GAZIT-GLOBE (1982) LTD. (previously: Globe-Reit Investments Ltd.)
AND ITS SUBSIDIARIES

FINANCIAL STATEMENTS AS OF DECEMBER 31, 1999

ADJUSTED TO THE NIS OF DECEMBER 1999

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ERNST & YOUNG

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REPORT OF INDEPENDENT AUDITOR

To the Shareholders of

GAZIT-GLOBE (1982) LTD. (previously: Globe-Reit Investments Ltd.)

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 1999 and 1998 and the consolidated balance sheets for the same dates and the related statements of income, changes in shareholders' equity and cash flows - the Company and the Consolidated - for the years then ended. 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. The financial statements for 1997 were audited by other auditors who expressed an unqualified opinion on those statements.

We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 84.6% and 91.9% as of December 31, 1999 and 1998, and total revenues constituting approximately 97.6% and 98.8% of the related consolidated totals for the years then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for these certain subsidiaries is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. These 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 Company's Board of Directors and management, as well as evaluating the overall financial statement presentations. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of - the Company and the Consolidated - as of December 31, 1999 and 1998, and the related results of operations, changes in shareholders' equity and cash flows - the Company and the Consolidated - for the years then ended, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the aforementioned financial statements comply with the requirements of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2, the aforementioned financial statements are presented in adjusted values according to the changes in the general purchasing power of Israeli currency, as required by Statements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel
March 9, 2000

KOST FORER & GABBAY
A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 1999

		December 31,	
		1999	**1998**
	Note	**Adjusted NIS in thousands**	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	24,721	17,861
Short-term investments	4	26,798	39,946
Tenants	5	10,505	4,549
Other accounts receivable	6	8,736	7,535
		70,760	69,891
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	8	163,803	-
Long-term loans	9	9,133	8,332
		172,936	8,332
FIXED ASSETS:	11		
Cost		1,120,219	752,636
Less - accumulated depreciation		62,799	49,651
		1,057,420	702,985
OTHER ASSETS AND DEFERRED CHARGES, NET	12	10,982	8,274
		1,312,098	789,482

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 1999

	Note	December 31, 1999	December 31, 1998
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	59,705	37,807
Trade payables	14	3,192	1,041
Dividend declared	15	-	5,246
Other accounts payable	16	12,223	14,929
		75,120	59,023
LONG-TERM LIABILITIES:			
Debentures	17	106,161	84,856
Convertible debentures	18	16,215	-
Liabilities to financial institutions and others	19	698,863	284,254
Tenants' security deposits	20	5,432	3,766
Accrued severance pay	21	69	57
Deferred taxes	22c	-	430
		826,740	373,363
CONTINGENT LIABILITIES AND COMMITMENTS	23		
MINORITY INTEREST		157,413	191,077
SHAREHOLDERS' EQUITY	24	252,825	166,019
		1,312,098	789,482

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

March 9, 2000		
Date of approval of the financial statements	C. Katzman Chairman of the Board	D. Segal Managing Director

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY
Adjusted to the NIS of December 1999

	Note	December 31, 1999	December 31, 1998
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	19,178	9,134
Short-term investments	4	242	811
Other accounts receivable	6	2,661	22,544
		22,081	32,489
LONG-TERM INVESTMENTS AND LOANS:			
Investments in subsidiaries	7	385,052	258,529
Long-term investments	8	126,263	-
Long-term loans	9	203	1,565
		511,518	260,094
FIXED ASSETS:	11		
Cost		793	687
Less - accumulated depreciation		424	325
		369	362
OTHER ASSETS AND DEFERRED CHARGES, NET	12	562	380
		534,530	293,325

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 1999

	Note	December 31, 1999	December 31, 1998
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	7,588	19,428
Trade payables	14	223	32
Dividend declared	15	-	5,246
Other accounts payable	16	3,066	1,093
		10,877	25,799
LONG-TERM LIABILITIES:			
Debentures	17	113,156	89,216
Convertible debentures	18	16,215	-
Liabilities to financial institutions and others	19	141,410	12,239
Accrued severance pay	21	47	52
		270,828	101,507
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	252,825	166,019
		534,530	293,325

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

March 9, 2000		
Date of approval of the financial statements	C. Katzman Chairman of the Board	D. Segal Managing Director

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF INCOME
Adjusted to the NIS of December 1999

	Note	1999	1998	1997
		Year ended December 31,		
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Rental income	27	129,728	99,251	77,511
Management fees from related party		200	85	-
Gain on issuance to third party (see Note 1b(2))		-	2,245	-
Gain on sale of real estate		12,572	8,819	-
Oil and gas producing wells, net	10	45	-	-
		142,545	110,400	77,511
Costs and expenses:				
Operating properties for rent	28	36,927	27,322	20,516
Depreciation of properties for rent		18,423	13,960	9,877
Amortization of other assets		-	982	949
Oil and gas producing wells, net	10	-	15	137
Loss on issuance to third party and related party		97	-	-
General and administrative	29	15,728	9,659	5,340
Financial, net	30	23,203	16,401	15,337
		94,378	68,339	52,156
Income before taxes on income		48,167	42,061	25,355
Taxes on income	22d	3,669	3,438	2,259
Income after taxes on income		44,498	38,623	23,096
Minority interest in earnings of subsidiaries		(23,286)	(24,987)	(17,614)
Net income for the year		21,212	13,636	5,482
Earning per NIS 1 par value of Common shares (in adjusted NIS):	31			
Basic earnings		1.02	0.96	0.56
Diluted earnings		0.95		

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 1999

	Note	1999	1998	1997
		Year ended December 31,		
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Revenues from maintenance of real estate	27	-	93	-
Management fees from subsidiaries and related party		1,709	735	200
Equity in earnings of subsidiaries		20,246	5,327	5,112
Oil and gas producing wells, net	10	45	-	-
Financial, net	30	2,480	11,269	2,979
		24,480	17,424	8,291
Costs and expenses:				
Amortization of other assets		-	44	98
Oil and gas producing wells, net	10	-	15	137
General and administrative	29	1,580	1,637	973
Loss on issuance to third party and related party		19	288	-
		1,599	1,984	1,208
Income before taxes on income		22,881	15,440	7,083
Taxes on income	22d	1,669	1,804	1,601
Net income for the year		21,212	13,636	5,482
Earning per NIS 1 par value of Common shares (in adjusted NIS):	31			
Basic earnings		1.02	0.96	0.56
Diluted earnings		0.95		

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 1999

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at January 1, 1997	63,437	81,800	-	(377)	(68,635)	76,225
Capital issuances, net	3,864	21,995	-	-	-	25,859
Foreign currency translation adjustments for foreign autonomous units	-	-	-	2,732	-	2,732
Capital reserve from investments in subsidiary abroad *)	-	-	-	-	(7,869)	(7,869)
Net income for the year	-	-	-	-	5,482	5,482
Erosion of dividend declared previous year	-	-	-	-	29	29
Divided paid	-	-	-	-	(2,440)	(2,440)
Balance at December 31, 1997	67,301	103,795	-	2,355	(73,433)	100,018
Capital reserve from subsidiary's liability to former related party **)	-	-	-	-	(1,349)	(1,349)
Assignment of assets, net from the parent company against capital issuance, net (Note 1b(4))	6,254	-	12,117	(752)	32,044***)	49,663
Foreign currency translation adjustments for foreign autonomous units	-	-	-	7,691	-	7,691
Capital reserve from realization of option for the purchase of land **)	-	-	1,237	-	-	1,237
Write-off of provision for loss on decrease in holdings in subsidiary	-	-	369	-	-	369
Net income for the year	-	-	-	-	13,636	13,636
Dividend declared	-	-	-	-	(5,246)	(5,246)
Balance at December 31, 1998	73,555	103,795	13,723	9,294	(34,348)	166,019
Capital issuance, net	7,724	68,428	-	-	-	76,152
Foreign currency translation adjustments for foreign autonomous units	-	-	-	749	-	749
Net income for the year	-	-	-	-	21,212	21,212
Dividend paid	-	-	-	-	(11,307)	(11,307)
Balance at December 31, 1999	81,279	172,223	13,723	10,043	(24,443)	252,825

*) See Note 7e.
**) See Note 1b(2).
***) Carried to "Accumulated deficit" in an amount which is equal to the additional paid-in capital in deficit which was carried to this item in prior years (Note 7e).

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 1999

	Year ended December 31,		
	1999	1998	1997
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	21,212	13,636	5,482
Adjustments to reconcile net income to net cash provided by operating activities (a)	32,827	25,141	24,616
Net cash provided by operating activities	54,039	38,777	30,098
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	-	519	-
Investment in subsidiary	(47,837)	(4,932)	-
Losses related to hedging transactions	-	-	(628)
Investments in fixed assets	(379,478)	(129,498)	(39,067)
Proceeds on sale of real estate	32,661	28,389	-
Granting of long-term loans	-	(1,483)	-
Short-term investments, net	12,436	(32,823)	18,099
Purchase of marketable securities and long-term investments	(165,802)	-	-
Net cash used in investing activities	(548,020)	(139,828)	(21,596)
Cash flows from financing activities:			
Capital issuances, net	76,152	-	25,859
Issuance to minorities in subsidiary, net	-	108,991	-
Proceeds on exercise of option by minorities and a related party in subsidiary	4,111	-	10,456
Purchase of options of a subsidiary by that subsidiary from former related party (Note 1b(2))	(8,833)	-	-
Deferred charges in respect of raising loans and debentures	(4,125)	(1,051)	(1,446)
Dividend paid	(16,553)	-	(3,589)
Dividend paid to minorities in subsidiary	(17,914)	(21,637)	(16,034)
Receipt of long-term loans	414,743	61,710	52,948
Principal payment of loan to Gazit Group	-	(6,723)	-
Sale of Company's debentures by subsidiaries	5,225	2,095	-
Purchase of Company's debentures by subsidiary	(1,525)	-	-
Principal payment of long-term loans	(26,349)	(70,091)	(74,654)
Short-term bank credit, net	42,546	22,656	(10)
Debentures assigned to the Company	16,902	-	-
Issuance of convertible debentures	16,290	-	-
Net cash provided by (used in) financing activities	500,670	95,950	(6,470)
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	171	7,366	659
Increase in cash and cash equivalents	6,860	2,265	2,691
Cash and cash equivalents at the beginning of the year	17,861	15,596	12,905
Cash and cash equivalents at the end of the year	24,721	17,861	15,596

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 1999

	Year ended December 31,		
	1999	**1998**	**1997**
	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 on realization and decrease in value of marketable securities, net	1,257	1,029	224
Minority interest in earnings of subsidiaries	23,286	24,987	17,614
Depreciation	18,577	14,318	9,877
Deferred taxes, net	(598)	123	-
Adjustment differences on monetary assets and long-term liabilities, net	(5,191)	(4,698)	(4,325)
Write-down of investments in wells producing oil and gas	-	-	85
Write-down of long-term investments	1,809	-	-
Amortization of other assets and deferred charges	1,652	3,602	1,831
Gain on sale of land	(12,572)	(8,819)	-
Gain (loss) on issuance to third party and related party	97	(2,245)	-
Changes in asset and liability items:			
Increase in tenants and other accounts receivable	(4,955)	(5,077)	(937)
Increase in trade payables and other accounts payable	7,845	1,415	21
Increase in tenants' security deposits	1,620	506	226
	32,827	25,141	24,616

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

Adjusted to the NIS of December 1999

	Year ended December 31,		
	1999	1998	1997
	Adjusted NIS in thousands		
(b) Investment in newly consolidated subsidiaries:			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	-	(773)	-
Current liabilities	-	7,853	-
	-	7,080	-
Long-term loans and investments (mainly land)	-	(60,371)	-
Other assets	-	(2,737)	-
Long-term liabilities	-	8,291	-
	-	(47,737)	-
Minority interest in subsidiary's shareholders' equity	-	(75,546)	-
	-	(123,283)	-
Shares allocated to the parent company against subsidiaries received	-	123,802	-
	-	519	-
(c) Significant non-cash operations:			
Allocation of shares against assets and liabilities assigned to the Company *)	-	74,143	-
Dividend declared	-	5,246	-
Capital issuance in subsidiary for minority and related party against long-term loans	2,292	-	-
Purchase of fixed assets against long-term liabilities	4,209	-	37,943

*) See Note 1b(4).

