax purposes estimated at about NIS 18,602 thousand (2000 - NIS 37,920 thousand). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other temporary differences.

f. The Company has received assessments considered as final up to and including the fiscal year of 1997.

g. Below is a reconciliation between the tax expense assuming that all the income was taxed at the regular tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Income before taxes on income	143,792	115,240	48,844
Statutory tax rate	36%	36%	36%
Tax expense computed at the statutory tax rate	51,765	41,486	17,584
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Income subject to other special tax rates	(2,445)	(7,460)	-
Increase (decrease) in taxes resulting from incurrence (utilization) of losses for tax purposes for which deferred taxes were not provided	(4,504)	3,033	(667)
Tax on minority interest in earnings of investee type REIT	(7,585)	(7,837)	(7,589)
Adjustment of statements of foreign investees	(9,444)	(16,298)	(3,477)
Tax difference applicable on income of foreign companies and other differences	(10,179)	(575)	(2,131)
Taxes on income	17,608	12,349	3,720

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

As for commitments with related parties, see Note 34.

As for the commitment with Alony-Hetz and the financing bank in connection with the investment in shares, debentures and convertible debentures of FCR, see Notes 1b3, 17c and 18a.

b. Guarantees:

FCR is a guarantor for loans from various parties to its jointly controlled entities, which are engaged the development of properties, in the amount of approximately NIS 15 million (CD 5.4 million).

In addition, FCR provided bank guarantees in the ordinary course of its business in the amount of approximately NIS 19.2 million (CD 6.9 million).

To secure the renovation of one of its properties, which EQ1 has undertaken to execute, EQ1 provided a bank guarantee of $U.S. 500 thousand. To secure the guarantee, EQ1 pledged one of its properties.

c. Contingent liabilities:

1. In January 1995, a subsidiary of Mishkanot Clal was issued a VAT assessment in the amount of approximately NIS 2.2 million for imputed interest on deposits from tenants for the period from June 1990 until September 1994. In July 1999, the Court accepted part of the appeal which the company filed in respect of this assessment and the VAT Authorities have appealed the ruling and the subsidiary filed a counter appeal. The decision in the appeal was not yet rendered.

   In June 2000, subsidiaries of Mishkanot Clal were issued another VAT assessment in the amount of approximately NIS 4.6 million for imputed interest on deposits from tenants for the period until December 1999. The subsidiaries have filed an appeal in respect of this assessment.

   Mishkanot Clal makes current payments in accordance with the Court's decision from July 1999. Should VAT position in the appeals be accepted, the exposure of Mishkanot Clal is in the amount of approximately NIS 3.9 million (the Company's exposure is at the rate of 50% of that amount). In the opinion of the Company and its legal counsel, the Company shall not incur an additional monetary liability, if any, in excess of the provision made in the books.

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

2. In January 1998, Psagot Haifa (Mishkanot Clal's subsidiary) and the Property Tax Authority signed an agreement whereby Psagot Haifa shall pay the amount of NIS 2 million until the end of January 1998 and that for the complete and final dismissal of property tax debts for the period ending on December 31, 1997. This agreement is subject to the performance of the project in the framework of an agreement with the Municipality of Haifa. Said property tax debts were not yet paid as a result of delay in the timetable for approving the project by the Municipality.

   In November 2000, according to the Tax Ordinance (Collection), the Property Tax Authority levied an attachment on the bank account of Psagot Haifa in the amount of approximately NIS 5.8 million which constitute, as alleged by the Property Tax Authority, the outstanding indebtedness of Psagot Haifa in respect of property tax.

   Psagot Haifa is negotiating with the Property Tax Authority to reduce the amount charged and to spread it over a long term. In the opinion of the Company, based, among others, on a settlement agreement which was signed in the past with the Property Tax Authority, the timing of payment is subject to the actual implementation of the agreement with the Municipality of Haifa, as aforementioned.

3. In April 2001, Mishkanot Clal was issued a purchase tax assessment in the amount of approximately NIS 1.1 million in connection with the company's agreement with Kibbutz Alonim and which rejects the self-assessment filed by the company according to which the company is not liable for property tax. Since the property tax payment is subject to meeting the above agreement prerequisites and its validity, Mishkanot Clal received the Tax Authorities consent that the date for filing an objection to the assessment shall be extended until the time when all the agreement prerequisites are met.

d. Legal claims:

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

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

NOTE 24:- SHAREHOLDERS' EQUITY

a. Composition of the share capital:

	December 31, 2001		December 31, 2000	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	200,000,000	(* 52,846,822	200,000,000	(** 42,788,634

*) Of which, NIS 247,494 par value of shares are held by the Company.

**) Of which, NIS 51,040 par value of shares were held by the Company

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

The Company has about 7,750 thousand options (series 4), of which 642 thousand options (series 4) are held by the Company and a subsidiary (100%). Each stock option (series 4) is exercisable into 1.2345 shares in exchange for NIS 13.6, linked to the dollar (base exchange rate of $ 1 = NIS 4.15) until February 20, 2004. In any case, the exercise price will not be below NIS 13.6.

c. In February 2001, the Company issued to institutional entities and the parent company about 2 million Common shares and about 1.6 million stock options (series 4). The securities were issued in 403,260 units which contain 5 Common shares and 4 sock options (series 4) at NIS 70.25 per unit.

In addition, the Company offered additional 250,000 units to a subsidiary (100%). The securities to be held by the subsidiary will be dormant until sold to third parties.

The total net immediate capital raising amounts to approximately NIS 29 million. Assuming that the options are fully exercised, the total capital raising is expected to amount to approximately NIS 51.4 million.

d. In November 2001, the Company issued to institutional entities, to related party and to the parent company, about 3.4 million Common shares at NIS 13.3 per share. The total capital raising amounts to approximately NIS 45 million.

e. In May 2001, the Company issued to three officers who are not its related parties, NIS 750 thousand par value of Company shares at NIS 12.5 per share. The Company guarantees the loans which the optionees were granted from a bank for acquiring the shares. The loans are linked to the Israeli CPI, bear interest of 2% and are repayable within six years or upon the sale of shares or upon the termination of the optionee's employment at the Company, whichever is earlier.

NOTE 24:- SHAREHOLDERS' EQUITY (cont.)

f. During the year 2001, about 2,226 thousand options (series 3) were exercised into about 2,543 thousand shares for the total consideration of approximately NIS 23.3 million. As of the date of the approval on the financial statements, all stock options (series 3) were exercised into the Company's shares.

g. During the year 2001, convertible debentures in the amount of NIS 1 million were converted into about 84.5 thousand shares.

h. During the reported year, the Company sold about 1,054 thousand shares which were held by it in consideration of approximately NIS 14.3 million.

i. As for the issuance of stock dividend in March 2002, see Note 35d.

NOTE 25:- CHARGES (ASSETS PLEDGED)

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

The balances of the secured liabilities are as follows:

	Consolidated	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Short-term loans and credit	21,426	11,494
Long-term liabilities (including current maturities)	3,739,885	2,840,375
Debentures (including current maturities) (b below)	269,147	180,460
	4,030,458	3,032,329

b. As collateral for the liability in respect of NIS 77,198,560 par value of debentures (series D) of the parent company, assumed by the Company towards the parent company and the holders of these debentures (see Note 17b), the Company placed, a senior in priority, fixed charge in favor of the trustee for those debentures, on an income producing property known as "Gazit House" in Tel Aviv in the amount of $ 9 million and on 2,262,677 EQ1 Common shares of $ 0.01 par value each, held by a subsidiary.

