GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2000

ADJUSTED TO THE NIS OF SEPTEMBER 2000

UNAUDITED

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

Re: Review report of unaudited interim consolidated financial statements for the nine and three months periods ended September 30, 2000

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of September 30, 2000, and the related interim consolidated statements of income, statements of changes in shareholders' equity and the consolidated statements of cash flows for the nine and three months periods then ended.

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

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 95.9% as of September 30, 2000, and total revenues constituting approximately 98.9% of the related consolidated totals for the nine months then ended. These statements were reviewed by other auditors whose reports have been furnished to us.

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

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

Tel-Aviv, Israel
November 27, 2000

KOST FORER & GABBAY
A Member of Ernst & Young International

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of September 2000

	September 30, 2000	September 30, 1999	December 31, 1999
	Unaudited		Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	80,968	53,274	24,605
Short-term investments	149,668	17,259	26,672
Tenants	39,906	8,217	10,456
Property for rent designated for sale	-	20,270	-
Other accounts receivable	29,973	8,098	8,695
Loan to a partner in subsidiary	79,321	-	-
	379,836	107,118	70,428
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	241,843	115,034	163,034
Long-term loans	34,412	10,849	9,091
	276,255	125,883	172,125
PROPERTY AND EQUIPMENT:			
Cost	4,047,073	1,078,895	1,114,965
Less - accumulated depreciation	78,008	59,177	62,504
	3,969,065	1,019,718	1,052,461
OTHER ASSETS AND DEFERRED CHARGES, NET	137,960	10,070	10,930
	4,763,116	1,262,789	1,305,944

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of September 2000

	September 30, 2000	September 30, 1999	December 31, 1999
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	234,584	(* 38,499	(* 21,930
Trade payables	30,483	1,509	3,177
Other accounts payable	116,828	30,994	12,166
Dividend declared	-	3,106	-
	381,895	74,108	37,273
LONG-TERM LIABILITIES:			
Debentures	213,422	110,336	105,663
Convertible debentures (Note 5a)	-	16,144	16,139
Liabilities to financial institutions and others	2,570,534	(* 651,854	(* 733,081
Tenants' security deposits	14,856	5,074	5,407
Accrued severance pay	117	78	68
Deferred taxes	3,576	241	-
	2,802,505	783,727	860,358
CONVERTIBLE DEBENTURES REDEEMABLE INTO SUBSIDIARY'S SHARES (Note 4)	954,965	-	-
MINORITY INTEREST	240,382	161,907	156,674
CONVERTIBLE DEBENTURES (Note 5a)	11,053	-	-
SHAREHOLDERS' EQUITY	372,316	243,047	251,639
	4,763,116	1,262,789	1,305,944

*) Reclassified.

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

November 27, 2000		
Date of approval of the financial statements	D. Segal Managing Director	G. Kotler Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of September 2000

	Nine months ended September 30, 2000	Nine months ended September 30, 1999	Three months ended September 30, 2000	Three months ended September 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	212,983	94,675	138,549	37,579	129,120
Management fees from related party	141	154	41	52	198
Gain on sale of real estate	26	-	-	-	12,513
Exploring for oil and gas, net	-	-	-	-	45
Dividend income	25,722	(* 1,517	2,407	(* 727	(* 4,407
	238,872	96,346	140,997	38,358	146,283
Costs and expenses:					
Operating properties for rent	68,166	26,613	47,051	10,762	36,754
Depreciation of properties for rent	28,302	13,624	18,087	5,197	18,337
General and administrative	25,390	11,244	12,870	4,410	15,654
Financial, net	33,112	(* 15,527	24,836	(* 6,291	(* 27,501
Loss on issuance of subsidiary's shares to third party and related party	840	73	393	-	97
Expenses for remuneration of former management of newly consolidated subsidiary (Note 4d)	7,387	-	7,387	-	-
Other expenses	2,160	-	1,154	-	-
	165,357	67,081	111,778	26,660	98,343
Income before taxes on income	73,515	29,265	29,219	11,698	47,940
Taxes on income	7,293	3,216	4,402	1,175	3,652
Income after taxes on income	66,222	26,049	24,817	10,523	44,288
Minority interest in earnings of subsidiaries	(19,972)	(15,306)	(8,682)	(5,867)	(23,176)
Share of former shareholders in losses of newly consolidated subsidiary (Note 4d)	346	-	346	-	-
Net income for the period	46,596	10,743	16,481	4,656	21,112
Earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	1.22	0.47	0.44	0.16	0.92
Diluted earnings					0.86

*) Reclassified.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2000
Unaudited

	Nine months ended September 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less Company's shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	80,898	171,416	13,659	9,994	(24,328)	-	251,639
Capital issuances, net	6,895	72,592	-	-	-	(12,141)	67,346
Debentures converted into shares	1,665	14,424	-	-	-	-	16,089
Options exercised into shares	19	173	-	-	-	-	192
Sale of Company's shares by subsidiary	-	-	-	-	-	2,428	2,428
Refund of issuance expenses	-	649	-	-	-	-	649
Foreign currency translation adjustments for foreign autonomous units	-	-	-	177	-	-	177
Net income for the period	-	-	-	-	46,596	-	46,596
Dividend paid	-	-	-	-	(12,800)	-	(12,800)
Balance at the end of the period	89,477	259,254	13,659	10,171	9,468	(9,713)	372,316

	Nine months ended September 30, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the period	73,210	103,309	13,659	9,248	(34,187)	165,239
Capital issuances, net	6,848	60,035	-	-	-	66,883
Foreign currency translation adjustments for foreign autonomous units	-	-	-	8,301	-	8,301
Net income for the period	-	-	-	-	10,743	10,743
Dividend paid	-	-	-	-	(5,013)	(5,013)
Dividend declared	-	-	-	-	(3,106)	(3,106)
Balance at the end of the period	80,058	163,344	13,659	17,549	(31,563)	243,047