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 1999

	Year ended December 31,		
	1999	1998	1997
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	21,212	13,636	5,482
Adjustments to reconcile net income to net cash provided by operating activities (a)	(11,111)	(7,369)	(819)
Net cash provided by operating activities	10,101	6,267	4,663
Cash flows from investing activities:			
Investment in subsidiary	-	-	(8,350)
Dividend received from subsidiary	-	1,100	-
Loans extended to subsidiary, net	(91,593)	(22,890)	(21,950)
Investments in fixed assets	(106)	(61)	-
Granting of long-term loans	-	(1,564)	-
Sale of marketable securities and short-term deposits, net	1,130	728	3,547
Purchase of marketable securities and long-term investments	(126,263)	-	-
Net cash used in investing activities	(216,832)	(22,687)	(26,753)
Cash flows from financing activities:			
Capital issuances, net	76,152	(436)	25,859
Deferred charges in respect of raising loans and debentures	(309)	(88)	-
Dividend paid	(16,553)	-	(3,571)
Receipt of long-term loans	112,321	2,278	-
Principal payment of long-term loans	(1,215)	-	-
Short-term bank credit, net	6,776	18,415	(10)
Issuance of convertible debentures	16,290	-	-
Debentures assigned to the Company	23,313	-	-
Net cash provided by financing activities	216,775	20,169	22,278
Increase in cash and cash equivalents	10,044	3,749	188
Cash and cash equivalents at the beginning of the year	9,134	5,385	5,197
Cash and cash equivalents at the end of the year	19,178	9,134	5,385

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 1999

	Year ended December 31,		
	1999	1998	1997
	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) on marketable securities, net	(561)	616	217
Equity in earnings of subsidiaries net of dividend received therefrom	(15,718)	(1,038)	(1,199)
Depreciation	99	42	-
Adjustment differences on monetary assets and long-term liabilities, net	(61)	(3,963)	(355)
Write-down of investments in wells producing oil and gas	-	-	85
Amortization of other assets and deferred charges	127	48	98
Loss on issuance to third party	19	288	-
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	2,820	(3,783)	84
Increase in trade payables and other accounts payable	2,164	421	251
	(11,111)	(7,369)	(819)
(b) Significant non-cash operations:			
Allocation of shares against assets and liabilities assigned to the Company *)	-	50,096	-
Dividend declared	-	5,246	-

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

NOTE 1:- GENERAL

a. Definitions:

The Company	-	Gazit-Globe (1982) Ltd. (previously: Globe-Reit Investments Ltd.)
company	-	Gazit Inc. ("Gazit")
Subsidiaries	-	companies over which the Company exercises control (as defined in Statement 57) and whose financial statements are consolidated with those of the Company.
The Group	-	the Company and its subsidiaries.
Related parties	-	as defined in the Securities Law, 1968 and in Opinion 29 of the Institute of an Certified Public Accountants in Israel.
Interested parties	-	as defined in Statement No. 29 of the Institute of Certified Public Accountants in Israel.

b. The Company and its activity:

(1) Gazit-Globe (1982) Ltd. (previously: Globe-Reit Investments Ltd.) is a public company whose shares are traded on the Tel Aviv Stock Exchange. In December 1993, the State of Israel sold its holdings in the Company's shares to Danbar Resources and Development Group Ltd. ("Resources") and to Gazit Inc. ("Gazit"), both of which are public companies whose shares are traded on the Tel-Aviv Stock Exchange.

From the end of 1994, the Company commenced to invest, directly and indirectly, in Equity One, Inc. ("Equity 1") an American company which specializes in the acquisition and management of income generating properties in the U.S.

(2) In May 1998, Equity 1 effected an IPO whereby approximately 4.7 million shares (46%) were offered to the public for aggregate gross proceeds of approximately $ 51.7 million. Of that amount, Equity 1 issued approximately 3.3 million shares (32.5%) for net proceeds of approximately $ 32.2 million.

Equity 1 was granted an option, exercisable until May 2003, to re-purchase from Golden Equity, a partnership to which several pieces of land were transferred on the eve of the equity issuance in consideration of the aggregate to $ 4.8 million, the above land. In December 1998, Equity 1 re-purchased land in consideration of about $ 1.7 million, in line with the option it was granted.

Within the framework of the above issuance, Equity 1 granted Mashavim a Put option according to which, if Mashavim will notify Equity 1 of its intention to exercise such option during the first half of December 1999, Equity 1 will purchase from Mashavim up to 293,430 stock options (series C) which it holds at the agreed upon price of $ 7.25 per option. In December 1999, Equity 1 purchased from Mashavim all the stock options (series C) at the agreed upon price.

The activities related to the transactions between the Company and the controlling interests were treated in accordance with the provisions of the Israeli Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements), 1996.

(3) With the consummation of the above issuance, the agreement entered between Mashavim and Gazit in March 1998 including appendices thereto made in May 1998, became valid. According to the agreement, Mashavim sold its entire holdings in the Company to Gazit.

(4) In November 1998, and further to an agreement entered between the Company, Gazit and another wholly-owned subsidiary ("Gazit Group") in August 1998, the Company's Meeting of Shareholders approved a private placement to Gazit Group of 6,168,780 Common shares of NIS 1 par value each (constituting approximately 35.8% of the Company's outstanding share capital). In exchange for the above shares, Gazit Group assigned to the Company all its investments in companies which hold certain real estate properties mainly abroad (see below for details relating to the assigned properties). According to the above agreement, commencing July 1, 1998 ("the date of record") the Company is entitled to all operating results derived from the assigned assets.

Within the framework of the above agreement, the Company has assumed the liabilities in respect of debentures linked to the U.S. dollar (series D) which were issued in the past by Gazit through Gazit and the holders of those debentures (see Note 17).

According to the agreement, commencing from the date of record, the five employees at Gazit's headquarters became employees of a subsidiary. In addition, commencing that date, all the rights and obligations deriving from agreements entered between Gazit and Messrs. Haim Katzman (a controlling party in the Company and Gazit and their chairman of the Board) and Dori Segal (Company Managing Director, a related party by virtue of its holding in Gazit and a director in the Company) for providing management and consulting services to Gazit were assigned to the Company (see Note 32b.). In addition, the Company was assigned the obligation deriving from Mr. Haim Katzman entitlement to an annual bonus of 5% of the Company's pre-tax income accruing from that date. It was also determined that an agreement for providing management services by the Company to Gazit Group, commencing from the date of record will be signed at terms similar to those outlined in the agreement for providing management services by Gazit Group to the Company, which was in effect until that date.

The properties assigned to the Company are as follows:

a. 100% ownership of a foreign company which held, on the date of record, 18.8% of Equity 1's issued share capital and stock options exercisable into Equity 1 shares.

In addition, that company holds 56.45% of the partners' rights in Golden Equity. Subsequent to the above transaction, and in view of what was mentioned in 3 above, the Company holds, directly and indirectly, 92.36% of the rights to Golden Equity.

b. 100% ownership of a subsidiary which holds 75% of First Capital Inc. ("First Capital") which purchases, develops and manages income generating properties in Canada (as for the agreement between the subsidiary and the minority shareholders for the purchase of all their shares (25%) in First Capital subsequent to the balance sheet date, see Note 33b.)

c. 100% ownership of companies which hold all the leasing rights to income generating property known as "Gazit House" in Tel Aviv.

d. 100% ownership of a subsidiary which is entitled to 25% of the ownership rights of a plot located at 6 Daniel St., Tel Aviv.

e. Marketable securities of a company engaged in the real estate sector at a percentage which does not confer material influence.

f. The fixed assets of a subsidiary which includes mainly office equipment and computers and one motor vehicle.

The assigned properties were recorded in the Company's books according to their carrying amounts in Gazit Group's books.

(5) Adoption of dividend distribution policy:

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

The above is subject to their being sufficient sums of distributable earnings at the relevant dates and subject to the directives of all law applicable to the distribution of a dividend and the resolutions that the Company is entitled to accept including with respect to other designations for its earnings and changes in this policy.

In November 1999, the Company's Board resolved that in 2000, the Company will pay a dividend in the minimum amount of 52 agoras per share (13 agoras per each quarter), compared to a minimum of 48 agoras per share which was determined for 1999.

(6) As for the Company's public issuance and private placements during the reported year, see Note 24.

(7) As for the public issuance subsequent to the balance sheet date, see Note 33c.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial statements in adjusted new Israeli shekels:

1. The Company and its Israeli subsidiaries maintain their accounting records in nominal new Israeli shekels ("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 1999, according to the Israeli CPI published on January 14, 2000 (168.5 points on the average basis of 1993 = 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 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 financial statements in nominal NIS is presented in Note 34.

b. Principles of adjustment:

1. Balance sheet:

   a) The amounts for 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 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, 1999 in their nominal amounts (comparative data have been adjusted to the December 1999 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 - sales, purchases, 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, and accrued vacation pay 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 of the value of the payments from the date of payment to the end of the year.

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.

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 dividend declared previous year and actually paid in the following year is included among the Statement of changes in shareholders' equity.

4. Comparative figures in these financial statements were also adjusted to the NIS of December 1999.

5. As for data pertaining to the changes in the Israeli CPI and in the exchange rate of the dollar, see p. below.

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

1. For the presentation of the Company's investment in consolidated foreign units, which were classified as autonomous entities (as the term implies in clarification 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 consolidated units were translated according to the principles determined in the clarification. Prior to the translation, the financial statements of these consolidated units were adjusted according to the accounting principles applied by the Group.

   Following are the main principles determined in clarification 8 which refer to an autonomous investee unit:

   - All the items in the consolidated unit's financial statements, including the statement of income items, were translated into NIS at the exchange rate prevailing at balance sheet date. Prior to the above translation, the financial statements of the consolidated unit were adjusted to the changes in the purchasing power of the currency in which the respective financial statements were prepared.

   - The Group's investments in the consolidated unit 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 framework of 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 a consolidated autonomous unit and which are stated in or linked to the respective currency in which the financial statements of that unit were prepared plus 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 the framework of shareholders' equity .

   As for data pertaining to the changes in the Consumer Price Index in those countries in which the Group has autonomous investee units (U.S. and Canada), see p. 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 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 the clarification. Prior to the remeasurement, the financial statements of these other subsidiaries were adjusted according to the accounting principles applied by the Group.