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2001				
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	52,344	159,535	2,038	213,917
Short-term investments	-	19,912	10,514	-	30,426
Tenants and accounts receivable	3,459	40,519	16,254	533	60,765
Loans to former partners in jointly controlled entities	-	34,859	23,760	-	58,619
Long-term investments	13,625	3,979	-	-	17,604
Long-term loans	18,025	33,080	15,320	-	66,425
	35,109	184,693	225,383	2,571	447,756
Liabilities:					
Short-term credit from banks and others	-	6,227	-	15,199	21,426
Trade payables and other accounts payable	-	41,874	77,572	18,002	137,448
Dividend declared	-	-	-	18,444	18,444
Debentures	15,519	186,486	67,142	-	269,147
Liabilities to financial institutions and others	78,449	2,170,657	1,473,550	57,001	3,779,657
Tenants' security deposits	6,458	116,985	3,249	13,499	140,191
Accrued severance pay	-	-	-	755	755
Convertible debentures redeemable into subsidiary's shares	-	-	707,451	-	707,451
	100,426	2,522,229	2,328,964	122,900	5,074,519

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES (cont.)

b. The Company:

	December 31, 2001				
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	23,038	4,412	74	27,524
Accounts receivable	388	-	-	-	388
Investments in investees	-	210,625	134,505	-	345,130
Long-term investments	816	-	-	-	816
Long-term loans	140	-	-	-	140
	1,344	233,663	138,917	74	373,998
Liabilities:					
Short-term credit from banks and others	-	2	-	2,971	2,973
Trade payables and other accounts payable	-	-	-	10,281	10,281
Dividend declared	-	-	-	18,444	18,444
Debentures	15,519	186,010	-	-	201,529
Liabilities to financial institutions and others	94,971	-	-	57,001	151,972
Accrued severance pay	-	-	-	74	74
	110,490	186,012	-	88,771	385,273

NOTE 27:- REVENUES FROM RENTAL OF BUILDINGS - MAJOR CUSTOMERS

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Tenant A	36,438	18,288	-
Tenant B	17,615	14,572	12,103
Others	623,370	330,105	119,450
	677,423	362,965	131,553

NOTE 28:- OTHER INCOME

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Gain from investments in marketable securities	69,208	36,110	(* 1,275	20,717	14,505	(* 569
Income from dividend	13,459	29,806	(* 3,442	-	20,074	(* 1,944
Gain from issuance to third party, net	4,630	2,481	-	-	356	-
Capital gain	225	2,973	12,749	618	-	-
Management fees from affiliated company and third parties	872	196	202	2,049	1,677	1,733
Oil and gas explorations, net and others (1)	35	-	48	35	-	48
	88,429	71,566	17,716	23,419	36,612	4,294

(1) The Company has rights to oil wells Star 29 and Star 30 at the participation rate of 10%, as well as rights to drilling to Emuna 1, drilling in search of oil, at the participation rate of 4%. All of the Company's investments in oil and gas producing wells, as described above, were fully amortized, primarily in 1996.

The Company did not make any significant investments in the oil and gas exploration sector during the five years ending December 31, 2001. At this time, the Company does not have any specific plans for investments in this sector.

NOTE 29:- OPERATING EXPENSES OF PROPERTIES FOR RENT

	Consolidated		
	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Salaries and related expenses	12,520	4,701	2,897
Fees and taxes on properties	123,331	64,239	15,998
Repairs and maintenance	40,285	27,940	8,622
Utilities	17,597	8,964	3,037
Insurance and security expenses	10,611	5,773	2,302
Others	26,648	9,972	4,590
	230,992	121,589	37,446

NOTE 30:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Salaries and management fees *)	28,792	18,459	9,357	3,718	1,626	1,008
Professional fees	8,429	5,362	1,915	1,920	1,011	159
Depreciation	518	447	156	(* 292	163	100
Amortization of goodwill	927	177	-	-	-	-
Others (including office and office maintenance)	17,671	11,088	(** 4,521	(* 110	592	335
	56,337	35,533	15,949	6,040	3,392	1,602

*) As for salaries and management fees to related parties, see Note 34.

**) Reclassified.

NOTE 31:- FINANCIAL EXPENSES, NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Financial expenses for debentures	15,174	9,689	6,345	10,501	6,599	6,345
Financial expenses for convertible debentures	52,549	27,600	842	14	623	842
Financial expenses for liabilities to financial institutions and others	203,310	92,556	28,326	7,406	17,180	4,014
Gain from early redemption of FCR debentures *)	(36,603)	(9,639)	-	-	-	-
Other financial (income) expenses **)	3,900	(1,538)	390	(19,104)	(9,588)	(11,201)
Less - expenses carried to cost of fixed assets	14,017	13,610	7,656	-	-	-
	224,313	105,058	28,247	(1,183)	14,814	-

*) See Note 18a.

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

NOTE 32:- OTHER EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Activity and provision for impairment in value of Internet ventures in the real estate sector	8,835	8,395	-	-	-	-
Expenses related to early repayment of mortgage	6,811	-	-	-	-	-
Loss from issuance to third party, net	-	-	101	30	-	19
Oil and gas explorations, net *)	-	11	-	-	12	-
	15,646	8,406	101	30	12	19

*) See Note 28(1).

NOTE 33:- EARNINGS PER SHARE

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

	Year ended December 31,					
	2001		2000		1999	
	Weighted number of shares	Income	Weighted number of shares	Income	Weighted number of shares	Income (loss)
	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands	In thousands	Adjusted NIS in thousands
Number of shares and income used in the computation of basic earnings per share	(* 53,774	81,062	(* 45,918	68,111	(* 25,609	21,511
Number of shares and income used in the computation of diluted earnings per share (1)					(* 30,512	23,755

(1) The number of shares and income used in the computation of diluted earnings per share include adjustments in respect of convertible securities which were not included in the computation of basic earnings per share.

The probability of conversion and the computation of imputed gain from marketable securities that are linked to the dollar were computed based on the interest rate of 2% (2000 and 1999 based on the interest rate of 6% and 6%, respectively).

*) Adjusted for the compensation component at the rate of 11.11% of the issuance of stock dividend in March 2002, see Note 35d.

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Financial income for loans to related parties (1)	552	416	415	-	-	-
Management fees from the parent company	205	196	202	205	196	202
Management fees from subsidiaries	-	-	-	1,432	1,481	1,531
Financial income for balances with subsidiaries, net	-	-	-	28,578	19,070	11,428

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

b. Other expenses and payments:

	Consolidated					
	Year ended December 31,					
	2001		2000		1999	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees	5	276	5	296	8	233
Salaries and related expenses	3	13,987	3	10,336	3	5,482

	The Company					
	Year ended December 31,					
	2001		2000		1999	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fees	5	276	5	296	8	233
Salaries and related expenses	1	684	1	481	1	350

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

(1) EQ1 entered into an employment contract with the Company's chairman of the Board, who is also the chairman of EQ1 Board for a period of seven years beginning in June 1996 with an option to extend for additional seven years. The related party or a company controlled by him will be entitled to a salary of $ 240 thousand per year, linked to the index in the United States.

Effective 1999, the Company's chairman of the Board is entitled to a cash bonus from EQ1 up to a maximum rate of 75% of his base salary. The bonus is computed according to a formula which compares the increase in the annual income of EQ1 (neutralizing depreciation and financial expenses) in relation to the preceding year against such increase in Group companies which operate in that sector.