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2000
Unaudited

	Three months ended September 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less Company's shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	87,673	242,914	13,659	9,546	(2,180)	(9,713)	341,899
Capital issuances, net	120	1,094	-	-	-	-	1,214
Debentures converted into shares	1,665	14,424	-	-	-	-	16,089
Options exercised into shares	19	173	-	-	-	-	192
Refund of issuance expenses	-	649	-	-	-	-	649
Foreign currency translation adjustments for foreign autonomous units	-	-	-	625	-	-	625
Net income for the period	-	-	-	-	16,481	-	16,481
Dividend paid	-	-	-	-	(4,833)	-	(4,833)
Balance at the end of the period	89,477	259,254	13,659	10,171	9,468	(9,713)	372,316

	Three months ended September 30, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the period	79,865	161,611	13,659	9,082	(33,113)	231,104
Capital issuances, net	193	1,733	-	-	-	1,926
Foreign currency translation adjustments for foreign autonomous units	-	-	-	8,467	-	8,467
Net income for the period	-	-	-	-	4,656	4,656
Dividend declared	-	-	-	-	(3,106)	(3,106)
Balance at the end of the period	80,058	163,344	13,659	17,549	(31,563)	243,047

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2000
Audited

	Year ended December 31, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the year	73,210	103,309	13,659	9,248	(34,187)	165,239
Capital issuances, net	7,688	68,107	-	-	-	75,795
Foreign currency translation adjustments for foreign autonomous units	-	-	-	746	-	746
Net income for the year	-	-	-	-	21,112	21,112
Dividend paid	-	-	-	-	(11,253)	(11,253)
Balance at the end of the year	80,898	171,416	13,659	9,994	(24,328)	251,639

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2000

	Nine months ended September 30, 2000	Nine months ended September 30, 1999	Three months ended September 30, 2000	Three months ended September 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	46,596	10,743	16,481	4,656	21,112
Adjustments to reconcile net income to net cash provided by operating activities (a)	23,525	45,015	8,817	22,424	32,674
Net cash provided by operating activities	70,121	55,758	25,298	27,080	53,786
Cash flows from investing activities:					
Investment in subsidiary	(14,159)	(41,548)	(81)	(4,409)	(47,613)
Investments in property and equipment	(104,676)	(317,636)	(65,406)	(165,522)	(377,698)
Proceeds on sale of property and equipment	58	-	-	-	32,508
Short-term investments, net	(111,683)	23,913	(109,082)	7,594	12,378
Proceeds from sale of real estate to former minority in subsidiary (see Note 5b)	2,344	-	-	-	-
Purchase of marketable securities and long-term investments	(170,142)	(116,834)	(3,336)	(95,034)	(165,024)
Proceeds from sale of marketable securities and long-term investments	109,665	-	65,814	-	-
Acquisition of newly consolidated subsidiary (b)	(324,392)	-	(324,392)	-	-
Repayment of long-term loan	295	-	295	-	-
Net cash used in investing activities	(612,690)	(452,105)	(436,188)	(257,371)	(545,449)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2000

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2000	1999	2000	1999	1999
	Unaudited				Audited
	Adjusted NIS in thousands				
<u>Cash flows from financing activities</u>:					
Capital issuances, net	67,346	66,884	1,214	1,926	75,795
Refund of issuance expenses	649	-	649	-	-
Sale of Company's shares by subsidiary	2,428	-	-	-	-
Proceeds from options exercised into shares	192	-	192	-	-
Issuance of convertible debentures	11,000	16,213	-	-	16,213
Deferred charges in respect of raising loans and debentures	(4,098)	(2,912)	(1,239)	(2,168)	(4,106)
Purchase of Company's debentures by subsidiary	-	-	-	-	(1,517)
Sale of Company's debentures by subsidiaries	6,530	5,200	694	628	5,200
Debentures assigned to the Company	-	16,820	-	-	16,823
Dividend paid	(12,800)	(10,234)	(4,833)	(2,868)	(16,475)
Dividend paid to minority in subsidiary	(15,156)	(13,494)	(7,025)	(4,617)	(17,831)
Proceeds on exercise of subsidiary's options by minorities and a related party in subsidiary	-	1,601	-	734	4,092
Buy back of subsidiary's options by that subsidiary from former related party	-	-	-	-	(8,791)
Receipt of long-term loans	658,802	(* 352,589	547,673	(* 218,139	412,796
Principal payment of long-term loans	(124,199)	(21,959)	(67,757)	(8,394)	(26,226)
Short-term credit from banks and others, net	8,091	(* 20,710	(9,728)	(* 13,219	42,348
Net cash provided by financing activities	598,785	431,418	459,840	216,599	498,321
<u>Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents</u>	147	427	174	387	171
Increase (decrease) in cash and cash equivalents	56,363	35,498	49,124	(13,305)	6,829
Cash and cash equivalents at the beginning of the period	24,605	17,776	31,844	66,579	17,776
Cash and cash equivalents at the end of the period	80,968	53,274	80,968	53,274	24,605

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2000

	Nine months ended September 30, 2000	Nine months ended September 30, 1999	Three months ended September 30, 2000	Three months ended September 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	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 realization and decrease (increase) in value of marketable securities, net	(15,188)	383	(9,248)	570	1,251
Minority interest in earnings of subsidiaries	19,972	15,306	8,682	5,867	23,176
Depreciation	28,302	13,732	18,087	5,233	18,490
Deferred taxes, net	(1,684)	(187)	(1,473)	(61)	(596)
Adjustment differences on monetary assets and long-term liabilities, net	(39,219)	(1,489)	(26,154)	3,555	(5,167)
Write-down of long-term investments	-	1,801	-	1,800	1,801
Amortization of other assets and deferred charges	8,991	1,329	8,107	827	1,644
Gain on sale of real estate	(26)	-	-	-	(12,513)
Loss on issuance of subsidiary's shares to third party and related party	840	73	393	-	97
Changes in asset and liability items:					
Increase in tenants and other accounts receivable	(2,925)	(3,369)	(7,536)	(5,063)	(4,932)
Increase in trade payables and other accounts payable	23,888	16,277	17,817	8,965	7,810
Increase in tenants' security deposits	574	1,159	142	731	1,613
	23,525	45,015	8,817	22,424	32,674