Following are the main principles determined in clarification 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 remeasurement, the said items are adjusted on the basis of the changes in the Israeli CPI ("index") 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 remeasured into NIS 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. Intercompany transactions and balances among the companies whose accounts have been consolidated, have been eliminated in consolidation.

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. Investments in long-term marketable securities are presented at cost net of a provision for a decline in value if the decline in value is of a temporary 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. 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 reconditionings are carried to cost whereas current maintenance and repair expenses are expensed as incurred.

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

	%	
Buildings for lease	2.5 - 4	(mainly 2.5%)
Office furniture and equipment	14 - 33	
Motor vehicles	15	
Improvements in buildings for lease *)	2.5 - 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 rent agreement.

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

j. Investments in subsidiaries:

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 investments over equity upon date of acquisition ("initial difference") which can not be attributed to specific assets and 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 not apply, is carried to goodwill which is presented in the consolidated financial statements among "Other assets" and is amortized in 5 equal annual payments.

Initial difference to which the said provisions apply, is presented in line with the principles outlined in these provisions, i.e. as an addition to or disposal from shareholders' equity, as the case may be.

An initial difference attributed to land is presented in the consolidated financial statements among "Fixed assets" and depreciated over the depreciation period of the land to which it was attributed - mainly 40 years.

As for deferred taxes, see l. below.

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.

l. Deferred taxes:

1. Deferred taxes are calculated in respect of differences between the value of real estate properties and fixed assets included in these financial statements and those to be considered for tax purposes (taking into account 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 calculating the deferred taxes, as it is the Group's intention to hold these investments.

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 ratably over the contractual period or as the management services are performed.

n. 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 stated at the value of the liabilities at balance sheet date, and in the event that the conversion is likely, the debentures are stated among liabilities and shareholders' equity at the greater of their liability value or capital value.

o. Derivatives 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.

p. Exchange rates and linkage terms:

1. Assets and liabilities in or linked to foreign currency are included according to the representative exchange rates published by the Bank of Israel on December 31, 1999.

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 rate 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, 1999	168.5	168.3	111.5	4.153	2.8568
December 31, 1998	166.3	163.9	108.7	4.160	2.6868
December 31, 1997	153.1	161.3	107.6	3.536	2.4673
December 31, 1996	143.1	158.6	-	3.251	-
Increase (decrease) in:					
	%				
1999	1.3	2.7	2.6	(0.2)	6.3
1998	8.6	1.6	1	17.6	8.9
1997	7.0	1.7	0.7	8.8	4
1996	10.6	3.3	-	3.7	-

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

Israel - 1993 = 100
U.S. - 1984 = 100
Canada - 1992 = 100.

**) The subsidiaries in Canada were established in 1997.

q. Earnings per share:

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

r. 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, 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). Due to the nature of these financial instruments, their fair value is generally equivalent to or approximates the value in which they are presented in the financial statements.

As for derivatives, see o. above.

s. 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.

t. Adjustment of computer systems for the Year 2000:

The costs required in order to adjust and modify the Company's existing software in order for it to be Year 2000 Compliant are recorded as a current expenses at the time they are incurred.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	5,553	8,168	10	1
Short-term deposits	19,168	9,693	19,168	9,133
	24,721	17,861	19,178	9,134

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value -				
Traded shares (1)	23,802	(2) 7,627	242	811
Debentures	-	68	-	-
	23,802	7,695	242	811
Deposits in dollars (3)	2,996	3,667	-	-
Restricted cash (4)	-	28,584	-	-
	26,798	39,946	242	811

(1) Mainly investment in shares of the REIT companies in the U.S.

(2) Presented net of NIS 303 thousand in respect to the provision for decline in value.

(3) Deposits for the examination of investments in real estate and other deposits. These deposits bear interest of about 5.3%.

(4) Proceeds from the sale of property which was deposited with a trustee until the beginning of 1999 and for the purchase of an alternative property, pursuant to the instructions of the U.S. tax authorities and at the subsidiary's discretion.

NOTE 5:- TENANTS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Open accounts	11,236	5,025	-	-
Less - allowance for doubtful accounts	731	476	-	-
	10,505	4,549	-	-

b. Regarding the principal tenant in a subsidiary, see Note 27b.

NOTE 6:- OTHER ACCOUNTS RECEIVABLE

Interest receivable	271	333	167	67
Interest receivable from subsidiaries	-	-	-	1,010
Loan to subsidiary (1)	-	-	-	18,424
Government authorities	150	406	99	34
Interested parties (2)	42	2,923	-	2,923
Prepaid expenses	4,721	3,166	844	86
Employees	245	178	-	-
Minority in subsidiary	3,180	69 *)	1,428	-
Others	127	460 *)	123	-
	8,736	7,535	2,661	22,544

*) Reclassified.

(1) The loan was extended to a subsidiary in exchange for a short-term loan from an Israeli bank extended to the Company. The loan is linked to the exchange rate of the U.S. dollar and bears annual interest of LIBOR + 2%.

(2) The highest debit balance in 1999 - consolidated - was about NIS 1,201 thousand (1998 - about NIS 2,922 thousand, 1997 - about NIS 188 thousand). The balance in 1998 is composed of a settling of accounts resulting from the private placement agreement between the Company and Gazit (see Note 1b(4))and was fully repaid in January 1999.

NOTE 7:- INVESTMENTS IN SUBSIDIARIES

a. Composition:

	The Company	
	December 31,	
	1999	1998
	Adjusted NIS in thousands	
Cost of shares	185,696	175,351
Capital reserves on investment in subsidiaries (e. below)	(30,440)	(30,440)
Equity in post-acquisition earnings	33,292	13,046
Dividend received from subsidiaries	(15,572)	(11,044)
Foreign currency translation adjustments for foreign autonomous units	18,793	16,956
	191,769	163,869
Loans *)	193,283	94,660
	385,052	258,529

*) As of December 31, 1999, the loans are in U.S. dollars and in Canadian dollars and bear weighted interest of about 7% and LIBOR + 1.5% (December 31, 1999 - 7.5%), respectively. The principal and the interest are repayable upon Company request.

b. The investment, directly and indirectly, in a subsidiary (Equity 1) which is listed for trade on the New York Stock Exchange (symbol "EQY") *):

	December 31, 1999		December 31, 1998	
	Carrying amount	Market value	Carrying amount	Market value
	Adjusted NIS in thousands			
Shares	290,081	314,941	198,101	194,722

*) As of balance sheet date, the Company holds, directly and indirectly, 64.3% (61.85% assuming full dilution) of Equity 1 share capital.

Following the purchase of additional shares and realization of convertible securities by subsidiaries and others subsequent to the balance sheet date, close to the date of the approval of these financial statements the Company achieved holdings directly and indirectly, of 66.1% (62.8% assuming full dilution) of Equity 1's share capital.

c. Initial difference attributed to buildings for lease which is included in cost of shares:

	The Company	
	December 31,	
	1999	1998
	Adjusted NIS in thousands	
Cost	8,029	7,921
Balance as of balance sheet date	7,479	7,523
d. Dividend received during the year	4,528	5,389

e. In May 1996, an agreement was entered between the Company, Equity 1, Gazit and Mashavim relating mainly to the allocation of shares and stock options by Equity 1 to a subsidiary.

Initial differences deriving to the subsidiary in 1996 and 1997 from private placements effected by Equity 1 to the subsidiary, by virtue of the above agreement, amounting to NIS 30,697 thousand were carried to additional paid-in capital.

In 1998, additional amounts were carried to additional paid-in capital which derive from transactions with controlling interests in the net amount of NIS 257 thousand.

f. The stock options of a subsidiary (Equity 1) as of balance sheet date are as follows:

Series	Exercise increment	Expiration date	Total number in units
Options issued to employees	$ 10	December 31, 2006	406,998
Options issued to employees	$ 12.375	December 31, 2006	15,000
Options issued to employees	$ 12.375	February 28, 2008	25,000

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

NOTE 8:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Long-term deposit (1)	745	-	745	-
Marketable securities presented at cost:				
Supersol Ltd. (2)	138,841	-	125,518	-
REIT company in U.S. (3)	24,217	-	-	-
	163,803	-	126,263	-

(1) The deposit is pledged to secure loans received by Company employees from a bank for the purchase of Company shares issued to them (see Note 24g (3)).

(2) Subsequent to the balance sheet date, the Company purchased additional Supersol shares in the aggregate to about NIS 15 million and reached holdings of 6% of Supersol share capital. The Company considers this investment a long-term investment and, accordingly, it was presented at cost. The shares are pledged in favor of loans banks extended to the Company, see Note 25.

(3) Presented net of provision for decline in value of NIS 1,809 thousand which is included in the consolidated statements among "Financial expenses, net".

NOTE 9:- LONG-TERM LOANS

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Employees (1)	2,878	1,873	203	204
Minority in subsidiary (2)	-	1,361	-	1,361
Interested parties (3)	6,255	5,098	-	-
	9,133	8,332	203	1,565

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Maturity dates:				
Second year	332	338	-	-
Third tear	1,233	3,030	-	1,361
Fourth year	7,365	4,760	-	-
Amounts for which a maturity date was not yet determined	203	204	203	204
	9,133	8,332	203	1,565

(1) Consolidated - mainly loans in U.S. dollars for which the interest rate is 5.67%.

The Company - the loans are in NIS linked to the Israeli CPI and bear annual interest of 2%.

(2) As of December 31, 1999, this loan is presented among current assets (see Note 33b.). The loan is in Canadian dollars and bears interest of LIBOR + 1.5%.

(3) The composition as of December 31, 1999 is as follows:

(a) A loan amounting to $ 1,129 thousand which Equity 1 extended to the Company's Chairman of the Board and owner in June 1996 for exercising stock options issued to him by Equity 1. The loan bears annual interest of 6.86%, to be paid annually, repayable in June 2003 and is secured by pledging Equity 1 shares deriving from the said exercise.

(b) A loan amounting to about $ 297 thousand which Equity 1 extended to the Company's Chairman of the Board in June 1999 for exercising stock options (series C) issued to him by Equity 1. The loan bears annual interest of 6.35%, payable to be paid quarterly, matures in December 2002 and is secured by pledging Equity 1 shares deriving from the said exercise

(c) A loan amounting to $ 80 thousand which a subsidiary extended to the Company's managing director (an interested 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 is repayable in August 2001, bears interest of LIBOR + 1% (December 31, 1999 - 7.2%) payable quarterly.

NOTE 10:- OIL AND GAS PRODUCING WELLS

a. The Company has oil rights in wells Star 29 and Star 30 at the participation rate of 10%.

In 1998 and 1997, the above wells produced insignificant quantities of oil.

b. The Company has rights to the Emuna 1 drilling site, drilling for the exploring for oil at the participation rate of 4%.

c. All Company's investments in wells that produce oil and gas, as described above, were fully amortized, mainly in 1996.

d. The Company did not make significant investments in the field of exploring for oil and gas during the four years in the period ended December 31, 1999 (excluding an investment of NIS 600 thousand during 1996 which constituted the outstanding investment of previous years). To date, the Company does not have specific investments plans in this field.