In October 2001, FCR entered into an employment contract with the Company's CEO (who acts also as FCR CEO), whereby beginning that month, the CEO is entitled to an annual base salary of CD 400 thousand. The above is also entitled to annual grants and participation in the Company's compensation plans, at the discretion of FCR Board.

At the same date, FCR also entered into a management contract with the chairman of the Company's Board (who acts also as the chairman of FCR Board), whereby beginning that month, the Company's chairman is entitled to an annual base salary of CD 150 thousand. The above is also entitled to annual grants, at the rate of 50% of the grants to be received by the Company's CEO, and participation in compensation plans.

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

Further, the chairman of the Company's Board is entitled to an annual salary from the Company (through its wholly owned subsidiary) at the cost of $ 136 thousand from October 2001. The chairman of the Board is also entitled from July 1998 to a bonus at the rate of 5% of the Company's adjusted pre-tax income. The above is also entitled to a life insurance policy at the scope of $ 1 million whose family members are its beneficiaries.

The Company's CEO is entitled to an annual salary from the Company (through its wholly owned subsidiary) at the cost of $ 153 thousand from October 2001. The Company's CEO is also entitled to a bonus at the rate of 2% of the Company's pre-tax income. The above is also entitled to a life insurance policy at the scope of $ 2 million whose family members are its beneficiaries.

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

c. Balances:

As for balances with related parties, see Notes 6, 10 and 15.

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

d. Convertible securities and shares - EQ1 and FCR:

Within the framework of employee stock option plan in EQ1, the Company's chairman of the Board was granted an option for the purchase some 288 thousand EQ1 shares at approximately $ 10 per share.

In September 2001, the above options were exercised into shares. EQ1 provided to the Company's chairman a loan for exercising the options, see Note 10(2)b.

In September 1999, the authorized authorities of EQ1 resolved to allocate to the Company's chairman of the Board 45,000 EQ1 shares at no consideration. The shares will confer upon the Company's chairman of the Board the full rights deriving from their date of allocation, however, they will be at his disposal and he will be entitled to sell up to one-third of the shares allocated to him at the end of each of the three years, beginning in 2000.

As for stock option plan to employees and officers of FCR in which stock options were allocated to the Company's chairman of the Board and to the Company's CEO who act also as the chairman and the CEO of FCR, see Note 35.

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. Subsequent to the balance sheet date, a subsidiary acquired, during trade on the stock exchange, additional CD 8 million par value of FCR convertible debentures (see Note 18b). As for the accounting treatment regarding the acquisition of said debentures, see Note 2o.

b. Following additional issuance of EQ1 shares (see Note 1b2) to the Company and to others subsequent to the balance sheet date, close to the publication of these financial statements, the Company reached the holding rate, directly and indirectly, in some 50.2% (49.7% assuming full dilution) of EQ1 share capital. In connection with these issuance, the Company derived a gain from the decrease in the holding rate in EQ1 in the amount of approximately NIS 3 million.

c. In January 2002, FCR issued about 775 thousand stock options to officers and employees at FCR which are exercisable until January 2012 at the exercise price of CD 12.85 per share. In the context of the issuance, the Company's CEO and the Company's chairman of the Board received 200 and 100 thousand stock options, respectively.

d. During February 2002, the Company's Board decided on the issuance of stock dividend to the Company's shareholders so that each shareholder who held at the record date in 9 Common shares of the Company was entitled to receive one Common share of the Company of NIS 1 par value as stock dividend, at no consideration. The record date was determined to be
March 4, 2002. On March 6, 2002, the Company issued about 6.3 million par value of stock dividend.

e. During February 2002, the Company issued through a private placement 3,442,720 Common 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 raised in this issuance approximately NIS 51.5 million.

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (cont.)

f. On February 7, 2002, the Company issued to institutional investors NIS 77.5 million non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest of 5.65%. The redemption period of the debentures is in 8 equal annual payments beginning in 2005.

g. In March 2002, FCR published a prospectus for the issuance of options exercisable into FCR shares until 2008, by way of rights issued to its shareholders, so that anyone who holds in 1.25 of FCR shares may acquire one option at CD 0.05.

The exercise increment per each option was determined at CD 11.8. The Company announced that it will acquire all the options that it is entitled to acquire by virtue of its holdings in FCR shares and, it will also acquire additional options which are not acquired by the other shareholders.

h. Pursuant to the dividend distribution policy (see Note 1b(5)), during March 2002, the Company declared on the distribution of interim dividend for 2002 in the amount of approximately NIS 10 million payable at the beginning of April 2002. In the financial statements for 2001, the dividend was deducted from the Company shareholders' equity.

NOTE 36:- GEOGRAPHIC INFORMATION

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

	Year ended December 31, 2001			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total revenues	405,310	315,530	45,012	765,852
Segment results	238,179	173,954	27,955	440,088
General and administrative expenses				56,337
Operating income				383,751
Financial expenses, net				224,313
Other expenses				15,646
Income before taxes on income				143,792
Taxes on income				17,608
Income after taxes on income				126,184
Minority interest in earnings of subsidiaries				45,122
Net income for the year				81,062

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2000			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total revenues	241,811	149,323	43,397	434,531
Segment results	144,414	80,833	38,990	264,237
General and administrative expenses				35,533
Operating income				228,704
Financial expenses, net				105,058
Other expenses				8,406
Income before taxes on income				115,240
Taxes on income				12,349
Income after taxes on income				102,891
Minority interest in earnings of subsidiaries				26,312
Equity of former shareholders in earnings of newly consolidated subsidiary				8,468
Net income for the year				68,111

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 1999			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total revenues	128,853	14,490	5,926	149,269
Segment results	82,800	6,089	4,252	93141
General and administrative expenses				15,949
Operating income				77,192
Financial expenses, net				28,247
Other expenses				101
Income before taxes on income				48,844
Taxes on income				3,720
Income after taxes on income				45,124
Minority interest in earnings of subsidiaries				23,613
Net income for the year				21,511

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2001			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	3,139,241	2,150,158	214,335	5,503,734
Corporate assets - unallocated				797,564
Total consolidated assets				6,301,298
Segment liabilities	1,756,448	1,826,791	118,890	3,702,129
Corporate liabilities - unallocated				669,337
Total consolidated liabilities				4,371,466

	Year ended December 31, 2000			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	2,260,147	1,821,649	203,005	4,284,801
Corporate assets - unallocated				755,613
Total consolidated assets				5,040,414
Segment liabilities	1,240,374	1,842,090	107,982	3,190,446
Corporate liabilities - unallocated				186,383
Total consolidated liabilities				3,376,829

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE

a. Balance sheets - the Company:

	December 31, 2001	December 31, 2000
	NIS in thousands	
ASSETS		
Current assets	37,240	33,885
Long-term investments and loans	(* 788,979	(* 683,973
Fixed assets, net	1,666	1,347
Other assets and deferred charges, net	3,399	342
	831,284	719,547
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	56,594	76,430
Long-term liabilities	328,944	297,178
Shareholders' equity	445,746	345,939
	831,284	719,547

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method, accordingly, earnings of the subsidiaries are not included in these financial statements.

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

b. Statements of income - the Company:

	Year ended December 31, 2001	2000	1999
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	(* -	(* -	(* -
Other income	29,312	36,006	6,180
Financial, net	346	-	1,789
	29,658	36,006	7,969
Costs and expenses:			
General and administrative	6,016	3,337	1,523
Other expenses	-	-	-
Financial, net	-	15,187	-
	6,016	18,524	1,523
Income before taxes on income	23,642	17,482	6,446
Taxes on income	3,548	2,738	1,647
Net income for the year	(* 20,094	(* 14,744	(* 4,799

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method, accordingly, earnings of the subsidiaries are not included in these financial statements.