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of September 2000

	Nine months and three months ended September 30, 2000
	Unaudited
	Adjusted NIS in thousands
(b) Acquisition of newly consolidated subsidiary (Note 4):	
Working capital (excluding cash)	49,731
Long-term investments and loans (including current portion)	(160,549)
Property and equipment, net	(2,843,715)
Other assets and deferred charges, net	(123,147)
Liabilities to financial institutions and others (including current portion)	1,552,464
Debentures	102,890
Tenants' security deposits	8,855
Deferred taxes	1,721
Convertible debentures redeemable into subsidiary's shares	957,561
Minority interest	92,247
	(361,942)
Initial investment in newly consolidated subsidiary which was presented in the past at cost	37,550
	(324,392)

	Nine months ended September 30, 2000	Nine months ended September 30, 1999	Three months ended September 30, 2000	Three months ended September 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	Adjusted NIS in thousands				
(c) Significant non-cash operations:					
Dividend declared	-	3,106	-	3,106	-
Capital issuance in subsidiary for minority and related party against long-term loans	-	2,354	-	-	2,354
Purchase of property and equipment against long-term liabilities	-	4,189	-	-	4,189
Sale of real estate to former minority in subsidiary (see Note 5b)	17,367	-	-	-	-

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

NOTE 1:- GENERAL

These interim consolidated financial statements have been prepared as of September 30, 2000 and for the nine and three months periods then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 1999 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 1999 are applied consistently in these financial statements.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS based on the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of September 2000.

The following are details of the Israeli CPI and the exchanges rates of the U.S. dollar and the Canadian dollar:

The decrease in the general purchasing power of the NIS during the reported period is reflected by the decrease in the Israeli CPI by 0.5% (comparative period previous year - increased by 0.9%) and by the decrease in the exchange rate of the U.S. dollar by 3.1% (comparative period previous year - increased by 2.8%) and by the decrease in the exchange rate of the Canadian dollar by 2.6%.

NOTE 4:- ACQUISITION OF CENTER FUND REALTY CORP. ("CFE")

a. In August 2000, the Company, through a Canadian company which is wholly owned by the Company (Gazit 97) acquired, by a tender offer, 72% of CFE's share capital, which, along with additional shares which were acquired in the course of trading on the Stock Exchange at the eve of the closing of this process, reached 84% of CFE's share capital.

   CFE is a Canadian REIT company whose shares are traded on the Stock Exchange in Toronto. Total cost of investment in CFE shares, plus acquisition costs, aggregated some NIS 456 million.

b. Following a memorandum of understanding from September 2000, an agreement was signed in October 2000 between Gazit 97 and a company owned by Alonei Hetz Properties and Investments Ltd. ("Alonei Hetz"), whereby Gazit 97 sold 16% of CFE's shares to Alonei Hetz at like terms as the tender offer. As a result of the said transaction, Gazit 97 holdings in CFE decreased to some 68%. In view of the aforementioned, the NIS 87 million investment in CFE shares, which was sold to Alonei Hetz, is presented among short-term investments.

c. The lump-sum acquisition (net of the shares sold to Alonei Hetz) totaled NIS 369 million. The acquisition transaction was accounted for by the purchase method of accounting, so that the allocation of the purchase price was attributed to the assets and liabilities of CEF based on the fair value at the date of acquisition.

Following are details pertaining to the assets acquired at the date of acquisition of CEF, which was newly consolidated:

	Adjusted NIS in thousands
Current assets	46,564
Loan terms investments and loans (including current portion)	160,549
Property and equipment	2,843,715
Other assets and deferred charges, net	123,147
	3,173,975

Following are details pertaining to the revenues and net income of CEF which was newly consolidated, as included in the Company's consolidated statements of income for the nine and three months periods ended September 30, 2000:

	Adjusted NIS in thousands
Rental income	100,369
Net income	7,932

d. The accounts of CEF were consolidated with the Company's accounts from July 1, 2000. Losses amounting to NIS 346 thousand which were accumulated from the date of consolidation until the actual date of acquisition (losses that are attributed to former shareholders), including NIS 7,387 thousand for remuneration of former management, are presented in a separate caption among the statement of income, "Share of former shareholders in losses of newly consolidated subsidiary".

e. In the past, CEF issued debentures convertible into shares, at the discretion of the debentures holders. CEF retains the right to redeem the debentures at predetermined dates by converting them into CEF shares. The conversion ratio will be determined, in this instance, according to the share's market price on the Stock Exchange in the period before the conversion multiplied by 95%. Accordingly, these debentures are presented in a separate caption between long-term liabilities and minority interests.

NOTE 5:- ADDITIONAL INFORMATION ABOUT SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

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 are linked to the Israeli CPI, bear annual interest of 5.75% and are redeemable 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 six months, the conversion ratio will increase by 1%.

The debenture are 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.

Subsequent to the balance sheet date, in October 2000, convertible debentures in the aggregate par value of NIS 10 million were converted into NIS 760 thousand par value of the Company's shares.

b. In January 2000, an agreement was signed between Gazit 97 which owns 75% of First Capital Inc. shares ("First Capital") 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 and long-term loans which financed the acquisition of these real estate properties. These shareholders have also repaid the loan which the Company had granted to them.

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 (in March 2000, the subsidiary sold 160 thousand units to the Company and 40 thousand units were sold to minorities for NIS 2,428 thousand).

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 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.

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 13.6.