NOTE 11:- FIXED ASSETS

a. Consolidated:

	Foreign real estate (c)	Real estate in Israel (c)	Office furniture and equipment	Motor vehicles	Total
	Adjusted NIS in thousands				
Cost:					
Balance at January 1, 1999	711,525	39,809	1,110	192	752,636
Foreign currency translation adjustments for foreign autonomous units	9,739	-	-	-	9,739
Purchases during the year	383,471	109	107	-	383,687
Disposals during the year	(25,843)	-	-	-	(25,843)
Balance at December 31, 1999	1,078,892	39,918	1,217	192	1,120,219
Accumulated depreciation:					
Balance at January 1, 1999	43,691	5,524	428	8	49,651
Foreign currency translation adjustments for foreign autonomous units	528	-	-	-	528
Additions during the year	17,293	1,130	124	30	18,577
Disposals during the year	(5,957)	-	-	-	(5,957)
Balance at December 31, 1999	55,555	6,654	552	38	62,799
Depreciated cost at December 31, 1999	1,023,337	33,264	665	154	1,057,420
Depreciated cost at December 31, 1998	667,834	34,285	682	184	702,985

b. The Company:

	Motor vehicles	Office furniture and equipment	Total
	Adjusted NIS in thousands		
Cost:			
Balance at January 1, 1999	92	595	687
Additions during the year	-	106	106
Balance at December 31, 1999	92	701	793
Accumulated depreciation:			
Balance at January 1, 1999	8	317	325
Additions during the year	14	85	99
Balance at December 31, 1999	22	402	424
Deprecated cost at December 31, 1999	70	299	369
Deprecated cost at December 31, 1998	84	278	362

c. Rights to land - consolidated:

	December 31, 1999		December 31, 1998	
	Foreign	In Israel	Foreign	In Israel
	Adjusted NIS in thousands			
Land, net -				
Owned (1)	1,010,870	-	656,969	-
Capitalized lease (2)	-	31,066	-	32,086
	1,010,870	31,066	656,969	32,086
Balance of initial difference attributed to the above properties	12,467	2,198	10,865	2,199
	1,023,337	33,264	667,834	34,285

(1) The ownership rights to land in the U.S. which are held by Equity 1 through its subsidiaries, are registered in the names of those subsidiaries according to the registration regulations in their respective locations and are insured by a company for the transfer of ownership rights, as is common in the U.S.

(2) The lease period terminates in 2011. The subsidiaries have an option to extend the lease by additional 49 years.

(3) As for charges, see Note 25.

d. During the reported year, financial expenses amounting to NIS 7,550 thousand were capitalized to construction in progress. (1998 - adjusted NIS 2,669 thousand).

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Cost:				
Increase in authorized share capital and allocation of stock options	-	325	-	325
Raising of long-term loans and debentures	14,845	10,838	823	512
	14,845	11,163	823	837
Goodwill	-	4,689	-	-
	14,845	15,852	823	837
Accumulated amortization:				
Increase in authorized share capital and allocation of stock options	-	325	-	325
Raising of long-term loans and debentures	4,024	2,564	261	132
	4,024	2,889	261	457
Goodwill	-	4,689	-	-
	4,024	7,578	261	457
Amortized balance at the end of the year	10,821	8,274	562	380
Deferred taxes, see Note 22c.	161	-	-	-
	10,982	8,274	562	380

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

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Short-term credit from banks	45,202	23,301	7,588	19,428
Current maturities of long-term loans (Note 19)	14,503	14,506	-	-
	59,705	37,807	7,588	19,428

b. Linkage terms and interest rates:

	Weighted interest rate December 31, 1999				
	%				
In NIS - unlinked	11.70	1,491	19,428	1,457	19,428
In U.S. dollar	7.36	43,425	3,873	5,845	-
In Canadian dollar	6.25	286	-	286	-
		45,202	23,301	7,588	19,428

NOTE 14:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Open accounts	3,056	989	104	3
Notes payable	136	52	119	29
	3,192	1,041	223	32

NOTE 15:- DIVIDEND DECLARED

In 1998, the Company declared on an interim dividend for 1998 in the amount of NIS 5,246 thousand. The dividend was paid in January 1999.

As for the adoption of a dividend distribution policy, see Note 1b(5).

NOTE 16:- OTHER ACCOUNTS PAYABLE

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Interest payable	1,767	(* 1,442	1,878	-
Taxes on properties	6,355	(* 755	-	-
Accrued expenses	2,246	(* 1,876	325	506
Government authorities	-	165	-	165
Interested parties	305	727	305	-
Revenues received in advance from tenants	1,376	947	-	-
Unrealized gain	-	-	422	422
Employees	171	16	136	-
Put option granted to former interested party (see Note 1b(2))	-	8,967	-	-
Others	3	34	-	-
	12,223	14,929	3,066	1,093

*) Reclassified.

NOTE 17:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	1999	1998	1999	1998
	Adjusted NIS in thousands			
Evaluated par value of debentures (series D), see b. below	116,006	94,624	124,073	99,844
Less - discount on bonds	9,845	9,768	10,917	10,628
	106,161	84,856	113,156	89,216

b. Within the framework of the agreement signed between the Company and Gazit Group in August 1998 (see Note 1b(4)), the Company has assumed, commencing July 1, 1998 ("the assignment date"), the liabilities in respect of debentures (series D) which were issued to the public primarily in November 1996 by Gazit via Gazit and the holders of these debentures ("the date of record").

The series included NIS 76,498,200 par value of registered debentures, redeemable in five equal installments commencing 2001, bearing annual interest which is to be paid every three months at the rate of LIBOR for dollar deposits for a period of 3 months + 0.5% per year (December 31, 1999 - 6.7%) and are linked (principal and interest) to the representative exchange rate of the dollar (base exchange rate of $ 1 = NIS 3.23).

By virtue of an agreement dated April 12, 1999, the Company's parent company, Gazit Inc., issued in May 1999, under a private placement, an additional NIS 20,000,000 par value of debentures (series D) in consideration of about NIS 23,204 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 assumed all the obligations that Gazit Inc. has to fulfill towards the holders of the issued debentures.

As of the date of the financial statements, the series includes NIS 96,498,200 par value of debentures, of which NIS 6,274,286 par value of debentures are held by subsidiary.

c. As for collateral provided to secure these debentures, see Note 25b.

NOTE 18:- CONVERTIBLE DEBENTURES

In February 1999, the Company issued to Gmol Investment Company Ltd. ("Gmol") a non-marketable convertible debenture of NIS 16,000 thousand par value in consideration of its par value. The debenture is linked to the Israeli CPI for December 1998, bears annual interest of 5.5% and is redeemable in four equal annual installments on October 20 of each of the years 2003 - 2006.

The debenture is convertible, in whole or in parts, in each business day in the period from 1 - 14 of April and October of each of the years 1999 - 2003, at the conversion rate of NIS 10 par value of debenture into one share of NIS 1 par value (subject to adjustments). Each six months, at the conversion period, the conversion rate will increase by 1%. After the compensation component resulting from the issuance, the conversion rate is NIS 9.946 par value of debentures per one share. The debenture will not be listed for trade on the Stock Exchange, however, the shares issued following its conversion, will be listed for trade on the Stock Exchange.

Gmol retains the right to immediately repay all the outstanding balance of the debentures, upon the occurrence of one of several events which relate mainly to the fulfillment of the Company's obligations and the continuance of its operations.

As for agreements for the issuance of additional convertible debentures subscribed for in January 2000, see Note 33a.

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31, 1999					December 31, 1998		
	In NIS linked to CPI	In unlinked NIS	In C$	In U.S. $	Total	In C$	In U.S. $	Total
	Adjusted NIS in thousands							
To insurance companies	-	-	61,541	405,964	467,505	14,971	283,076	298,047
To banks	12,150	131,792	-	97,907	241,849	-	-	-
To others	-	-	-	4,012	4,012	713	-	713
	12,150	131,792	61,541	507,883	713,366	15,684	283,076	298,760
Less - current maturities	-	-	1,151	13,352	14,503	1,225	13,281	14,506
	12,150	131,792	60,390	494,531	698,863	14,459	269,795	284,254
Weighted	7.80	11.30	7.53	7.49	8.22	6.68	7.99	7.92

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

	December 31, 1999					December 31, 1998		
	In NIS linked to CPI	In unlinked NIS	In C$	In U.S. $	Total	In C$	In U.S. $	Total
	Adjusted NIS in thousands							
First year - current maturities	-	-	1,151	13,352	14,503	1,225	13,281	14,506
Second year	1,215	10,513	1,240	24,503	37,471	530	8,937	9,467
Third year	1,215	10,513	1,334	120,034	133,096	548	20,037	20,585
Fourth year	1,215	37,177	1,437	14,797	54,626	6,320	43,027	49,347
Fifth year	8,505	73,589	12,653	15,914	110,661	316	9,018	9,334
Sixth year and thereafter	-	-	43,726	319,283	363,009	6,745	188,776	195,521
	12,150	131,792	60,390	494,531	698,863	14,459	269,795	284,254
	12,150	131,792	61,541	507,883	713,366	15,684	283,076	298,760

b. The Company:

1. Composition:

	December 31,			
	1999			1998
	In NIS linked to CPI	In unlinked NIS	Total	In NIS linked to CPI
	Adjusted NIS in thousands			
To banks	12,150	118,236	130,386	-
To related companies	11,024	-	11,024	12,239
	23,174	118,236	141,410	12,239
Weighted interest rate (%)	6.00	11.30	10.43	3.80

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

Second year	1,215	9,157	10,372	-
Third year	1,215	9,157	10,372	-
Fourth year	1,215	35,821	37,036	-
Fifth year	8,505	64,101	72,606	-
Repayment date undetermined yet	11,024	-	11,024	12,239
	23,174	118,236	141,410	12,239

c. As collateral for the above loans, the subsidiaries placed charges on specific assets, see Note 25.

NOTE 20:- TENANTS' SECURITY DEPOSITS

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

NOTE 21:- ACCRUED SEVERANCE PAY

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

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

All these subsidiaries liabilities for severance pay, pursuant 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 in provident funds on behalf of the employees and the related liabilities are not reflected in the balance sheet since the funds are not under the control and management of the Company and its subsidiaries. The Company and its subsidiaries provide the full amount of their liabilities for severance pay.

NOTE 22:- TAXES ON INCOME

a. Commencing January 1, 1995, Equity 1 does not record taxes on income since its tax status in the U.S. has changed to a REIT, in effect from the above date. The implication of this status is that its income is tax-exempt, the obligation to distribute dividend of at least 95% of the earnings and the recipient is subject to tax on that dividend.

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.

c. Deferred taxes:

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

	Adjusted NIS in thousands
Balance as of January 1, 1998	-
Additions in respect of newly consolidated subsidiaries	307
Amounts carried to the statement of income	123
Balance as of December 31, 1998 *)	430
Amounts carried to the statement of income	(591)
Balance as of December 31, 1999 **)	(161)

The deferred taxes are provided for depreciable fixed assets of subsidiaries.

*) Presented among long-term liabilities.