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	Total
	NIS in thousands					
Balance at January 1, 1999	17,252	64,352	36,172	10,690	-	128,466
Issuance of share capital, net	7,612	67,505	-	-	-	75,117
Net income for the year	-	-	-	4,799	-	4,799
Dividend paid	-	-	-	(11,204)	-	(11,204)
Balance at December 31, 1999	24,864	131,857	36,172	4,285	-	197,178
Issuance of share capital, net	6,904	72,912	-	-	(12,157)	67,659
Conversion of debentures into shares	2,434	23,645	-	-	-	26,079
Exercise of stock options into shares	4,775	39,383	-	-	(6,000)	38,158
Issuance of stock dividend	3,811	-	-	(3,811)	-	-
Sale of shares by a subsidiary	-	3,310	-	-	17,543	20,853
Reimbursement of issuance expenses	-	650	-	-	-	650
Net income for the year	-	-	-	14,744	-	14,744
Dividend paid	-	-	-	(12,547)	-	(12,547)
Dividend declared	-	-	-	(6,835)	-	(6,835)
Balance as of December 31, 2000	42,788	271,757	36,172	(4,164)	(614)	345,939
Issuance of share capital, net	7,411	92,033	-	-	-	99,444
Conversion of debentures into shares	84	920	-	-	-	1,004
Exercise of stock options into shares	2,564	20,695	-	-	-	23,259
Acquisition of shares by a subsidiary, net	-	-	-	-	(2,862)	(2,862)
Net income for the year	-	-	-	20,094	-	20,094
Dividend paid	-	-	-	(22,688)	-	(22,688)
Dividend declared	-	-	-	(18,444)	-	(18,444)
Balance as of December 31, 2001	52,847	385,405	36,172	(25,202)	(3,476)	445,746

List of companies of the Group as of December 31, 2001 (1)

	Percentage of ownership as of December 31, 2001		Country of registration
Equity One Inc.	54.9%	***) (2)	U.S.
First Capital Reality Inc.	68.08%	**) (3)	Canada
First Capital Inc.	100%	**)	Canada
Mishkanot Clal (1982) Ltd.	50%	*) (4)	Israel
Golden Equity	92.36%	***)	U.S.
Hashalom Boulevard House Ltd.	100%	**)	Israel
M.G.N. USA Inc.	100%	*)	U.S.
Gazit (1995) Inc.	100%	***)	U.S.
Gazit (1997) Inc.	100%	***)	Canada
Golden Oak Inc.	100%	*)	Cayman Islands
Hollywood Properties Ltd.	100%	*)	Cayman Islands
Dinerib 53 Ltd.	100%	**)	Israel
Dinerib 51 Ltd.	100%	**)	Israel
Gazit Globe Israel Ltd.	100%	*)	Israel
Dinerib 52 Ltd.	100%	**)	Israel
Automart (founded by Gazit Financing Group) Ltd. (previously: Gazit B.C. Ltd.)	100%	**)	Israel

*) Held directly by the Company.

**) Held through subsidiaries.

***) Held directly and through subsidiaries.

(1) The list does not include companies held by EQ1, FCR and First Capital and Mishkanot Clal.

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

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

(4) See Notes 1b4 and 8g.

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the year ended December 31, 2001

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 year ended December 31, 2001:

1. A. General

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

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 team.
- 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 – directly and indirectly – 146 properties with a Gross Leasable Area (G.L.A.) of more than 16 million square feet, as well as 5 additional properties under development and land to be developed, with potential additional G.L.A. of some 1.6 million square feet. These properties have a book value of NIS 5.8 billion and generate annual rental income of NIS 750 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.

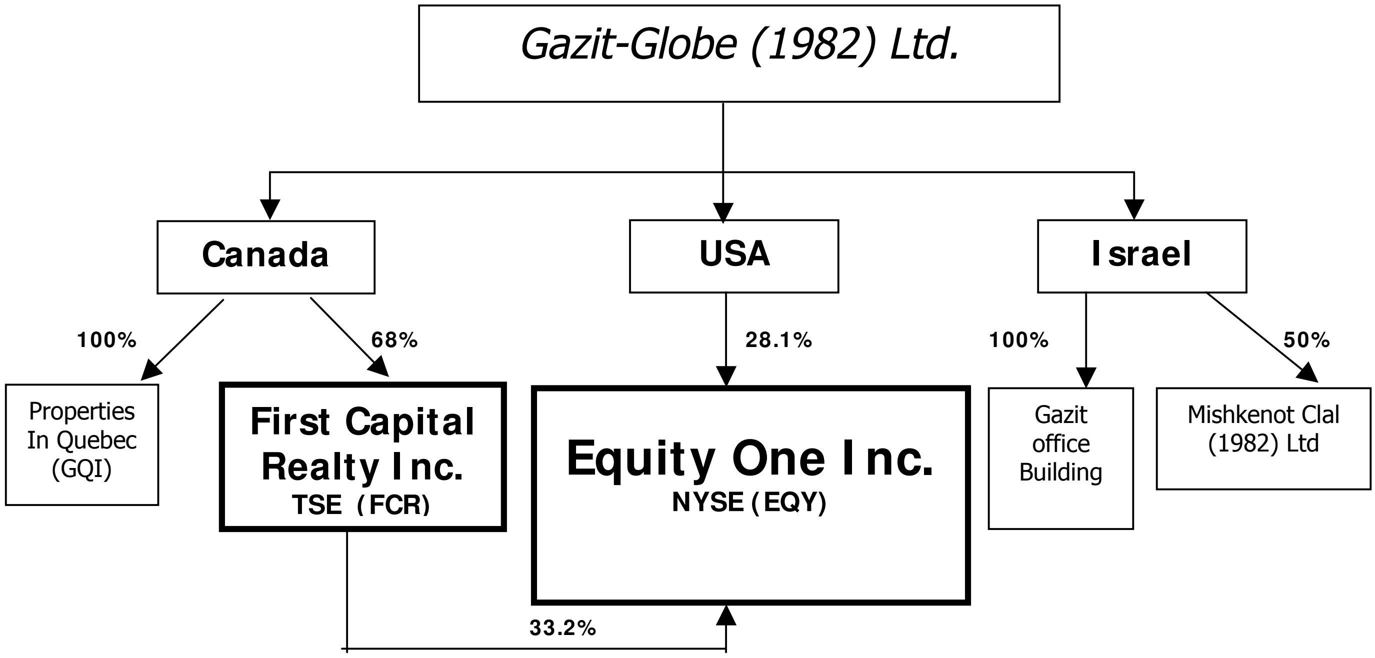
In the USA, the Company operates mainly through Equity One Inc. (hereinafter – "EQ1"), a self-administrated, self-managed REIT (Real Estate Investment Trust) traded on the NYSE. As of the date of the financial statements, the Company owns 50.7% of EQ1. EQ1 operates primarily in the states of Florida and Texas, owning 87 properties (primarily supermarket-anchored shopping centers), with a G.L.A. of 8.6 million square feet, as well as 2 additional properties under development. The anchor tenants of EQ1's properties are leading national and international chains, including: Winn-Dixie, Albertsons, Safeway Publix and others. The average occupancy rate of the properties is 86%.