The issuance total gross proceeds amounted some adjusted NIS 81,787 thousand, of which adjusted NIS 12,141 thousand was received from a subsidiary.

d. 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 guarantees loans extended to the optionees by a bank in order to purchase the shares. The loans are linked to the Israeli CPI, bear interest of 2% and are repayable within five years.

e. In March 2000, the Company entered into two agreements whereby it issued in April 2000, 1,500 thousand Company's shares, 300 thousand stock options (series 3) and 600 thousand stock options (series 4) were issued in 300 thousand units of which 100 thousand units were issued to a controlling company. In consideration for the securities offered, the oferees paid NIS 17,638 thousand.

f. In September 2000, the Company announced Gmul Investment Company Ltd. ("Gmul") that the conditions according to which Gmul is committed to convert the debentures it holds into share capital were met, so Gmul converted debentures of NIS 16 million par value into NIS 1,665 thousand par value of the Company's shares. Following the conversion, Gmul increased its holdings in the Company to 16%.

NOTE 6:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. Acquisition of 49% of the share capital of Mishkanot Clal (1982) Ltd.:

In September 2000, the Company and Azurim Properties Ltd. ("Azurim") signed an agreement whereby, in October 2000, the Company acquired 49% of the share capital of Mishkanot Clal (1982) Ltd. ("Mishkanot Clal") for the net amount of NIS 66 million. The Company was also granted the right to acquire from Azurim an additional one percent of the share capital of Mishkanot Clal. According to an agreement among the shareholders, the Company is authorized to appoint half of the members of the Board of Mishkanot Clal.

Mishkanot Clal establishes and manages dwelling centers for the elderly throughout Israel.

From October 1, 2000, upon the closing of the transaction, the accounts of Mishkanot Clal will be consolidated by the proportionate consolidation method.

b. In July 2000, EQ1, which is 69.3% owned by the Company before this allocation, and Alonei Hetz signed a memorandum of understanding whereby EQ1 will allocate to Alonei Hetz some 20% of its shares at the net price of $ 10.875 per share.

In the first stage, Alonei Hetz will be allocated up to 1.9 million shares, representing 14% of the share capital of EQ1, in exchange for $ 21 million. In addition, EQ1 will allocate stock options which are exercisable at two dates so should they be exercised, Alonei Hetz's holdings in EQ1 will reach 20%.

When the said allocation of shares is completed and the stock options are exercised, the Company's holdings in EQ1 will decrease to some 58%.

In November 2000, EQ1 allocated, as per the agreement, one million shares (7.8%) in exchange for $ 10.9 million and the Company recorded a gain of NIS 3.3 million from decrease in holding rate. The remaining shares will be allocated at EQ1 needs until August 2001.

c. In October 2000, the Company issued 3.8 million shares as stock dividend in such a manner that each holder of 9 shares received free an additional share.

d. In October 2000, the Company sold to Alonei Hetz 400 thousand of the Company's shares which were held by it in exchange for NIS 6.2 million.

e. Subsequent to the balance sheet date, some 3.5 million options (series 3) were exercised into the Company's shares, mainly by the parent company for the lump sum of NIS 35 million.

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended September 30, 2000

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended September 30, 2000:

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 owns – directly and indirectly – 110 properties with G.L.A. for rental of close to 14 million square feet, with a carrying value of NIS 4 billion, generating annual rentals of NIS 550 million (based on the current number of properties with rental fees on an annual gross basis), as well as half of the control in a company engaged in the assisted/independent living residences industry.

In the USA, the Company operates via Equity One Inc. (hereinafter – "EQ1"), a self-administered, self-managed REIT (real estate investment trust) traded on the NYSE. At the approval date of the financial statements, the Company owns 63.9% of the share capital of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of income-producing properties (primarily supermarket anchored shopping centers), owning 30 properties consisting of G.L.A. of approx 3.1 million square feet. The company also owns 8% of a public REIT headquartered in Houston, Texas.

The operations in Canada are carried out via Centrefund Realty Corp. (hereinafter – "CFE"), a publicly held company traded on the TSE. As of the approval date of the financial statements, the company owns some 68% of the share capital of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in Florida and Texas. CFE owns 72 properties with total G.L.A. of more than 10.7 million square feet, as well as additional properties under development. In addition, the Company has a Canadian subsidiary, First Capital Inc. (hereinafter – "F.C.I."), in which the Company holds 100% of the share capital as of the approval date of the financial statements. F.C.I. operates in the provinces of Ontario and Quebec, engaged in the acquisition, management, and development of income-producing real estate (primarily supermarket-anchored community shopping centers). As of the approval date of the financial statements, it owns 7 shopping centers with G.L.A. approx than 727,000 square feet.

In Israel, the company owns one-half of the means of control in Mishkenot Clal (1982) Ltd., which is engaged in the construction, maintenance, marketing and management of assisted/independent living residences in Israel, in the construction of an office and commercial building in Tel-Aviv, and owns additional land in Tel-Aviv for future development.

The Company also owns 4.9% of the shares of Supersol Ltd.

B. <u>Operating Results in the Period</u>

In the nine-month and three-month period ended September 30, 2000, net income amounted to NIS 46.4 million and NIS 16.5 million, respectively, compared with NIS 10.7 million and NIS 4.7 million, respectively, in the corresponding periods last year. In the year 1999, net income amounted to NIS 21.1 million.

Primary earnings per share in the periods ended September 30, 2000 amount to NIS 1.22 and NIS 0.44 per share, respectively, compared with NIS 0.47 and NIS 0.16 per share, respectively, in the corresponding periods last year, and NIS 0.92 for the year ended December 31, 1999.

In addition, depreciation on assets (net of the minority interest) for the nine-month and three-month periods ended September 30, 2000 totalled NIS 16.9 million and NIS 9.4 million, respectively, which is NIS 0.42 and NIS 0.22 depreciation per share, respectively, compared with NIS 8.6 million and NIS 3.1 million, respectively, which is NIS 0.39 and NIS 0.12 depreciation per share, respectively, in the corresponding periods last year. Total earnings, excluding non-recurring income and expenses, plus depreciation per share in the three-month and nine-month periods ended September 30, 2000 amounts to NIS 1.66 and NIS 0.67 per share, respectively compared with NIS 0.86 and NIS 0.29 per share in the corresponding periods last year, growth of 93% and 130%, respectively.