**) Presented among other assets and deferred charges, net.

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

Composition:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1999	1998	1997	1999	1998	1997
	Adjusted NIS in thousands					
Current taxes (1)	4,260	3,252	2,259	1,669	1,741	1,601
Deferred taxes	(591)	123	-	-	-	-
Taxes in respect of previous years	-	63	-	-	63	-
	3,669	3,438	2,259	1,669	1,804	1,601

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

Consolidated - including, in addition to the aforementioned, also current tax expenses in respect of the activities of the foreign subsidiaries (excluding Equity 1).

e. The Company has received final tax assessments through the 1994 tax year.

f. The Company has a carryforward tax loss aggregating to about NIS 33,167 thousand (1998 - NIS 30,601 thousand and 1997 - NIS 37,173 thousand). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other temporary differences.

g. As for the computation of the theoretical tax, all the theoretical tax liability according to the tax rate applicable on the income of the Company (36%) which exceeds the income tax expenses are offset against its losses for tax purposes and against other temporary differences in respect of which no deferred taxes were provided.

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

1. In December 1999, the Company and Kibbutz Alonim entered into a suspending agreement with the intention to change the designation of a certain land which is owned by the Kibbutz and to construct on it a residential project for retired persons which will be operated through a joint management company formed for that purpose.

   Several suspending conditions were determined in the agreement, which if not met until December 31, 2002, the agreement will be nullified. The principles of the suspending conditions are as follows:

Obtaining the written consent of the secured Kibbutz creditors, of those holding pledges for the land, and of the office for executing the Kibbutz Arrangement for consummating the transaction, the change in the designation of land from cultivation to construction and validation of the urban planning and obtaining the consent of the Israel Lands Administration for entering into a development agreement and/or a lease agreement.

The Company estimates the cost related to executing the agreement until the stage where all the suspending conditions are fulfilled, as aforementioned, at about $ 200 thousand and the cost of acquisition of land at up to $ 4 million. The Company can not estimate, at this stage, the cost of construction of the project for retired persons, as the scope of construction is unknown yet.

b. As for commitments with present and former related parties and interested parties, see Notes 32 and 1b.

c. Guarantees:

1. A subsidiary is a guarantor towards a bank in Israel in respect of debts of one of the companies which it previously owned up to an amount equal to 20% of the debt balance in the account of that company, providing that the bank will not extend additional credit. As of the date of the approval of these financial statements, the company's debt balance is about NIS 78 thousand.

   The subsidiary is also a guarantor towards a provident fund for the fulfillment of the obligations of two companies that were owned by it in the past towards the provident fund. These liabilities derived from a loan of about NIS 22.5 million which the provident fund extended to those companies in 1995 for a period of five years and whose repayment dates occur simultaneously with the expected cash flow from loan agreements that were held by those companies. The average repayment period of the loan agreements was two years. As of the date of the approval of these financial statements, the exercise of the guarantee or part thereof was not required. Company management estimates that the guaranteed balance, as of that date, is in an insignificant amount.

2. As collateral for the renovation of one of its properties, which Equity 1 has undertaken to execute, Equity 1 provided a bank guarantee of $ 1,500 thousand. To secure the guarantee, Equity 1 pledged one of its properties.

d. Legal claims:

Legal claims have been filed against subsidiaries of Equity 1 as follows:

1. A claim for the payment of brokerage fees in a transaction for the acquisition of real estate property.

2. Several claims alleging negligence are pending against subsidiaries of Equity 1 in respect of damages caused in Equity Group shopping centers. The Company estimates that all the aforementioned claims are covered by the insurance policies of Equity Group.

In the opinion of Company management, based on the opinion of the legal counsel of Equity 1, the Company is not exposed in respect of these claims and, therefore, no provisions were made in the financial statements.

NOTE 24:- SHAREHOLDERS' EQUITY

a. Composition of the share capital:

	December 31, 1999		December 31, 1998	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	200,000,000	24,864,419	200,000,000	17,252,016

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.

c. In March and April 1997, 2,895,065 stock options (series 2) were exercised into 2,895,065 Common shares of NIS 1 par value each for the aggregate net consideration of about NIS 21,039 thousand. Stock options (series 2) which were not exercised, expired.

d. In October 1997, Mashavim and Gazit exercised all the stock options (series 1) which the Company issued in February 1995 into 529,458 Common shares of NIS 1 par value each for the aggregate net exercise increment of about NIS 4,715 thousand.

e. As for a private placement of shares issued to Gazit in 1998 in exchange for assets which Gazit assigned to the Company, see Note 1b(4).

f. Issuance based on a prospectus during the reported year:

On May 30, 1999, the Company published a prospectus whereby the Company offerred to its shareholders by way of rights, 5,917,339 shares and 4,438,004 stock options (series 3) via 1,479,334 right units, each of which was composed and priced as follows: 4 shares at NIS 10.25 per share and 3 options without consideration.

The prospectus also included a public offering of 500,000 stock options (series 3) via a tender.

Each stock option (series 3) is exercisable into one share at NIS 10.25 linked to the U.S. dollar (base exchange rate of $ 1 = NIS 4.15) until August 15, 2001. In any case, the exercise price will not be below NIS 10.25.

Within the framework of the issuance, 98.77% of the rights which were offered were exercised. The remaining rights were purchased by the underwriters of the issuance. The price per stock option, as fixed in the tender, was NIS 1.6. The total net proceeds from the issuance amounted to some NIS 59,261 thousand. The issuance expenses were netted from the various components, taking into account the immediate and expected proceeds. The Company did not ascribe proceeds to options which were issued under the rights offering without consideration.

g. Private placements during the reported year:

1. In February 1999, the Company allocated, via a private placement to Gmol and to several provident funds, 270,000 Common shares of NIS 1 par value each in consideration for NIS 8.4 per share. In addition, Gmol and the funds were allocated 162,000 stock options without consideration. In December 1999, the stock options were exercised into 164,592 shares in consideration for an exercise increment of NIS 1,744 thousand.

2. By virtue of a suspending allocation agreement signed on February 25, 1999, between the Company and two other companies ("the Underwriters"), in April 1999 the Company issued, under a private placement to provident funds, 230 thousand shares at NIS 8.7 per share. The provident funds were also issued 138 thousand stock options without consideration. In December 1999, the stock options were exercised into 140,208 shares in consideration for an exercise increment of NIS 1,471 thousand.

   By virtue of the above agreement, in July 1999 the Company issued, under a private placement to Gmol and provident funds, 152,400 shares at NIS 10.54 per share. Further, in September 1999, the Company issued to Gmol 127,000 shares at NIS 10.7 per share.

   In December 1999, the Company issued to Gmol 406,400 shares at NIS 10.66 per share. This issuance is the last in a series of issuances effectuated by virtue of the above agreement.

   As of balance sheet date, Gmol holds a 12.4% interest in the Company's issued capital (18% assuming full dilution).

3. In September 1999, the Company allocated 70,000 shares to two of its employees, in consideration of the amount of about NIS 10.5 per share. The Company is a guarantor for the loan the above employees received in order to purchase the shares.

h. During the reported year, 134,466 stock options (series 3) were exercised, of which 134,439 stock options were exercised by a related party.

i. As for an issuance under a prospectus subsequent to the balance sheet date, see Note 33.

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' share capital and of other companies which are held by the Group companies.

The balances of the secured liabilities are as follows:

	Consolidated	
	December 31,	
	1999	1998
	Adjusted NIS in thousands	
Short-term loans and credit	45,202	23,301
Long-term liabilities (including current maturities)	709,354	298,760
Debentures (see b. below)	106,161	84,856
	860,717	406,917

b. As collateral for the liability in respect of NIS 96,498,200 par value of debentures (series D) of Gazit, assumed by the Company towards Gazit and the holders of these debentures (see Note 17b), the Company placed a first priority fixed charge in favor of a trustee for those debentures, on an income generating property known as "Gazit House" in Tel Aviv in the amount of $ 9 million and on 2,612,000 Equity 1 Common shares of $ 0.01 par value each, held by a subsidiary.

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 1999				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C $ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	22,931	1,768	22	24,721
Short-term investments	-	60	26,496	242	26,798
Tenants	-	8,730	1,754	21	10,505
Other accounts receivable	-	577	3,182	256	4,015
Long-term investments	745	-	-	-	745
Long-term loans	203	8,930	-	-	9,133
	948	41,228	33,200	541	75,917
Liabilities:					
Short-term credit from banks and others	-	43,425	286	1,491	45,202
Trade payables	-	545	2,377	270	3,192
Other accounts payable	305	8,717	1,326	499	10,847
Liabilities to financial institutions and others	12,150	507,883	61,541	131,792	713,366
Debentures	-	106,161	-	-	106,161
Convertible debentures	16,215	-	-	-	16,215
Tenants' security deposits	-	5,292	140	-	5,432
	28,670	672,023	65,670	134,052	900,415

	December 31, 1998				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C. $ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	16,655	1,174	32	17,861
Short-term investments	-	37,699	1,437	810	39,946
Tenants	-	4,372	110	67	4,549
Other accounts receivable	2,923	827	530	89	4,369
Long-term loans	204	6,767	1,361	-	8,332
	3,127	66,320	4,612	998	75,057
Liabilities:					
Short-term credit from banks and others	-	3,873	-	19,428	23,301
Trade payables	-	144	824	73	1,041
Dividend declared	-	-	-	5,246	5,246
Other accounts payable	-	12,677	244	1,061	13,982
Liabilities to financial institutions and others	-	283,076	15,684	-	298,760
Debentures	-	84,856	-	-	84,856
Tenants' security deposits	-	3,732	34	-	3,766
	-	388,358	16,786	25,808	430,952

b. The Company:

	December 31, 1999				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C $ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	19,168	-	10	19,178
Short-term investments	-	-	-	242	242
Other accounts receivable	-	-	1,595	222	1,817
Investments in subsidiaries	-	169,523	23,760	-	193,283
Long-term loans	203	-	-	-	203
Long-term investments	745	-	-	-	745
	948	188,691	25,355	474	215,468
Liabilities:					
Short-term bank credit	-	5,845	286	1,457	7,588
Trade payables	-	-	-	223	223
Other accounts payable	-	-	-	2,644	2,644
Liabilities to financial institutions and others	23,174	-	-	118,236	141,410
Debentures	-	113,156	-	-	113,156
Convertible debentures	16,215	-	-	-	16,215
	39,389	119,001	286	122,560	281,236

	December 31, 1998				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C $ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	9,133	-	1	9,134
Short-term investments	-	-	-	811	811
Other accounts receivable	2,930	18,839	655	34	22,458
Investments in subsidiaries	-	94,660	-	-	94,660
Long-term loans	204	-	1,361	-	1,565
	3,134	122,632	2,016	846	128,628
Liabilities:					
Short-term bank credit	-	-	-	19,428	19,428
Trade payables	-	-	-	32	32
Dividend declared	-	-	-	5,246	5,246
Other accounts payable	-	-	-	671	671
Liabilities to financial institutions and others	12,239	-	-	-	12,239
Debentures	-	89,216	-	-	89,216
	12,239	89,216	-	25,377	126,832

NOTE 27:- REVENUES FROM RENTAL INCOME

a. Revenues from rental income are composed of minimal lease fees and contingent lease fees. The contingent lease fees are received mainly from tenants based on their gross sales turnover. In 1999, revenues from leases included contingent lease fees in the amount of about NIS 1,168 thousand (in 1998 - about NIS 493 thousand and in 1997 - about NIS 675 thousand).

b. The Group has one major tenant the revenues from whom in 1999 totaled about NIS 11,935 thousand, which constitute 9.2% of revenues from rental income in that year (in 1998 - about NIS 11,043 thousand representing about 11% of revenues from rental income in that year and in 1997 - about NIS 7,036 thousand representing about 9% of revenues from rental income in that year).