Operations in Canada are carried out through First Capital Realty Inc. (hereinafter – "FCR") (formerly Centrefund Realty Corp.), a public company traded on the Toronto Stock Exchange (TSE). As of the date of the financial statements, the Company owns 68.1% of FCR. FCR operates mainly in the Canadian provinces of Ontario, Quebec and Alberta owning 50 properties (primarily supermarket-anchored shopping centers) with a total G.L.A. of approx. 7 million square feet, as well as 3 additional properties under development. The anchor tenants of FCR's properties are leading national and international chains, including: Sobeys, Loblaws, Zellers, Wal-Mart, Safeway and others. The average occupancy rate of the rental properties is 94%.

In addition, the Company owns 8 properties (primarily supermarket-anchored shopping centers) in the province of Quebec, with a total G.L.A. of more than 800 thousand square feet (hereinafter – "GQI"). The Company has announced that it is examining the possibility of transferring these properties to FCR.

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

The Company's major holdings (ownership percentages are as of the date of the financial statements):



B. **Key Points**

- **This year, net income amounted to NIS 81.1 million, NIS 1.51 per share (a yield of 14.5% on average share capital); this compares with net income of NIS 68.1 million, NIS 1.55 per share, for 2000 (a yield of 20.4% on average share capital).**

- **F.F.O. per share (see section 3) was NIS 2.73 for the year, compared to NIS 2.12 per share for 2000, an increase of 28.7%.**

- **As of December 31, 2001, shareholders' equity per share (of NIS 1 par value) amounted to NIS 11.38 per share, compared to NIS 9.72 as of December 31, 2000. Taking into account the dividend of NIS 0.58 per share that was distributed during 2001 and the dividend of NIS 0.16 that was declared in 2002 and was deducted from the shareholders' equity at December 31, 2001, the shareholders' equity per share grew by 26.4% during 2001, this being in addition to the increase of 23.5% recorded in 2000.**

- **Shareholders' equity and minority interests as of the financial statements sheet date amounted to NIS 1.22 billion, representing 20% of the total assets, compared to NIS 0.74 billion at the end of the previous year, which represented 15% of the total assets.**

- **2001 was characterized by a low inflationary environment in the USA and Canada (1.5% in the USA and 0.7% in Canada, in annual terms), which is reflected in the high real financing expenses, compares with 2000, where inflation in the USA and Canada was over 3%, on an annual basis.**

- **During the third quarter of the year, EQ1's acquisition of UIRT and the merger with CEFUS were completed.**

- **In 2001, the shekel was devalued against the US dollar by 7.9% (in real terms), compared with an appreciation of 2.7% (in real terms) in 2000.**

  The real devaluation affects the statement of operations by increasing financing expenses by NIS 8 million (adjustment of deposits of residents in Mishkenot Clal). The affect of this on the Company's balance sheet is a NIS 42 million increase to the capital reserve included in shareholders' equity, due to increase in the value of the Company's holdings in autonomous overseas units as denominated in shekel.

- **During 2001, EQ1 issued shares and raised a total of US$ 21.2 million (NIS 93.2 million). As a result of the dilution of its holding in EQ1, the Company recorded a gain of NIS 6.5 million.**

In March 2002, the Company distributed a stock dividend of 6.2 million shares (at the rate of 11.11%). All per share data has been adjusted for this stock dividend.

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

<u>General</u>

During 2001, the Company invested – directly and through subsidiaries – the sum of NIS 400 million, in the acquisition, development, and improvement of properties and long-term investments. In addition, the Company invested NIS 160 million in the acquisition of UIRT properties. The effect of these acquisitions on the operating results will be reflected in full in 2002.

A. Acquisition of the Properties of CEFUS and United Investors Realty Trust (UIRT) by EQ1

On September 20, 2001, the transfer of CEFUS (formerly a subsidiary of FCR that owns properties in the USA) to EQ1 was completed, in return for an issuance of 10.5 million EQ1shares to FCR.

On September 21, 2001, EQ1 completed the acquisition of UIRT, for 2.9 million shares and US$ 32.9 million in cash.

The Company, which held 9.8% of UIRT's shares prior to the acquisition, at a cost of US$ 4.7 million, received in return for its UIRT shares, 553 thousad EQ1 shares on the date that the transaction was closed.

Following the closing of these two transactions, the Company directly holds 30.6% of the share capital of EQ1. In addition, FCR holds another 36.5% of the share capital of EQ1. Thus, the Company controls 67.1% of the share capital of EQ1 and owns (directly and through its holding in FCR) 55.4% of the share capital of EQ1.

These two transactions have made EQ1 the third largest REIT in the Florida shopping center sector and, essentially, the leading REIT in the supermarket-anchored shopping center sector in Florida. EQ1 also became a major player in Texas. In addition, the merger has considerable advantages, both operationally and for EQ1's position vis a vis tenants in general and anchor tenants in particular.

The substantial growth in the market value of EQ1 has brought it to the attention of additional American institutional investors and has improved its ability to raise capital in the USA.

At the same time it serves to better focus FCR's resources in Canada while still allowing it to participate in the U.S. market. In FCR's management view, from a real estate perspective, FCR exchanged a 100% ownership interest in 29 properties for a 33% in 86 properties. Firs Capital Realty's United States portfolio required an experienced local management team in order to grow and freate value. Equity One will be able to provide to appropriate focus on thes properties and the combined operation should result in a greater realization of value from these properties.

B. Acquisition and Sale of Properties:

1. On February 12, 2001, FCR completed the acquisition of a 290,000 sqf. shopping center, located in Brampton (Ontario), for C$ 40.8 million. This well located center is anchored by a Wal-Mart store and a for Fortinos supermarket (Canada's leading chain Loblaw's). The shopping center has an expansion potential of approximately 18,000 square feet.

2. On November 7, 2001, EQ1 acquired a shopping center located at Vero Beach, Florida, for US$ 9.125 million. The center has a G.L.A. of some 115,000 square feet and is anchored by a Publix supermarket.

3. On November 30, 2001, FCR acquired a shopping center located close to Ottawa, for C$ 5.2 million. The center has a G.L.A. of some 55,000 square feet and is anchored by a Canadian supermarket chain.

4. On December 20, 2001, FCR acquired a shopping center located in Windsor (Ontario), for C$ 6.4 million. The center has a G.L.A. of some 152,000 square feet and is anchored by a U.S/Canadian supermarket chain.

5. On December 21, 2001, EQ1 acquired a shopping center located in Houston, Texas, for US$ 6.7 million. The center has a G.L.A. of some 67,000 square feet and is anchored by a H.E.B. supermarket.

6. During the year, EQ1 and FCR expanded several of their shopping centers increasing their G.L.A, by a total of some 400,000 square feet.

7. On August 31, 2001, CEFUS sold an office and retail complex in Palm Beach, Florida for US$ 21 million. No capital gain was recorded by the company on the sale.

8. During 2001, FCR and EQ1 completed the winding-up of the property development partnerships, owned by themselves and others, in Canada (**"CDG" Canada**) and in the USA (**"CDG" USA**) (through "CEFUS", which was subsequently merged with EQ1). Within the framework of the winding-up, FCR and EQ1 purchased the interest of the other partners in 9 shopping centers and sites for future development, for a total consideration of NIS 129 million. The purchase price was satisfied by FCR's and EQ1's assumption of the other partners' obligations in respect of the properties as well as outstanding debt obligations to FCR and EQ1.

EQ1 also sold to the other partners its interest in 5 shopping centers that are being developed, as well as 3 sites for future development. In addition, EQ1 sold its interest in a Florida rental property partnership to the other partners in that partnership (the property was developed by UIRT).

The overall net consideration from the sale of the properties referred to above amounted to some NIS 30 million, which was settled partly in cash and partly by way of loans granted to the other partners by EQ1. These loans are secured by mortgages on the properties sold.