As of September 30, 2000, shareholders' equity per share (NIS 1 par value) amounts to NIS 10.27 **(all per share data is after adjustment for the distribution of a stock dividend/bonus shares of 11.11%.)**

Regarding the results of operations see Item 3 below.

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

<u>General</u>

In the reported period, the Company invested – directly and through subsidiaries – a total of NIS 165 million, net, 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 during the coming year. In addition, NIS 339 million was invested in acquiring the minority interests in consolidated subsidiaries.

A. <u>Acquisition of Centrefund Realty Corp. (hereinafter – "CFE")</u>

In August 2000, Gazit 1997, a Canadian company wholly-owned by the Company, successfully completed a tender offer for the shares of CFE, a real estate company traded on the Toronto Stock Exchange. The tender offer, which was accepted in full, was for up to 10.8 million shares of CFE (some 72% of share capital) at a price of 13.25 Canadian dollars ("CAN $") per share, which, combined with the additional shares acquired by Gazit 1997 in the course of trading just before the tender offer, conferred 84% of the share capital of CFE.

CFE is a publicly held income-producing real estate company included among the real estate companies traded in the TSE-300 index. The company, traded at a market value of US$ 100 million (CAN$ 150 million), specializes in supermarket-anchored neighborhood and community shopping centers in Canada (about 60% of its properties) and the U.S. (about 40% of its properties).

CFE owns 72 properties at a total value of approx. one billion Canadian dollars, with total G.L.A. in these properties of more than 10.7 million square feet. CFE enjoys occupancy rates of 97% in its Canadian properties and 92% in its U.S. properties. CFE has additional properties under development, as well as land reserves for future development, which together represent G.L.A. of more than 1,300,000 square feet for rent.

The properties owned by CFE are anchored, for the most part, by anchor tenants that are leading national and international supermarket, commercial, and service chains. These chains specialize in providing basic daily products and services, considered recession-proof, to a population within a radius of some 1 – 3 miles. Among CFE's anchor tenants in Canada are the chains Safeway, A&P, Canadian Tire, Zeller's, Loblaw's, and Toys R US, and in the U.S., are Eckerd, Albertson's and Publix.

The management of Gazit-Globe sees the acquisition of CFE as a business opportunity with enormous potential, fitting in well with the Company's strategy of becoming a key player in the North American shopping center industry – an industry in which the advantages of size are clear. Gazit-Globe intends to keep CFE as an independent property company, managed locally in Canada, and to evaluate ways to improve and streamline the management of the existing property portfolio, while accelerating growth and evaluating ways to accelerate growth and evaluate cooperation with F.C.I. in Canada, and with EQ1 in the USA.

In the third quarter of 2000, CFE's rental income totalled CAN$ 36 million. In the full year 1999, CFE's rental income totalled CAN$ 137 million.

The total book value of CFE's properties (net of depreciation) as of September 30, 2000 is CAN$ 999 million (includes properties under development), compared with CAN$ 958 million (including properties under development) in 1999. In 2000, CFE distributed a dividend of CAN$ 0.92 per share, on an annual basis.

On October 5, 2000, Gazit 1997 sold 2.5 million shares in CFE, representing 16% of CFE's share capital, to a wholly-owned subsidiary of Aloni Hetz Properties and Investments Ltd. (hereinafter – "Aloni Hetz"), at a price of CAN$ 13.25 per share. In addition, an agreement was signed between Gazit 1997 and Aloni Hetz arranging the appointment of directors of CFE. Following the sale, Gazit 1997 owns 68% of CFE.

B. **Investments in real estate**

1. In April 2000, F.C.I. acquired approx. 1 acre of land opposite a property owned by the Company in Montreal, in consideration for CAN$ 425 thousand.
   The Company intends to expand the supermarket situated on the existing property, from more than 21,000 square feet to close to 40,000 square feet, and to relocate some of the tenants from the existing property to the property to be built on the opposite property, on which the Company plants to build some 10,000 square feet.
2. In April 2000, EQ1 completed the development and occupancy of the first stage of the Forest Village property in Tallahassee, Florida.
   The property contains G.L.A. of approx. 70,000 square feet, of which close to 38,000 square feet are rented to the Publix supermarket chain, and some 20,000 square feet are rented to other tenants.
3. In June 2000, EQ1 completed development of the second stage of the Sky Lake property, in Miami, Florida, adding G.L.A. of approx. 56,000 square feet. After completion of the second stage, the property has total G.L.A. of approx. 150,000 square feet. As of September 30, 2000, more than 50,000 square feet of the second stage's space has been rented.
4. In July 2000, EQ1 completed the development of 3 buildings, two of which are adjacent to its properties, and one is adjacent to the property of a third party, with total G.L.A. of close to 35,000 square feet. As of the approval date of the financial statements, more than 33,000 square feet have been rented.
5. On July 6, 2000, EQ1 received a US$16.5 million mortgage against a charge on the Sky Lake property in Miami, Florida. US$ 6.5 million of the mortgage proceeds were deposited in a trust account, until certain conditions related to the rental of the property are fulfilled, and the balance was used to reduce the company's line of credit.
   The mortgage is at fixed interest of 7.61% per annum, based on a 25-year loan amortization schedule.
6. During September 2000, EQ1 acquired a shopping center in Florida at a total cost of US$ 5.5 million. The purchase was financed in part by a US$ 3.5 million mortgage, bearing annual interest of 7.08%, to be repaid by March 2008.
   The property contains close to 85,000 square feet, with an occupancy rate of 98%, of which more than 48,000 square feet are rented to a supermarket chain, with the rest rented to credit tenants and local tenants.