NOTE 28:- OPERATING PROPERTIES FOR RENT

	Consolidated		
	Year ended December 31,		
	1999	1998	1997
	Adjusted NIS in thousands		
Salaries and related expenses	2,857	2,287	1,370
Insurance and security expense	2,270	2,868	2,311
Fees and taxes	15,776	10,987	8,417
Maintenance and repairs	8,502	5,424	4,150
Utilities	2,994	2,336	1,909
Others	4,528	3,420	2,359
	36,927	27,322	20,516

NOTE 29:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1999	1998	1997	1999	1998	1997
	Adjusted NIS in thousands					
Salaries and management fees *)	9,227	5,365	3,391	994	832	551
Professional fees	1,889	1,967	773	157	324	257
Doubtful accounts	608	364	113	-	-	-
Depreciation	154	67	-	100	42	-
Others (including office and office maintenance)	3,850	1,896	1,063	329	439	165
	15,728	9,659	5,340	1,580	1,637	973

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

NOTE 30:- FINANCIAL EXPENSES, NET

a. Consolidated:

The "Financial expenses, net " item includes, mainly, real financial expenses in respect of short-term and long-term loans provided to Equity 1. Commencing July 1998, the item also includes net real financial expenses in respect of loans provided to other companies of the Group. *)

For the year ended December 31, 1999, the item includes, in addition to the aforementioned, also real financial expenses in respect of debentures in the amount of about NIS 6,257 thousand (1998 - NIS 3,166 thousand), in respect of convertible debentures in the amount of about NIS 830 thousand and in respect of the decline in value of marketable securities held to maturity - NIS 1,809 thousand.

b. The Company:

The "Financial income, net" item includes, mainly, real financial income in respect of loans provided to subsidiaries.

In the year ended December 31, 1999, the item also includes real financial interest expenses in respect of the debentures in the amount of about NIS 6,536 thousand (1998 - NIS 3,242 thousand) and in respect of convertible debentures in the amount of NIS 830 thousand.

*) See Note 1b(4).

NOTE 31:- EARNINGS PER SHARE

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

	Year ended December 31,					
	1999		1998		1997	
	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	20,743	21,212	14,168	13,636	11,083	6,254
Number of shares and income used in the computation of diluted earnings per share (1)	24,715	23,425				

(1) 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 calculation of basic earnings per share.

NOTE 32:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1999	1998	1997	1999	1998	1997
	Adjusted NIS in thousands					
Financial income in respect of loans to related parties (1)	409	349	225	-	-	-
Management fees from the parent company (2)	200	85	-	200	-	-
Management fees from subsidiaries	-	-	-	1,489	735	200
Financial income in respect of balances with subsidiaries, net	-	-	-	11,270	13,775	2,687

(1) The loans and their terms are detailed in Note 9(3).

(2) $ 4 thousand a month commencing July 1998, see Note 1b(4).

b. Other payments and expenses:

	Consolidated					
	Year ended December 31,					
	1999		1998		1997	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' salaries	8	229	11	190	8	436
Salaries and related expenses (1)	3	5,406	3	2,411	1	995
Management fees to a corporation which is an interested party	-	-	1	93	1	188
Management fees to directors	-	-	2	128	2	352
Payment to a director and to a corporation which is a an interested party for issuance related consulting services	-	-	-	-	2	381

	The Company					
	Year ended December 31,					
	1999		1998		1997	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' salaries	8	229	11	190	8	186
Salaries and related expenses	1	345	1	152	-	-
Management fees to a corporation which is an interested party	-	-	1	93	1	188
Management fees to directors	-	-	1	84	1	178
Payment to a director and to a corporation which is an interested party for issuance related consulting services	-	-	-	-	2	381

(1) Equity 1 has entered into an employment contract with the Company's Chairman of the Board, who is also the chairman of Equity 1 Board for a period of 7 years beginning in June 1996 with an option to extend for additional 7 years. The related party or a company controlled by him will be entitled to a salary of $ 240 thousand per year (including common related benefits) which is linked to the greater of the increase in the Consumer Price Index in the U.S. or 6%. As of the date of the financial statements, the monthly cost of the Company's Chairman of the Board to Equity 1 is about NIS 125 thousand.

In September 1999, the authorized authorities of Equity 1 resolved that commencing 1999, the Company's Chairman of the Board is entitled to a monetary bonus up to a maximum rate of 75% of his base salary. The bonus is computed based on a formula which equates the increase in the annual income of Equity 1 (neutralizing depreciation and financial expenses) compared to the preceding year against such increase in Group companies which operate in that segment. On the other hand, it was resolved that the Chairman will waive his right to the minimal update of his annual salary (6%), as aforementioned.

Further, commencing July 1998, the Company's Chairman of the Board is entitled to monthly salary whose monthly cost to the Company is about NIS 51 thousand (as of the date of the financial statements). The Company's chairman of the Board is also entitled to a bonus at the rate of 5% of the Company's pre-tax income deriving from that date (see Note 1b(4)).

Commencing July 1998, the Company's managing director is entitled to a monthly salary whose monthly cost to the Company, as of the date of the financial statements, is about NIS 75 thousand (see Note 1b(4)).

As for employment contracts signed subsequent to the balance sheet date, see e. below.

c. Balances:

As for balances with related parties, see Notes 6, 9(3) and 16.

d. Equity 1 convertible securities and shares:

Within the framework of the plan for the allocation of stock options to employees in Equity 1, the Company's Chairman of the Board was granted an option for the purchase of 287,984 Equity 1 shares at $ 10 per share. Under the terms of that plan, in each year commencing from January 1, 1997 until January 1, 2001 the optionee is entitled to exercise one-quarter of the aforementioned options over 10 years ending on December 31, 2006.

In September 1999, the authorized authorities of Equity 1 resolved to allocate to the Company's Chairman of the Board 45,000 Equity 1 shares without consideration. The shares will confer upon the Company's Chairman of the Board the full rights deriving therefrom 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.

e. Employment contract signed subsequent to the balance sheet date:

1. In February 2000, the Company's general meeting of shareholders approved a subsidiary's entering into a contract which arranges the employment terms of the Company's chairman of the board. Following are the principle changes which refer to employment cost:

   - The overall annual base salary is $ 160 thousand, instead of $ 114 thousand which was paid by virtue of the former agreement.

   - The social provisions are at the rate of 23% of the base salary, instead of provisions at the rate of 15% by virtue of the former agreement.

   The total monthly employment cost of the company's chairman of the board to the Group, excluding the employment cost in Equity 1 and excluding his entitlement to bonus, as aforementioned, is about NIS 72 thousand, instead of a monthly employment cost of about NIS 51 thousand by virtue of the former agreement.

2. In February 2000, the Company's general meeting of shareholders approved the renewal of the employment contract of the Company's managing director. Following are the principle changes which related to employment cost:

   - The overall annual which is paid by a foreign subsidiary is about $ 221 thousand. On the other hand, it was resolved not to provide any other amount in respect of social benefits to the Company's managing director.

   - The Company's managing director will be entitled to a bonus computed as 2% of the Company's pre-tax income.

   - The Company will purchase for the managing director life insurance policy in the amount of $ 2 million for which his family members are beneficiaries.

   The total monthly employment cost of the Company's managing director to the Group, excluding his entitlement to bonus, as aforementioned, is about NIS 80 thousand, instead of a monthly employment cost of about NIS 75 thousand.

f. Private offering of shares subsequent to the balance sheet date:

   In February 2000, the Company's general meeting of shareholders approved private offerings of 250,000 Company's shares to the Company's managing director at NIS 10.62 per share and of 37,000 Company' shares to the Company's secretary (who acts also as a director) at NIS 10.5 per share. The optionees will be entitled to sell up to one-third of the shares issued to them at the end of each year commencing from the listing of the shares for trade on the Stock Exchange, subject to the continuance of their employment with the Company. The Company will guarantee loans extended to the optionees by a bank in order to purchase the shares. The loans will be linked to the Israeli CPI, will bear interest of 2% and will be repaid within five years.

g. As for agreements for the allocation of convertible debentures to several provident funds, one of which following the conversion of the issued debentures, if so converted, will become a related party in the Company, which were signed in January 2000, see Note 33a.

NOTE 33:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In January 2000, the Company and 11 provident funds entered into agreements for the allocation of convertible debentures in the aggregate par value of NIS 11,000 thousand in consideration for their par value. The debentures will be linked to the Israeli CPI, will bear annual interest of 5.75% and will be redeemed in 4 equal annual payments on October 20 of each of the years 2004 - 2007.

   The debentures are convertible, in whole or in part, on each business day at the following dates: in the period from 1 - 14 of April and October of each of the years 2000 - 2004; in the period from 1 - 14 of July and October of each of the years 2000 - 2003; and in the period from May 1- October 14 in 2004.

The debentures are convertible at the conversion ratio of NIS 13.25 par value of convertible debentures per one NIS 1 par value of Common share (subject to adjustments). During the conversion period, every each six months the conversion ratio will increase by 1%.

The debenture will not be listed for trade on the Stock Exchange, however, the shares allocated following their conversion will be listed for trade on the Stock Exchange.

The allocation of the said debentures is pending the receipt of the approval of the Stock Exchange. The allocation of the debentures to one of the above provident funds, which following the conversion of the debentures, if that provident fund converts the debentures, will become an interested party in the Company, is conditional upon the approval of the Company's' general meeting of shareholders.

b. In January 2000, an agreement was signed between a foreign subsidiary which owns 75% of First Capital shares and the minority of First Capital for the acquisition of all their interest (25%) by First Capital itself, so that after the transaction, the Company's holdings in First Capital is 100%. In consideration for the said shares, First Capital transferred to the minority two real estate properties. These shareholders have also repaid a loan which the Company had granted to them (see Note 9(2)).

c. Issuance of shares under a prospectus:

In February 2000, the Company published a prospectus which contained offerings to the public and to shareholders as follows:

1. 5 million Company's shares, 1 million stock options (series 3) and 2 million stock options (series 4) were issued to the public in 1 million units via a tender on the lot price, whereby the composition and price of each lot is as follows:

   5 shares at NIS 11.4 per share and 1 stock option (series 3) and 2 stock options (series 4) without consideration.

   The price per lot as fixed in the tender was NIS 60. Pursuant to its undertaking in the prospectus, a subsidiary has purchased within the framework of the prospectus 200 thousand units.

2. A public offering via a tender of 360 thousand of stock options (series 4). The price per stock option (series 4) as fixed in the tender is NIS 1.8.

3. An offering via rights to the Company's shareholders of 2,515,142 stock options (series 4) without consideration. All the rights offered were exercised.

   Each stock option (series 4) is exercisable into one share at NIS 13.6 linked to the U.S. dollar (base exchange rate of $ 1 = NIS 4.15) until February 20, 2004. In any case, the exercise price will not be below NIS 10.25. As for the terms of stock options (series 3), see Note 24f.

   The issuance total gross proceeds amounted some NIS 60,648 thousand, of which NIS 12 million was received from a subsidiary.

d. As for the purchase of additional Supersol shares subsequent to balance sheet date, see Note 8(2).

e. Regarding the Company's Board resolution from January 2000 in connection with contracts which arrange the employment terms of related parties of the Company, and in connection with a private placement of shares to related parties of the Company, see Note 32 e. and f., respectively.