C. Additional Investments

As of December 31, 2001, the Company's investments in the shares of public real estate companies (REITs) and shares of other companies, mainly in the USA and Canada (excluding subsidiaries) total NIS 193.194 million.

The investment in these shares, part of which is presented as short-term investments and part as long-term investments, is primarily in companies whose principal activity is similar in nature to that of the subsidiaries.

As of December 31, 2000, the Company's investments in traded securities totalled NIS 147.491 million (excluding the investment in Supersol shares).

D. Acquisition of FCR Debentures by the Company in the Reported Period

During the year, the Company – through a wholly-owned Canadian subsidiary – acquired some 85.165 million convertible debentures of FCR, by means of purchases on the Toronto Stock Exchange (TSE) and through two purchase offers that it made, at a cost of NIS 190 million.

The difference between the acquisition cost of the debentures purchased by the Company and their carrying value (in the books of the subsidiary that had formerly issued these debentures) is either charged to PNL or is included in the balance sheet, depending on the likelihood of conversion of the debentures into shares (in accordance with the methods for evaluating the likelihood of conversion prescribed by Opinion 53 of the Institute of Certified Public Accountants in Israel), on the date of their acquisition by the Company. When the debentures are not expected to be converted, the difference is presented as a gain or loss from early redemption that is included in the financing item in the consolidated statement of income. When conversion is expected, the difference is presented as surplus acquisition cost.

In 2001, due to the low likelihood of the debentures being converted, the Company recorded in its consolidated financial statements a gain from the early redemption of these debentures of NIS 36.6 million, gross. The Company's share in this gain, net of the provision for tax, amortization of the discount on the debentures and the minority interest in the gain, amounts to NIS 18 million.

As from 2002, the Company will adopt the treatment recommended by the Securities Authority's staff whereby any difference arising on additional purchases of the subsidiary's convertible debentures by the Company will be recognized as income only when those debentures are converted into the subsidiaries shares, or when the debentures are redeemed by the subsidiary, whichever is the earlier.

E. Agreement with Former Controlling Shareholders in FCR

On August 17, 2001, FCR reached agreement with former controlling shareholders regarding the settlement of the debt owed to them by FCR, in respect of the management contracts they had with FCR just before the company's change of control.

Under the terms of the management agreements of the former controlling shareholders of FCR and in accordance with an estimate made by its former managers just before its acquisition, FCR's financial statements as of June 30, 2000 included management expenses to the former controlling shareholders of C$ 21.3 million, of which C$ 9.2 million had been received by them as an advance just before the change of control. The balance of the liability, C$ 12.1 million, was recorded in the books of the Company as a long-term liability.

Upon the acquisition of FCR by the Company, FCR notified the former controlling shareholders that it disputed the amount of management fees (including the amount of C$ 9.2 million already paid) and demanded that the agreement's arbitration provision be invoked. As a result of discussions between the parties, the former controlling shareholders waived their demand for an additional payment of C$ 12.1 million and agreed that the total management expanses would equal the advance already paid to them. In the financial statements of FCR, the liability of C$ 12.1 million, less the tax effect and other provisions, was written off. This write-off, which reduced the excess cost of investment (goodwill) created in the acquisition of FCR shares in August 2000, and which was allocated to fixed assets, had no effect on the Company's statement of operations.

F. **Investment in the Shares of Supersol**

During the year, the Company sold all the shares of Supersol Ltd. for total proceeds of NIS 106 million, recognizing a gross gain of NIS 20 million on the sale.

G. **Investments in Technology Companies Related to the Shopping Center Sector**

The Company's management views its investments in technology companies related to the shopping center industry as being complementary to its business.

During the reporting year, the Company invested US$ 1.6 million in MSC Networks Inc and wrote down the full amount of this investment, as well as its previous investments of US$ 2 million (NIS 8.8 million).

H. **Private Placements of Shares:**

1. On February 20, 2001, the Company issued to institutional investors and the parent company 2 million ordinary shares and another 1.6 million warrant options (Series 4) that may be exercised for ordinary shares.

   The securities were offered in 403,260 units, each comprising 5 ordinary shares and 4 warrant options (Series 4) at a price of NIS 70.25 per unit.

   The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.5 million. In addition, the Company issued another 250,000 units to a subsidiary it controls, which were later sold to the Company.

   The total capital raised immediately was NIS 29 million, net.

2. In June 2001, the Company sold to institutional investors and the parent company 539,000 ordinary shares and another 358,000 warrant options (Series 4) for an aggregate consideration of NIS 7.5 million

   In this sale, the parent company acquired 125,000 ordinary shares and 100,000 warrant options (Series 4) for an aggregate consideration of NIS 1.8 million.

3. In November 2001, the Company issued to institutional investors, Gmul investment Company and the parent company 3.6 million shares for an aggregate consideration of NIS 48 million.

The parent company acquired 1.8 million shares in this offering for an aggregate consideration of NIS 24 million.

I. <u>Exercise of Warrant Options (Series 3) of the Company</u>

During the year, the balance of the options in circulation were exercised for additional proceeds of NIS 23.3 million.

J. <u>Private Placement of Unlisted Debentures</u>

In January 2001, the Company raised NIS 95 million by issuing interest-bearing, index-linked debentures (that will not be listed for trading) to two provident funds. The debentures are to be repaid over a period of 15 years.

K. <u>Dividend Policy</u>

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 announced that the dividend in 2002 would be at least NIS 0.64 per share; after the stock dividend at the rate of 11.11% that were alloted in March 2002.

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 charge of this policy.

L. <u>Changes in Accounting Standards</u>

In October 2001, the Israeli Accountancy Standards Board issued Standard No. 12 and 13 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 2003. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, and 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 <u>accounting</u> results beginning from the year of the change.

3. A. Results of Operations

	For the year		
	2001	2000	1999
	Adjusted NIS in thousands (except per share amounts)		
Revenues:			
Rental rental income	677,423	362,965	131,553
Other income	88,429	71,566	17,716
Total	765,852	434,531	149,269
Costs and expenses:			
Operating rental properties	230,992	121,589	37,446
Depreciation of rental properties	94,772	48,705	18,682
General and administrative	56,337	35,533	15,949
Financial, net	224,313	105,058	28,247
Other expenses	15,646	8,406	101
Total	622,060	319,291	100,425
Income before taxes on income	143,792	115,240	48,844
Taxes on income	17,608	12,349	3,720
Income after taxes on income	126,184	102,891	45,124
Minority interest in earnings of subsidiaries	(45,122)	(26,312)	(23,613)
Equity of former shareholders in earnings of subsidiary consolidated for first time	-	(8,468)	-
Net income for the year	**81,062**	**68,111**	**21,511**
Net earning per share (of NIS 1 par value)	**1.51**	**1.55**	**0.84**
*** F.F.O. for the year**	**146,609**	**97,499**	**25,585**
*** F.F.O. per share (of NIS 1 par value)**	**2.73**	**2.12**	**0.99**

* 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 2001

Rental income

The increase compared to 2000 stems from the acquisition of new properties, the consolidation of the properties of FCR and Mishkenot Clal for a full year, acquisition of the properties of UIRT, acquisition of the partners' share in existing properties and from the devaluation in the exchange rate of the U.S. dollar (in real terms). The properties of FCR have been consolidated since the second half of 2000, while those of Mishkenot Clal have been consolidated since the fourth quarter of 2000.

Other income

Other income mainly includes income from dividends and investments in traded securities. The growth in 2001 compared with the previous year is due to the growth in the volume of the Company's investment activity in traded securities and the sale of Supersol shares.