C. Additional investments

In the reported period, the Company invested NIS 170 million in the purchase of marketable shares of real estate companies (REIT's) in the USA and Canada (excluding the shares of CFE, as described in Par. A. above), and sold a part of these investments in consideration for NIS 110 million.

Most of the investment in these shares is in companies whose principal activity is similar in nature to the properties of CFE, EQ1 and F.C.I., and operate in the countries in which the Company operates.

Most of the investments are concentrated in 3 companies, in which the holding of shares could, in addition to the favorable current yield they generate, develop into joint ventures in the future.

One investment was made in United Investment Realty Trust (hereinafter – "UIRT"), a public REIT traded on the Nasdaq. The Company's investment in UIRT as of the approval date of the financial statements is 8%, according to UIRT's financial statements. UIRT, headquartered in Houston, Texas, owns 26 neighborhood shopping centers, of which 17 are in Texas and 4 in Florida. The total G.L.A. of the centers is close to 3 million square feet (approx. 2.2 million square feet are wholly-owned by UIRT). The average occupancy rate in the properties is 87%.

UIRT's total rental income for the nine months ended September 30, 2000 was

US$ 19.4 million. The net cost of the properties as of September 30, 2000 is US$ 153 million.

D. Acquisition of EQ1 shares

In reported period-	Some 365 thousand shares in stock market trading, at prices ranging from US$ 9.20-9.90 per share.
	Some 365 thousand shares pursuant to a dividend reinvestment plan in EQ1, at a price of US$ 9.50 per share.
Subsequent to reported period-	Some 180 thousand shares in stock market trading, at price ranging from US$ 9.40-10.00 per share.

Following completion of these acquisitions, the Company's direct and indirect holdings in EQ1 increased to 69.3% of its issued capital.

Regarding the issuance of shares to Aloni Hetz, see Par. 6.A.

In total, the Company invested NIS 34.5 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 September 30, 2000 is NIS 325.5 million. The NYSE market value of the investments in shares of EQ1 as of September 30, 2000 is NIS 331.8 million, and as of the signing date of the financial statements is NIS 341.2 million (the change stems from fluctuations in the exchange rate of the dollar and the change in the stock market price of the shares).

E. Acquisition of shares in F.C.I.

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. In July 2000, F.C.I. signed a memorandum of understanding with a wholly-owned subsidiary of the Electra Group for a private placement of approx. 30% of the shares in F.C.I. In October, the parties announced that the memorandum of understanding did not result in a binding agreement between the parties.

F. Investments in Supersol

In the reported period, the Company purchased 2.6 million in shares of Supersol Ltd. at a total cost of NIS 36 million. In the reported period and until the approval date of the financial statements, the Company sold some 3.6 million shares of Supersol Ltd. in stock market trading, for total proceeds of NIS 53 million, and a gain of NIS 8.5 million. On March 30, 2000, the Company received a dividend of NIS 18 million from Supersol Ltd. The financing expenses in respect of the holdings in Supersol were expensed in full.

On October 16, 2000, the Company announced that it was no longer an interested party in Supersol.

G. Investments in technology companies related to the shopping center industry

The Company's management views investments in technology companies related to the shopping center industry as a complement to the income-producing real estate industry.

a. Investment in MSC

MSC, a wholly-owned subsidiary of the Company, is incorporated in Delaware, USA.

The company owns the domain, "MyShoppingCenter.com".

MSC develops solutions for neighborhood shopping centers, directed at three types of customers: shoppers in the shopping centers, business owners in the site, and the property owners.

The objective of the venture is to increase and strengthen customer loyalty to the shopping centers, and to enable business owners in the shopping centers to benefit from the advantages of broadband Internet opposite their customers (B2C) and to make their businesses more efficient (in the B2B and ASP fields). In order to make the use of these applications more efficient, MSC will also work toward connecting the properties to broadband, and to be a provider of telecommunication services to the sites ("CLEC" – Competitive Local Exchange Carrier). The venture is also planned to include solutions for the distribution of goods to E-tailers and to provide E-commerce solutions to each of the retailers and service providers in the center.

On July 1, 2000, MSC launched an experimental site and plans to approach the owners of shopping centers throughout the USA and have them join the web site. A property owner will be entitled to a specified percentage of the revenues to be earned by MSC from the various uses of the property that it owns.

MSC is working toward setting up joint ventures with other real estate companies in the USA, as well as with companies engaged in the sale of goods and/or services, and with companies that specialize in laying telecommunication networks.

During July 2000, MSC signed a memorandum of understanding with EQ1, to connect all of EQ1's shopping centers to the MSC site. In consideration, EQ1 received option warrants in MSC.

In the balance sheet period, Mr. Garry Mansfield assumed the position of Chief Executive Officer (C.E.O.) and President of MSC, and Mr. Ilan Zachar became the Chief Technology Officer (C.T.O.). Mr. Mansfield is an attorney by profession, with a degree in business administration from the University of Chicago. In recent years, he has held a series of senior managerial positions with start-up companies with a retail trade orientation.

Mr. Ilan Zachar served until recently as a senior consultant in I.B.M. Canada, and has vast experience in the design and development of complex computer systems, including Internet sites.

As reported in the past, the Company's board of directors authorized the Company's management to invest up to US$ 3 million in the activities of MSC (and in similar companies that are developing other Internet applications for the real estate industry). During the reported period, the Company invested US$ 1.6 million in MSC. The Company expects to continue to invest an additional US$ 1 million in MSC in the coming quarters, and to invest US$ 500 thousand in real estate ventures.

b. **<u>Investment in Investment in Vuetopia Inc. (Vuetopia.com)</u>**

In June 2000, the Company invested US$ 300 thousand in Vuetopia Inc., a company developing an Internet-based technology to transmit high resolution video content to large screens in public areas, mainly in large shopping centers. The Company's investment could increase by another US$ 400 thousand, if certain conditions are met. The deal was effected at a company value of US$ 13 million, before the money.