NOTE 34:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL NIS

a. Balance sheets - the Company:

	December 31, 1999	December 31, 1998
	NIS in thousands	
ASSETS		
Current assets	22,081	32,058
ıg-term investments and loans	(* 455,831	221,258
Fixed assets, net	288	290
Other assets and deferred charges, net	526	328
	478,726	253,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	10,720	25,307
Long-term liabilities	270,828	100,161
Shareholders' equity	197,178	128,466
	478,726	253,934

b. Statements of income - the Company:

	Year ended December 31,		
	1999	1998	1997
	NIS in thousands		
Revenues:			
Revenues from maintenance of real estate	-	88	-
Management fees from subsidiaries and related party	1,689	701	175
Equity in earnings of subsidiaries	(* -	739	2,575
Gain on issuance to third party	-	2,325	-
Oil and gas producing wells, net	44	-	-
Financial, net	1,789	4,325	4,182
Dividend from subsidiary	(* 4,491	-	-
	8,013	8,178	6,932
Costs and expenses:			
Amortization of other assets	-	59	70
Oil and gas producing wells, net	-	14	122
General and administrative	1,567	1,495	853
	1,567	1,568	1,045
Income before taxes on income	6,446	6,610	5,887
Taxes on income	1,647	1,693	1,437
Net income for the year	4,799	4,917	4,450

*) Commencing 1999, the investments in subsidiaries were presented in the nominal financial statements at cost.

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (accumulated deficit)	Total
			NIS in thousands		
Balance at January 1, 1997	7,659	44,830	711	3,542	56,742
Capital issuances, net	3,424	19,522	-	-	22,946
Foreign currency translation adjustments for foreign autonomous units	-	-	5,024	-	5,024
Capital reserve from investments in subsidiary abroad	-	-	-	(7,710)	(7,710)
Net income for the year	-	-	-	4,450	4,450
Divided paid	-	-	-	(2,217)	(2,217)
Balance at December 31, 1997	11,083	64,352	5,735	(1,935)	79,235
Capital contribution from subsidiary's liability to a former related party	-	-	-	(1,243)	(1,243)
Assignment of assets, net from the parent company against capital issuance, net	6,169	-	6,945	12,830	25,944
Foreign currency translation adjustments for foreign autonomous units	-	-	23,492	-	23,492
Capital reserves from realization of option for the purchase of land	-	-	-	1,297	1,297
Net income for the year	-	-	-	4,917	4,917
Dividend declared	-	-	-	(5,176)	(5,176)
Balance at December 31, 1998	17,252	64,352	36,172	10,690	128,466
Capital issuance, 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

Appendix - list of companies of the Group as of December 31, 1999

	Percentage of holdings and control as of December 31, 1999		Country of registration
Subsidiaries (1):			
Equity One. Inc.	64.3%	***) (2)	U.S.
First Capital Inc.	75%	**) (3)	Canada
Golden Equity	92.36%	***)	U.S.
Hashlom Boulevard House Ltd.	100%	**)	Israel
Financial Engineering (founded by Gazit Inc. Panama) 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 autonomous foreign subsidiaries (Equity 1 and First Capital).

(2) See Note 7(b).

(3) Subsequent to the balance sheet date, the holdings in First Capital increased to 100% (see Note 33b.).

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the Year Ended December 31, 1999

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") takes pleasure in presenting the financial statements of the Company and its consolidated subsidiaries for the year ended December 31, 1999:

1. **A. General**

The Company is an investment company engaged in the acquisition, development, and management of rental properties in the USA, Canada, and Israel. The Company focuses mainly on supermarket anchored shopping centers.

As of the approval date of the financial statements, the Company directly and indirectly owns 35 properties with net book value of NIS 1,030 million, and generating annual rentals of NIS 155 million (based on current list of properties and their annual gross rentals).

In the USA, the Company operates through Equity One Inc. (hereinafter – "EQ1"), a self-administered, self-managed real estate investment trust traded on the NYSE. At the signing date of the financial statements, the Company holds some 66% of the share capital of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition, management, and development of income-producing properties (primarily supermarket anchored shopping centers), owning 27 properties consisting of more than million square feet of G.L.A.; 22 shopping centers, 2 mixed-use (office/retail) properties, a storage center, restaurant building, and apartment building that is intended for demolition.

The operations in Canada are carried out through First Capital Inc. (hereinafter – "F.C.I."), in which the Company holds 100% of the share capital. F.C.I. operates in the provinces of Ontario and Quebec, in the acquisition, management, and development of income-producting real estate (primarily on supermarket-anchored community shopping centers). At the signing date of the financial statements, it owns 6 shopping centers with G.L.A. of more than 538,000 square feet.

In Israel, the company owns an office and commercial building in Tel-Aviv, and additional land in Tel-Aviv for future development.

The Company also owns 6% of the shares of Supersol Ltd.

B. Operating Results in the Period

In the year ended December 31, 1999, net income amounted to NIS 21.2 million, compared with NIS 13.6 in 1998.

Net income in the reported year and in 1998 include gains from the sale of properties in EQ1.

Primary earnings per share in the year ended December 31, 1999 amount to NIS 1.02 per share, compared with NIS 0.96 for the year ended December 31, 1998.

Likewise, depreciation on assets (net of the minority interest) for the year ended December 31, 1999 totalled NIS 11.9 million, which is NIS 0.57 depreciation per share, compared with NIS 7.3 million, which is NIS 0.52 depreciation per share in 1998. Total earnings, excluding one-time income and expenses, plus depreciation per share in the reported year, amounts to NIS 1.21 per share, compared with NIS 1.03 per share in 1998, growth of 17.5%.

As of December 31, 1999, shareholders' equity per share (NIS 1 par value) amounts to NIS 10.17. Regarding the results of operations see Item 4 below.

2. The Company and its Business Environment – Key Events and Changes Occurring in the Reported period

A. General

In the reported period, the Company invested – directly and through subsidiaries – a total of NIS 593 million in the acquisition, development, and improvement of properties and in long-term investments. Their effect on the results of operations will be expressed in full in the year 2000.

B. Purchase of properties in EQ1 and F.C.I.

1. During the year ended December 31, 1999, EQ1 purchased 7 properties, including 5 shopping centers with total G.L.A. of over 800,000 square feet and two lots, encompassing 32.65 acres, at a total cost of NIS 250 million.
   The company also completed construction of the first stage of a shopping center in Miami.
2. In December 1999, EQ1 completed the sale of a property it owns in Tomball, Texas, for NIS 32.7 million. The G.L.A. of the property is some 129,000 square feet. The gain generated to EQ1 on the sale is NIS 12.9 million (Company's share – NIS 8 million).
3. During the reported year, F.C.I. purchased 5 shopping centers in Canada with total G.L.A. of 461,000 thousand square feet on 33 acres of land, at a total cost of NIS 67 million.

C. Acquisition of EQ1 shares

January 99	- 606 thousand shares were purchased from Danbar Resources at $8.9 per share.
In reported period	- 599 thousand shares in stock market trading, at prices ranging from $8.50-$10.50 per share.
Subsequent to balance sheet date	- 207 thousand shares in stock market trading, at prices ranging from $9.10-$10.50 per share.
Exercise of C options	- In the reported period, 941 thousand option warrants (Series C) were exercised for shares of EQ1, at an exercise price of $8.25 per share.

Following completion of these acquisitions, the Company's direct and indirect holdings in Equity grew from 50% to 66% of the issued capital of EQ1.
In total the Company invested NIS 88.4 million to increase its stake in EQ1.

The carrying value of the investment in EQ1 in the books of the Company and subsidiaries as of December 31, 1999 is NIS 290 million. The NYSE market value of the investments in shares of EQ1 as of December 31, 1999 is NIS 315 million, and as of the signing date of the financial statements is NIS 288 million (the change stems from the change in the exchange rate of the dollar and the change in the stock market price of the shares).

D. Public Offering

On May 30, 1999, the Company published a prospectus that included an offer to the public of 500,000 option warrants and an offer by way of rights to the Company's shareholders of 5,917,339 shares and 4,438,004 option warrants. The total proceeds to the Company amounted to NIS 62.3 million, gross (NIS 59.3 million, net).

E. Private Placement of Securities with Institutional Investors

In the reported period, the Company issued shares, convertible bonds, and option warrants for shares in a private placement to several provident funds.

F. Issuance of Shares to Employees

In August 1999, the Company's board of directors approved the issuance of 70,000 shares to two Company employees, in consideration for NIS 10.5 per share. The issuance was executed in September 1999. The Company has guaranteed the bank loans received by the above employees for the purpose of acquiring the shares.

G. Issuance of Bonds (Series D)

Under the terms of an April 12, 1999 agreement, in May 1999, the Company issued, through the parent, company bonds (Series D) with principal value of NIS 20,000,000.

H. Dividend Policy

In November 1998, the Company adopted an annual dividend policy, whereby at the end of each year, it will announce the amount of the dividend for the subsequent year. For 2000, the Company will distribute a dividend of at least NIS 0.52 per share, compared with NIS 0.48 per share in the previous year, representing a dividend yield of 4.8% as of the date the resolution was passed.

The aforesaid is subject to the existence of sufficient amounts of distributable income on the relevant dates. It is also subject to the provisions of all relevant laws related to dividend distributions and to the decisions the Company is empowered to reach, including those with regard to a different intended use of its profits and a change in this policy.

I. Investments in Supersol

On November 1, 1999, the Company became an interested party in Supersol Ltd., by virtue of its holdings of 10.6 million shares in Supersol, representing some 5% of the share capital of Supersol at a total cost of NIS 127 million. On December 31, 1999, the Company held NIS 11.5 million shares, representing some 5.5% of the share capital of Supersol at a total cost of NIS 139 million. For the purpose of this investment, the Company received partial financing from banks in Israel. The investment in this company is included as part of the balance of long-term investments in the Company's financial statements. The loans financing the acquisition are included in long-term loans.

3. Results of Operations

In the year ended December 31, 1999, the Company's income amounted to NIS 21,212 thousand, compared with NIS 13,636 thousand in the year 1998 and NIS 5,482 thousand in the year 1997.

In the above periods, the Company's rental income totalled NIS 129,728 thousand, compared with NIS 99,251 thousand and NIS 77,511 thousand in the years 1998 and 1997.

The Company's operations in the reported period are after implementation of reorganization plan in mid-1998, as detailed in Note 1 to the Company's annual financial statements as of December 31, 1999. The Company's operations include mainly the operations of EQ1 in the USA, the operations of F.C.I. in Canada, and the operations of the Israeli subsidiaries, whereas during the corresponding periods in the years 1998 and 1997, the Company's results of operations include mainly the operations of EQ1 in the USA

The results of operations for the reported year derive mainly from rental income on buildings and also include a NIS 8 million gain on the sale of a property in EQ1. In the corresponding period last year, the results of operations also included a NIS 2.2 million gain on the initial public offering of EQ1 executed in May 1998 and a NIS 4 million gain on the sale of a property in EQ1.

After neutralizing the one-time gains and losses, the Company's net gain in the reported periods increased by 82.4% and 143%, compared with the years 1998 and 1997, respectively.

The increase in general and administrative expenses in the reported period compared with the corresponding period last year stems from the Company's changeover from a holding company to an active investment company, as part of the reorganization that was implemented. Generally, there is stability in the level general and administrative expenses.