Dividend income in the year 2001 totalled NIS 13.459 million, compared to NIS 29.806 million in 2000 (which included dividends from Supersol amounting to NIS 20.5 million).

Income from investments in traded securities for 2001 totalled NIS 69.2 million, compared to NIS 36.1 million for the previous year. The income for 2001 includes NIS 20.1 million from the sale of Supersol shares, compared to NIS 35.6 million in 2000.

In addition, during the year the Company recognized a gain of NIS 4.630 million from the decrease in its ownership percentage in EQ1, resulting from the issuance of additional shares of EQ1 to Alony Hetz and other parties.

Operating expenses

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

Operating income for the year amounted to 66% of revenues, similar to that for 2000.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 66.3 million for the year, representing NIS 1.23 depreciation per share; this compares with NIS 31.3 million, representing NIS 0.68 depreciation per share, for 2000.

The increase in the Company's share in depreciation and depreciation per share for this year compared to 2000 stems from the continuing acquisition of properties, the acquisition of the properties of UIRT and the acquisition of the partners' share in existing properties, as well as the fact that the Company's share in the depreciation of FCR in 2000 was only included for half the year.

Financing

The increase in financing expenses in 2001 compared to the previous year is due mainly to the low inflation in the USA and Canada during the year, compared with higher inflation during 2000. Because most of the Company's loans are not linked to the change in the consumer price index, an increase in inflation rates decreases the Company's financing expenses (in real terms), while, on the other hand, a decrease in inflation rates increases the financing expenses of the Company.

In addition, financing expenses increased as a result of new loans taken to finance the additional investments made by the Company in 2001, the consolidation of FCR and Mishkenot Clal for a full year compared to their consolidation for only part of 2000, and the real devaluation during the year. The real devaluation increased the financing expenses due to an increase in the value of deposits of residents of Mishkenot Clal, which are linked to the exchange rate of the US dollar, of approx. NIS 8 million. The effect of the real devaluation on the Company's assets is reflected in the increase of NIS 42 million in the capital reserves (included in shareholders' equity) that derives from the Company's holdings in autonomous overseas units. Again of NIS 36.6 million (NIS 9.6 million in 2000) was set off against financing expenses during 2001 due to the early redemption of the FCR debentures acquired.

Net income

The increase in net income for the year, compared to 2000, is due mainly to the increase in income from dividends and investments in securities, to the improvement in the Company's operational activities and from the gain due to the decrease in the ownership percentage in EQ1, offset by the increase in financing expenses, as explained above.

C. Summary of Operating Results for 2001, by Quarter

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2001
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	158,638	152,566	170,295	195,924	677,423
Other income	16,255	19,891	27,779	24,504	88,429
Total	174,893	172,457	198,074	220,428	765,852
Costs and expenses:					
Operating rental properties	55,812	50,528	58,194	66,458	230,992
Depreciation of rental properties	22,436	21,604	25,990	24,742	94,772
General and administrative	12,543	15,534	13,956	14,304	56,337
Financial, net	37,442	2,897	67,192	116,782	224,313
Other expenses	4,242	2,869	1,428	7,107	15,646
Total	132,475	93,432	166,760	229,393	622,060
Income (loss) before taxes on income	42,418	79,025	31,314	(8,965)	143,792
Taxes on income	5,652	2,859	3,750	5,347	17,608
Income after taxes on income	36,766	76,166	27,564	(14,312)	126,184
Minority interest in losses (earnings) of subsidiaries	(14,794)	(23,658)	(9,594)	2,924	(45,122)
Net income for the year	**21,972**	**52,508**	**17,970**	**(11,388)**	**81,062**
Net earning per share (of NIS 1 par value)	**0.44**	**0.99**	**0.33**	**(0.20)**	**1.51**
*** F.F.O. for the year**	**38,698**	**67,271**	**32,077**	**8,563**	**146,609**
*** F.F.O. per share (of NIS 1 par value)**	**0.75**	**1.27**	**0.59**	**0.15**	**2.73**

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

D. Analysis of Results of Operations for Quarter 4 of 2001

Rental income and operating expenses

The increase in rental income and operating expenses of the properties in the fourth quarter, compared to the previous quarters of the year, stems mainly from the acquisition of the properties of UIRT at the end of the third quarter of this year. Also, during the fourth quarter of the year, FCR received rental income of NIS 4.2 million, gross, following the termination of a lease with an anchor tenant.

Financing

The increase in financing expenses in the fourth quarter, compared to the previous quarters of the year, is due mainly to the exceptional decrease in inflation in the USA and Canada, the countries in which the Company operates, as explained above. The changes in the consumer price indices are shown below:

	Consumer Price Index		
	Israel	**USA**	**Canada**
Quarter 1	(0.47%)	1.26%	0.43%
Quarter 2	1.60%	1.02%	1.64%
Quarter 3	0.83%	0.17%	(0.09%)
Quarter 4	(0.55%)	(0.90%)	(1.28%)
Total for 2001	**1.41%**	**1.55%**	**0.70%**

Other expenses

In connection with a refinancing agreement to one of its' properties, EQ1 paid an early payment penalty of NIS 6.8 million during the fourth quarter of 2001

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. The Company's shareholders' equity, together with minority interests and convertible debentures in FCR, which may be converted into shares by FCR, totalling an aggregate of NIS 1,930 million, financed 30.6% of total assets; this compares to NIS 1,664 million, which financed 33% of total assets at balance sheet date 2000.

B. The current ratio (current assets to current liabilities) was 1.05 at December 31, 2001, compared to 1.01 at December 31, 2000.

C. Cash flows from operating activities in the reporting year totalled NIS 82.7 million, compared to NIS 80.7 million in 2000 (which included a dividend of NIS 18 million, gross, from Supersol).

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, EQ1 and GQI, except for short-term and long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of December 31, 2001, the cash reserves available to the Company and its subsidiaries, including short-term investments, amount to NIS 371.6 million, compared to NIS 275.3 million as of December 31, 2000. The increase in cash reserves stems mainly from the 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 461.6 million at December 31, 2000 to NIS 665.2 million at December 31, 2001 stems from offerings and sale of shares, amounting to NIS 97.2 million, net, the exercise of listed options and the conversion of debentures into shares in the amount of NIS 24.3 million, a NIS 42.3 million increase in the item "translation adjustments deriving from translation of financial statements of FCR and EQ1", resulting from the devaluation (in real terms) of the U.S. dollar, plus the Company's net income for reporting year of NIS 81.1 million, less dividends paid and declared by the Company totalling NIS 41.3 million.

6. Additional Information and Subsequent Events

A. Acquisitions and Sales of Properties

1. In January 2002, FCR acquired six shopping centers for an aggregate consideration (including transaction expenses) of C$ 58 million (NIS 164 million). The properties acquired are neighborhood and community shopping centers in the GMA. The G.L.A. of these shopping centers totals some 810,000 square feet.

2. In February 2002, EQ1 sold an office building located in Miami Beach, Florida in consideration for US$ 6.05 million (NIS 26.7 million). In addition, as part of the settlement of a claim filed against the municipality of Miami Beach (the acquirer), EQ1 received a further sum of US$ 0.45 million (NIS 2 million). The gain expected to be recognized by the Company from the sale of this property and the settlement amounts to NIS 10.6 million, gross. The gain will be included in the financial statements for the first quarter of 2002.

3. In February 2002, EQ1 acquired two properties in consideration for US$ 6.2 million. Both properties are leased to the Eckerd pharmacy chain.