H. Acquisition of Mishkenot Clal (1982) Ltd.

On September 11, 2000, the Company signed an agreement for the acquisition of one-half of the control in Mishkenot Clal (1982) Ltd. (hereinafter – "Mishkenot Clal") from Azorim Properties Ltd., the owner of full control in Mishkenot Clal

The acquisition of one-half of the control was acquired by means of an issuance of shares by Mishkenot Clal and by the acquisition of some of the

Mishkenot Clal shares held by Azorim Properties Ltd., based on a company value for Mishkenot Clal of NIS 135 million.

The Company acquired its share in a cash transaction. If and when certain conditions are met, the Company has the right to pay some of the consideration in the form of shares in Gazit-Globe.

Upon acquisition of the shares and completion of the issuance, the Company holds 49% of the share capital and 50% of the means of control in Mishkenot Clal. In addition, the Company received an option to acquire another 1% of the share capital of Mishkenot Clal.

Mishkenot Clal is engaged, through subsidiaries and related companies, in the construction, maintenance, marketing, and management of assisted/independent living residences throughout Israel.

The Company's management views the Mishkenot Clal acquisition as a business opportunity to expand and diversify its income-producing real estate activities, and to begin real activities in Israel in a segment with vast business potential, with a partner that is a leader in the assisted/independent living residence market.

Pursuant to the terms of the agreement, the transaction was closed on October 4, 2000. The Company will include the investment in its financial statements beginning from the fourth quarter of the year.

I. Public Offering

On February 13, 2000, the Company published a prospectus that included a public offering by means of a tender of 5,000,000 shares, 1,000,000 option warrants (Series 3) and 2,360,000 option warrants (Series 4). The total proceeds to the Company, net of the wholly-owned subsidiary's purchase of 1,000,000 shares, 200,000 option warrants (Series 3), and 400,000 options warrants (Series 4), amounted to NIS 48.8 million, gross (NIS 46.5 million, net).

The Company also offered, by means of rights to its shareholders, 2,515,142 option warrants (Series 4), in a manner whereby each holder of 10 ordinary shares on the date of record would receive one option warrant (Series 4) for no consideration.

For details, see Note 5 to the financial statements.

J. Private Placement of Securities

1. In March, the Company entered into two agreements for the private placement of a total of 1,500,000 ordinary shares of the Company, NIS 1 par value, 300,000 options warrants (Series 3) of the Company

and 600,000 option warrants (Series 4) of the Company, that were issued in the form of 300,000 units (100,000 units were purchased by the parent company). In consideration for the securities offered in the private placement, the offerees paid a total of NIS 17.6 million. The offering was completed in April of this year.

2. On January 9, 2000, the Company's board of directors resolved to approve the private placement of 287,000 ordinary shares of the Company, NIS 1 par value, 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 a general meeting of the Company's shareholders on February 8, 2000 had approved the issuance.

K. Issuance of Convertible Bonds

On February 8, 2000, the Company issued bonds convertible into shares of the Company (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 as of December 31, 1999. On October 10, 2000, 10 provident funds informed the Company that they were converting NIS 10 million of convertible bonds into shares of the Company, under the terms stipulated in the bonds. The Company issued 760 ordinary thousand shares, par value.

L. Conversion of Convertible Bonds

In February 1999, the Company issued NIS 16 million in non-marketable convertible bonds to G'mul Investment Company Ltd. (hereinafter – "G'mul").

On September 4, 2000, the Company informed G'mul that pursuant to the terms stipulated in the bonds, it must convert the bonds into shares in the Company. The Company issued 1,665 thousand ordinary shares, par value, to G'mul, in consideration for NIS 16 million principal value of bonds.

3. Results of Operations

In the nine-month and three-month period ended September 30, 2000, the Company's income amounted to NIS 46,596 thousand and NIS 16,481 thousand, respectively, compared with NIS 10,743 thousand and NIS 4,656 thousand, respectively, in the corresponding periods last year and NIS 21,112 thousand in the year 1999.

In the above periods, the Company's rental income on buildings totalled NIS 212,983 thousand and NIS 138,549 thousand, respectively, compared with NIS 94,675 thousand and NIS 37,579 thousand, respectively, in the corresponding periods last year and NIS 129,120 thousand in the year 1999.

In the third quarter, the Company consolidated the activities of C.F.E. for the first time, contributing NIS 100,369 thousand to rental income.

The results of operations for the reported periods are affected mainly by rental income on buildings and by dividend income, principally from the long-term investment in Supersol Ltd. and other companies, amounting to NIS 25,722 thousand and NIS 2,407 thousand in the nine-month and three-month periods ended September 30, 2000, respectively, compared with NIS 4,407 thousand in 1999 and NIS 1,517 thousand and NIS 727 thousand, respectively, in the nine months and three months ended September 30, 1999. The increase in this income derives mainly from the NIS 18,000 thousand dividend distributed by Supersol and the dividend from investments described in Par. 2.C.

The operations of EQ1 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. Net income of EQ1 in the nine-month and three-month periods ended September 30, 2000 (excluding non-recurring revenues and expenses) rose by 13.7% and 4.9%, respectively, over the corresponding periods last year.

The operations of F.C.I. were characterized by growth in rental income on buildings, attributable to the acquisition of new rental properties during 1999, the full effect of which is reflected in the reported period, and from the increase in the occupancy rates of the properties.

The increase in general and administrative expenses in the reported period stems from the increase in the wage expenses that are a function of the Company's results of operations and from non-recurring expenses related to the evaluation of additional investments, which, as policy, are provided for in full when the evaluation is completed, and from the first-time consolidation of CFE. The increase in the net financing item stems from the first-time consolidation of CFE, from the increase in interest expenses on loans used to finance additional investment in fixed assets, long-term investments, and the acquisition of the minority interests in consolidated subsidiaries, offset by the gain on the sale of the shares in Supersol and other marketable shares of NIS 14.6 million and by inflationary effects in the USA and Canada.