The operations of EQ1, which constitute most of the Company's operations, were characterized by growth in revenues as a result of the increase in the number of properties and from the moderate growth in the occupancy rates of existing properties, offset by a more modest increase in operating expenses and in general and administrative expenses. There was a decrease in financing expenses, due to the partial repayment of long-term loans and the "refinancing" of loans at better terms than in the corresponding period last year. Net income of EQ1 (after neutralizing non-recurring revenues and expenses) rose by 26.1% over the corresponding period last year.

The operations of F.C.I. were characterized by growth in revenues, attributable to the acquisition of 5 new rental properties, and from the increase in the occupancy percentage of the properties during the year, whereas in 1998, F.C.I. had 2 rental properties.

Key Results for the year 1999

	Year 1999	**Quarter 4**	**Quarter 3**	**Quarter 2**	**Quarter 1**
Revenues					
Management fees from interested party	129,728	34,607	37,756	30,186	27,179
Rental income	200	46	52	51	51
Gain on sale of property	12,572	12,572	-	-	-
Oil and gas exploration	45	-	45	-	-
Total	**142,545**	**47,225**	**37,853**	**30,237**	**27,230**
Expenses and costs					
Operation of rental properties	36,927	10,188	10,813	8,526	7,400
Depreciation of rental properties	18,423	4,736	5,221	4,352	4,114
Loss on public offering	97	25	-	72	-
General and administrative	15,728	4,386	4,476	4,054	2,812
Financing, net	23,203	9,126	5,590	3,422	5,065
Total	**94,378**	**28,461**	**26,100**	**20,426**	**19,391**
Income before taxes on income	48,167	18,764	11,753	9,811	7,839
Taxes on income	3,669	437	1,181	1,213	838
Income after taxes on income	44,498	18,327	10,572	8,598	7,001
Minority interest in earnings of consolidated company	23,286	7,908	5,895	4,981	4,502
Net income for the period	**21,212**	**10,419**	**4,677**	**3,617**	**2,499**

4. **<u>Liquidity and Financing Sources</u>**
The Company adopted a policy of maintaining a high level of liquidity while striving to increase its shareholders' equity, so as to be able to utilize business opportunities in its areas of operation.
A. The Company's shareholders' equity, together with minority interest, totalling NIS 410.2 million, financed 31.2% of the total balance sheet, compared with NIS 357.1 million, which financed 45.2% of the balance sheet in 1998.
B. The current ratio reached 0.94, compared with 1.18 in 1998.
C. Cash flows from operating activities for the reported year totalled NIS 54 million, compared with NIS 38.8 million and NIS 30.1 million in the years 1998 and 1997, respectively.

5. **<u>Financial Position</u>**
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 EQ1 and F.C.I., except for cash and cash equivalents and short-term and long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of December 31, 1999, the liquid balances available to the Company and its subsidiaries, including short-term investments, total NIS 51.5 million, compared with NIS 57.8 million as of December 31, 1998. The decrease in the amount of liquid balances in the reported period stems from a NIS 6.9 million increase in cash and cash equivalents and a decrease of NIS 13.2 million in short-term investments. The decrease in liquid balances stems mainly from money used by EQ1 and F.C.I. to acquire properties, from the Company's acquisition of shares in EQ1, and from the Company's acquisition of long-term investments, less the receipts from the offerings of capital and debt to the public and others executed by the Company.

The increase of NIS 166 million in shareholders' equity to NIS 252.8 million stems from the net offering of shares amounting to NIS 76.2 million, from the NIS 0.7 million increase in the translation adjustments deriving from the translation of the financial statements of EQ1 and F.C.I., plus the Company's earnings for the reported period of NIS 21.2 million, and less an interim dividends paid by the Company of NIS 11.3 million.

6. Effect of the Year 2000 Issue

As of the date of the financial statements, the Year 2000 issue had no effect whatsoever on the operations of the Company and its subsidiaries. However, notwithstanding the aforesaid, no assurance can be given with regard to the possible future implications of Bug Y2K on the Company and its subsidiaries and their operations.
The Company and its subsidiaries will continue to monitor the possible future implications of the Bug Y2K issue on their operations, and to the extent necessary, will evaluate what applicable measures they are to take.

In accordance with the Securities Regulations (Reporting Rules on Preparations for Solving Bug Y2K Problems) (Temporary Order), 1999, below is a report on the Company's preparations for solving the Bug Y2K problem:
There is no change from the Directors' Report dated November 17, 1999.

7. Additional Information and Subsequent Events

A. On 31.1.2000, an agreement was signed between Gazit 1997 (a wholly-owned Canadian subsidiary of the Company), F.C.I., and the minority shareholders in F.C.I., for F.C.I. to acquire all of their shares (25%) in F.C.I. The agreed upon principles stipulated in the agreement are that the consideration for the acquisition of their shares in F.C.I. would be the transfer to the sellers of all of the holdings of F.C.I. (100%) in a shopping center and in a shopping center under development (the said properties were transferred to the former minority shareholders in F.C.I. "as is", with all the loans taken thereon, the collateral and commitments given to third parties). Likewise, an accounting was conducted between the parties to reflect the value of F.C.I. for the purpose of the transaction, equal to the level of shareholders' equity plus the value of some 8 million Canadian dollars. After execution of the transaction, the Company holds 100% of the share capital of F.C.I.

B. Private placement of shares

On January 9, 2000, the Company's board of directors resolved to approve the private placement of 287,000 ordinary shares, NIS 1 par value, of the Company to the Company's Managing Director and Secretary (who serve as directors therein), in consideration for NIS 3 million. The shares were issued on February 9, 2000, after the issuance was approved by a general meeting of the Company's shareholders of February 8, 2000.

C. Contingent agreement with Kibbutz Alonim

On December 30, 1999 (an addendum to the agreement was signed on February 8, 2000), the Company entered into a contingent agreement with Kibbutz Alonim and a real estate company, in an effort to rezone agricultural land to a designation suitable for building a retirement home and commercial space for the use of the home's residents, as well as to build a retirement home that will be operated at a later stage by a join management company that will be established for this purpose. The agreement is contingent on a series of conditions which were not met as of the date of the financial statements.

D. Issuance of debentures
On February 8, 2000, the Company issued debentures convertible into shares (that will not be listed for trading) with total principal value of NIS 11,000 thousand to 11 provident funds,, in consideration for NIS 11 million. For details, see Note 33 to the financial statements.

E. Public offering
On February 13, 2000, the Company published a prospectus that contained an offer to the public by means of a tender, of 5,000,000 shares and 1,000,000 option warrants (Series 3), and 2,360,000 option warrants (Series 4). The total net proceeds to the Company of the 1,000,000 shares, 200,000 options warrants (Series 3) and 400,000 option warrants (Series 4) acquired in the offering by a wholly-owned subsidiary of the Company, amounted to NIS 48.6 million, gross (NIS 46.3 million, net).
The Company also offered, by means of rights to its shareholders, 2,515,142 options (Series 4), in a manner whereby each holder of 10 ordinary shares on the date of record would receive an option warrant (Series 4) for no consideration.

F. Subsequent to the balance sheet date, the Company acquired 0.5% of the share capital of Supersol Ltd. on the stock exchange, at a total additional cost of NIS 15 million. As of the approval date of the financial statements, the Company owns 12,585 thousand shares, representing 6% of the share capital of Supersol, at a total cost of NIS 154 million.

G. Subsequent to the balance sheet date, a wholly-owned subsidiary of the Company was established in Delaware, USA, named "My Community Center" (MCC).
The team setting up MCC includes technology and marketing personnel.
The team is setting up a venture for the development of Internet applications that will improve the efficiency of the retail trade in neighborhood shopping centers, and will increase customer loyalty to the regional and neighborhood shopping centers.
Among the features the venture will offer are the providing of information on price reductions and events in the shopping center, and the printing of coupons for the users use in the shopping center. The venture will also enable appointments to be made with service providers located in the commercial center.
The Internet site "mycommunitycenter.com" is planned throughout the USA and Canada. It will provide enable direct access to every participating shopping center and to obtain all the information related to the local shopping center and the community it serves. In principle, the site is to serve as a kind of "Internet local newspaper" focused on the community shopping center.
The venture is also planned to provide solutions to retailers on the use of different applications in running their businesses by the ASP method. In other words, the possibility of using different applications on a user-fee basis (without the need to buy the software).
In the second stage, the plan is for the venture to offer solutions to E-retailers for the distribution of goods (fulfillment), as well as to make the use of E-commerce available to all of the retailers and service providers in each of the shopping centers.
MCC plans to open experimental sites in the summer of 2000.

MCC will approach the owners of shopping centers throughout the USA, to join the site. A property owner will be entitled to a certain percentage of the advertising revenues generated by the property.
The company intends to collaborate in the venture's development with other USA real estate companies that own community commercial centers, as well as with companies engaged in the sale of goods and/or services to the community at large.
The Company also plans to join the ventures of other companies engaged in the development of retail and real estate applications, using innovative technology while utilizing the each company's competitive advantage in the USA and Canadian commercial center industry, noting the added value that the Company's participation brings to the venture.
At this stage, the Company may invest approx. $3 million during 2000 in the activities described above.

8. <u>Reporting of Exposures to Market Risks and their Management</u>

A. Those responsible for managing the Company's market risks are Mr. Dori Segal, the Company's Managing Director, and Mr. Gil Kutler, the Company's Chief Financial Officer.

B. The main market risks to which the Company is exposed are:

1. The Company's holdings in the shares of EQ1 and F.C.I. are major assets of the Company and therefore the risk factors to which EQ1 and F.C.I. 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 of residents.
   c. Changes in the rental policies of retail chains and major tenants.
   d. The status of EQ1 as a REIT.
   e. Activities in the renovation and development of properties.

2. The Company owns 6% of the issued share capital of Supersol Ltd.
   In the Company's opinion, its financial results could be adversely affected if there should be a decrease in the value of its holdings in Supersol, mainly if there will be significant negative changes in the businesses of Supersol, or significant negative changes in the trading in Supersol's shares, or significant negative changes in the Israeli economy.

3. 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, whereby an increase in the exchange rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity. A decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.

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

1. The Company's Chairman of the Board of Directors, Mr. Haim Katzman, who is the Chairman of the Board of EQ1, and the Company's Managing Director, Mr. Dori Segal, who is the President of F.C.I., permanently reside where the companies operate.

EQ1 and F.C.I. regularly monitor developments in the markets in which they are engaged. The companies employ local experts in rental real estate management, development, and acquisitions in the USA and Canada.

2. The Company regularly evaluates the businesses of Supersol and the level of marketability of its shares, as well as significant changes in the Israeli economy. The Company finances its investment in Supersol with its equity and with shekel-denominated credit.

3. The Company finances its investments in EQ1 and F.C.I. with its equity and with foreign currency credit, denominated in USA and Canadian dollars, generally corresponding to the ratio of its investments in these companies. Hence, the effect of changes in the exchange rates of the U.S. and Canadian dollars on the Company's shareholders' equity is partially neutralized by the foreign currency credit.

D. Means of supervising and implementing the policies:
The Company's management regularly monitors the issues of risk management and the ways to reduce the Company's exposure to these risks.

Haim Katzman	Dori Segal
Chairman of the Board of Directors	Managing Director