4. In February 2002, EQI sold to a third party an undeveloped site (owned previously by a partnership controlled by the Company) for US$ 1.8 million. The consideration was received partly in cash and partly by way of a promissory note. This sale resulted in a capital gain of NIS 2.5 million for the Company.

5. In February 2002, EQ1 sold a shopping center in Texas for US$ 2.6 million. No gain is expected to be recognized by the Company from this sale.

B. <u>Private Placement of Shares</u>

In February 2002, the Company raised NIS 51.5 million from a private offering of 3.4 million shares to institutional investors, provident funds and the parent company. The parent company acquired half of the shares issued.

C. <u>Private Placement of Debentures</u>

In February 2002, the Company issued debentures (that have not been listed for trade) to institutional investors in consideration for NIS 77.5 million.

The debentures are linked to the consumer price index and bear interest at a fixed rate of 5.65% per annum, payable on February 1. The debentures will be redeemed in 8 equal annual installments between 2005 – 2012.

Ma'alot – the Israeli Rating Company has given the Company's debentures an A+ rating.

D. <u>Placement of EQ1 Shares</u>

In January 2002, EQ1 issued, by way of a private offering, 688,000 shares to the Public, the Company and FCR for a consideration of US$ 8.9 million. The Company and FCR acquired 150,000 and 124,000 shares, respectively, at a price of US$ 13.05 per share.

In March 2002, EQ1 issued, by way of a public offering, 3 million shares at a price of US$ 13.25 per share for an aggregate consideration of US$ 40 million, gross. The Company and FCR acquired 200,000 and 125,000 shares, respectively, from the above offering, which is expected to be closed on March 27, 2002.

As a result of the above placements, the direct and indirect percentage of the ownership in EQ1 held by the Company has decreased from 55.4% to 50.7%, and the Company will record a gain of NIS 3 million in the first quarter of 2002.

E. Acquisition of FCR Debentures Subsequent to Balance Sheet Date

During 2002, the Company acquired – through purchases on the stock exchange – a total of 8 million FCR convertible debentures for NIS 20 million. Recognition of the gain on these acquisition will be deferred till the date that the debentures are converted into FCR shares or until they are redeemed.

F. Issue of Stock Dividend

In March 2002, the Company distributed a stock dividend on the basis of one share for every 9 shares held. The stock dividend comprised a total of 6.2 million shares.

G. Issue of FCR Options by way of Rights Issue

In March 2002, FCR published a prospectus for the issue of options for FCR shares, exercisable until 2008. The options are being offered to shareholders - for every 1.25 shares held, one option at the price of C$ 0.05 can be purchased.

The exercise price for each option has been set at C$ 11.8. The Company has given notice that it will purchase all the options to which its shareholding in FCR entitles it and, in addition, it will purchase all available options not taken up by other shareholders.

7. Donations

The Company makes donations to charities and community welfare projects.

During the reporting year, the Company's donations amounted to NIS 411,000.

Included in the above sum is an amount of NIS 255,000 donated by the Company to the charity "Larger than Life" – a voluntary, humanitarian organization that assists children and youngsters afflicted with cancer and other chronic diseases.

Chaim Katzman, the chairman of the Company's Board of Directors, serves as the Honorary President of "Larger than Life". The Company acts as the official sponsor of this organization.

In addition to the amounts referred to above, from time to time EQ1 and FCR make donations, of amounts that are not material, to local causes in the countries in which they operate.

8. Reporting of Exposures to Market Risks and their Management

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

B. Principal Market Risks to which Company is Exposed:

1. The Company's holdings in the shares of FCR and EQ1 are the most significant assets of the Company and therefore the risk factors to which CFE and EQ1. are exposed are indirectly relevant to the Company.

   The key risk factors involved in the operations of EQ1 and F.C.I. are as follows:

   a. The financial stability of the tenants.
   b. Changes in consumption habits.
   c. Changes in the rental policies of retail chains and major tenants.
   d. The business cycle of the businesses in the regions in which the Company's properties are located (economic condition).
   e. The status of EQ1 as a REIT.

2. Changes in the exchange rate of the U.S. dollar and the Canadian dollar relative to the shekel will have an effect, mainly on the Company's adjusted shareholders' equity. An increase in the exchange rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity, while a decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.
3. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.
4. Occasional foreign currency exposure of the U.S. dollar against the Canadian dollar due to Company's activities in Canada and the USA.

C. The Company's policies for risk management are as follows:

1. CFE and EQ1 monitor, on an ongoing basis, developments in the markets in which they operate. The companies have hired local experts in the field of income-producing real estate development and acquisition in the USA and Canada.
2. It is the Company's policy to maintain as high as possible a coefficient between the currency in which properties are acquired and the currency in which the liabilities to finance the acquisition of the properties are taken out. As to the Company's shareholders' equity, management evaluates the linkage basis balance sheet on an ongoing basis, and reacts in accordance with developments. In principle, the Company tries to be less exposed to currency fluctuations.
3. The Company finances most of its foreign currency debt in U.S. and Canadian dollars, at fixed interest rates under long-term mortgages. The Company finances most of its investment in shekel assets in

shekels, some at fixed rates, and monitors, on a regular basis, developments and changes in the interest policy of the Bank of Israel. In order to reduce the impact of interest rate fluctuations, from time to time and depending on market conditions, the Company enters into interest swap agreements, whereby it receives interest at a fixed rate and pays interest at a floating rate, or vice versa.

4. The Company is evaluating ways to reduce the effect of the said exposure of the U.S. dollar against the Canadian dollar.

D. Primary Linkage Report and Derivatives:

1. Primary linkage report

	December 31, 2001			
	Foreign currency (1)	**Consumer price index**	**Unlinked**	**Total**
		Adjusted NIS in thousands		
Monetary assets	410,076	35,109	2,571	447,756
Non-monetary assets	---	---	(2) 5,853,542	5,853,542
Financial and other liabilities	(4,851,193)	(100,426)	(127,298)	(5,078,917)
Net balance sheet items	(4,441,117)	(65,317)	5,728,815	1,222,381

	December 31, 2000			
	Foreign currency (1)	**Consumer price index**	**Unlinked**	**Total**
		Adjusted NIS in thousands		
Monetary assets	317,960	7,825	23,920	349,705
Non-monetary assets	---	---	(2) 4,690,709	4,690,709
Financial and other liabilities	(4,049,273)	(40,905)	(213,371)	(4,303,549)
Net balance sheet items	(3,731,313)	(33,080)	4,501,258	736,865

(1) In Us dollars and Canadian dollars.

(2) Primarily, fixed assets, net and marketable assets in US dollars and Canadian dollars and, accordingly, most of the Company's revenues are in the same currencies.

* For additional details, see notes 26 and 36 of the financial statements to December 31, 2001.

2. Derivatives

In January 2001. the Company entered into a transaction with the Bank of Israel in the amount of US$ 20 million relating to the linkage basis on a portion of its linked debentures, which were issued in the same month, and which are to be swapped from being linked to the consumer price index to being linked to the US dollar. The Company's liability as of December 31, 2001 in respect of this transaction amounted to NIS 6.015 million.

E. Means of implementing and monitoring policies:

1. The management of risks and ways in which to minimize the Company's exposure to these risks.
2. The Chairman of the board of directors, Mr. Chaim Katzman, who is also the Chairman of the board of directors of EQ1 and CFE, and the Company's President, Mr. Dori Segal, who is also the President of CFE and F.C.I., reside permanently in the countries in which the Company's subsidiaries operate.

Chaim Katzman	**Dori Segal**
Chairman of the Board of Directors	President and Director