The investment in Supersol is expected to continue to affect financing expenses in the coming quarters.

4. Liquidity and Financing Sources

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 and convertible bonds in CFE, which may be redeemed by CFE, and NIS 1,579 million of convertible bonds in the Company that were converted into shares in October 2000, financed 33.1% of the total balance sheet.

B. The current ratio of current assets to current liabilities (less NIS 109 million in mortgages on fixed assets that are classified as short-term, but the Company intends to extend into long-term liabilities) reached 1.4.

C. Cash flows from operating activities for the nine-month and three-month periods ended September 30, 2000 totalled NIS 70.1 million and NIS 25.3 million, respectively, compared with NIS 55.8 million and NIS 27.1 million, respectively, in the corresponding periods last year.

5. Financial Position

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 long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of September 30, 2000, the liquid balances available to the Company and its subsidiaries, including short-term investments, total NIS 230.6 million, compared with NIS 51.3 million as of December 31, 1999, and NIS 70.5 million as of September 30, 1999. The increase in the amount of liquid balances in the reported period stems mainly from the first-time consolidation of CFE, from the receipts from offerings of capital and debt to the public and other parties effected by the Company, plus the increase in the Company's working capital, less the amounts used by the Company to acquire shares in CFE and EQ1 and to acquire long-term investments in the Company.

The increase of NIS 251.6 million in shareholders' equity to NIS 372.3 million stems from the net offering of shares amounting to NIS 70.6 million, from the conversion of convertible bonds into shares in the amount of NIS 16.1 million, from the NIS 0.2 million increase in the item "translation adjustments deriving from translation of financial statements" in respect of CFE, EQ1 and F.C.I., plus the Company's earnings for the reported period of NIS 46.6 million, less a dividend paid by the Company of NIS 12.8 million.

6. Additional Information and Subsequent Events

A. In October 2000, further to the memorandum of principles from July 2000, EQ1 (held 69.3% by the Company before this issuance) signed an agreement with Aloni Hetz for the private placement of up to 20% of the shares in EQ1, at a price of US$ 10.875 per share, net.

In the first stage, 1.9 million shares will be issued to Aloni Hetz, representing 14% of the share capital of EQ1, in consideration for US$ 21 million. In addition, option warrants will be issued to Aloni Hetz, to be exercised on two dates, so that on a fully diluted basis, Aloni Hetz will have a stake of about 20% in EQ1.

The closing date of the agreement was set as November 17, 2000. On this date, EQ1 issued one million shares to Aloni Hetz for total consideration of US$ 10.9 million. The balance of the shares will be issued to Aloni Hetz at the demand of EQ1 over the next 9 months.

Following the issuance of one million shares to Aloni Hetz, the Company's holdings in EQ1 fell from 69.3% to 63.9%, and the Company will record a gain of NIS 3.3 million from the reduction in its equity interest in EQ1 in the fourth quarter.

From the date of the financial statements until the approval date, the Company raised additional capital, as follows:

1. Exercise of 3.5 million option warrants (Series 3) by the parent company and other parties, in consideration for at total of NIS 35 million.
2. Sale of 400 thousand shares to Aloni Hetz in consideration for NIS 6.2 million.

B. In October 2000, F.C.I. acquired a shopping center near Montreal at a total cost of CAN$ 9 million. The acquisition was financed in part by a CAN$ 7 million mortgage, bearing annual interest of 8.2%, based on a 25-year loan amortization schedule.

The property contains more than 192,000 square feet, of which more than 80,000 square feet is rented to a leading Canadian department store chain ("Zeller's") and some 103,000 square feet is rented to other tenants.

D. On September 27, 2000, the Company announced the distribution of stock dividend at the rate of 11.11%. Thus, every holder of NIS 9 par value shares will receive one additional share, for no consideration. The record date was October 22, 2000. In total, the Company issued approx. NIS 3.8 million in new shares as a stock dividend.

7. 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.

8. Reporting of Exposures to Market Risks and their Management

A. The individuals 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 CFE, EQ1 and F.C.I. are the most significant assets of the Company and therefore the risk factors to which CFE, 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 business cycle of the businesses in the regions in which the Company's properties are located (economic condition).
e. The status of EQ1 as a REIT.
f. Activities in the renovation and development of properties.

2. The Company owns 4.9% 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, in the trading in Supersol's shares, or 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.

4. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.

5. Occasional foreign currency exposure of the U.S. dollar against the Canadian dollar due to CFE's activities in Canada and the USA.

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 CFE, and the Company's Managing Director, Mr. Dori Segal, who is the President of CFE and F.C.I., permanently reside where the companies operate.
   CFE, EQ1 and F.C.I. regularly monitor developments in the markets in which operate. 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. Furthermore, in the last two quarters, the Company has sold about one-third of its holdings in Supersol in stock market trading.
3. The Company finances its investments in CFE, EQ1 and F.C.I. with its equity and with foreign currency credit, denominated in U.S. dollars 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.

4. The Company finances most of its foreign currency credit in U.S. dollars and Canadian dollars, at fixed interest rates under long-term arrangements (mortgages against real estate). In addition, the Company executed interest rate swaps totalling US$ 18 million against foreign currency credit at variable interest (three-month LIBOR rate). The Company finances most of its investment in shekel assets with shekel credit at fixed interest rates, and monitors, on a regular basis, developments and changes in the interest policy of the Bank of Israel.
5. The Company takes measures via Gazit 1997 (a wholly-owned Canadian subsidiary of the Company) to reduce the effect of the exposure of the U.S. dollar against the Canadian dollar.

D. Means of implementing and monitoring policies:

The Company's management regularly monitors the management of risks and ways in which to expose the Company's exposure to these risks.

Dori Segal Managing Director	Varda Tzonetz Director