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

FINANCIAL STATEMENTS AS OF DECEMBER 31, 1998

ADJUSTED TO THE NIS OF DECEMBER 1998

INDEX

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ERNST & YOUNG
KOST FORER & GABBAY

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

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

We have audited the accompanying balance sheet of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 1998 and the balance sheet of the Company and its subsidiaries ("the Consolidated") for the same date and the related statements of income, changes in shareholders' equity and cash flows - the Company and the Consolidated - for the year 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 previous years 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 91.9% as of December 31, 1998, and total revenues constituting approximately 98.8% of the related consolidated totals for the year 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, either originating within the financial statements themselves or due to any misleading statement included therein. 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.

The aforementioned financial statements have been prepared on the basis of the historical cost adjusted to reflect the changes in the general purchasing power of the Israeli currency, as required by the Statements of the Institute of Certified Public Accountants in Israel. A summary of the Company's financial statements in nominal (historical) Israeli shekels, which served as a basis for the adjusted statements, is presented in Note 32.

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, 1998, and the related results of operations, changes in shareholders' equity and cash flows - the Company and the Consolidated - for the year 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.

Tel-Aviv, Israel
March 28, 1999

KOST FORER & GABBAY
Certified Public Accountants (Israel)
A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES

BALANCE SHEETS

Adjusted to the NIS of December 1998

		Consolidated		The Company	
		December 31,		December 31,	
		1998	1997	1998	1997
	Note	Adjusted NIS in thousands			
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	3	17,624	15,390	9,013	5,314
Short-term investments	4	39,417	5,960	800	644
Tenants	5	4,489	3,253	-	-
Other accounts receivable	6	7,435	2,079	22,245	49
		68,965	26,682	32,058	6,007
LONG-TERM INVESTMENTS AND LOANS:					
Investments in subsidiaries	7	-	-	255,101	92,924
Long-term loans	8	8,221	5,857	1,544	-
		8,221	5,857	256,645	92,924
FIXED ASSETS:	10				
Cost		742,658	524,123	678	-
Less - accumulated depreciation		48,993	29,683	320	-
		693,665	494,440	358	-
OTHER ASSETS, NET	11	8,164	6,956	375	42
		779,015	533,935	289,436	98,973

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
BALANCE SHEETS

Adjusted to the NIS of December 1998

	Note	Consolidated December 31, 1998	Consolidated December 31, 1997	The Company December 31, 1998	The Company December 31, 1997
		Adjusted NIS in thousands			
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term credit from banks and others	12	37,306	33,585	19,171	-
Trade payables	13	1,027	251	32	-
Dividend declared	14	5,176	-	5,176	-
Other accounts payable	15	14,731	6,002	1,079	281
		58,240	39,838	25,458	281
LONG-TERM LIABILITIES:					
Debentures	16	83,730	-	88,034	-
Liabilities to financial institutions and others	17	280,486	239,132	12,077	-
Tenants' security deposits		3,716	2,935	-	-
Accrued severance pay	18	57	-	50	-
Deferred taxes	19c	424	-	-	-
		368,413	242,067	100,161	-
CONTINGENT LIABILITIES AND COMMITMENTS	20				
MINORITY INTEREST		188,545	153,338	-	-
SHAREHOLDERS' EQUITY	21	163,817	98,692	163,817	98,692
		779,015	533,935	289,436	98,973

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

March 28, 1999		
Date of approval of the financial statements	H. Katzman Chairman of the Board of Directors	D. Segal Managing Director

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
STATEMENTS OF INCOME

Adjusted to the NIS of December 1998

	Note	Consolidated		
		Year ended December 31,		
		1998	1997	(* 1996
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Rental income	24	97,935	76,483	31,635
Dividend from subsidiary, net		-	-	1,087
Management fees from related party		84	-	-
Gain on issuance to third party (see Note 1b(3))		2,215	-	-
Gain on sale of real estate		8,702	-	-
		108,936	76,483	32,722
Costs and expenses:				
Operating expenses	26	26,960	(** 20,244	(** 8,281
Depreciation		13,775	9,746	4,096
Amortization of other assets		969	937	(** 505
Gas and oil exploration, net	27	15	135	1,226
General and administrative	28	9,531	(** 5,269	(** 3,358
Financial, net	25	16,182	15,133	(** 6,685
		67,432	51,464	24,151
Income before taxes on income		41,504	25,019	8,571
Taxes on income	19d	3,393	2,229	677
Income after taxes on income		38,111	22,790	7,894
Minority interest in earnings of subsidiaries		(24,656)	(17,380)	(6,496)
Net income for the year		13,455	5,410	1,398
Earning per NIS 1 par value of common shares (in adjusted NIS):	29			
Basic earnings		0.95	0.55	0.23
Diluted earnings		-	-	0.16

*) See Note 1b(6).
**) Reclassified.

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
STATEMENTS OF INCOME

Adjusted to the NIS of December 1998

	Note	The Company Year ended December 31, 1998	 1997	 1996
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Revenues from maintenance of real estate		93	-	-
Dividend from subsidiary, net		-	-	1,087
Management fees from a subsidiary and the parent company		726	197	95
Equity in earnings of subsidiaries		5,256	5,045	2,571
Financial, net	25	11,119	2,939	424
		17,194	8,181	4,177
Costs and expenses:				
Amortization of other assets		43	97	100
Gas and oil exploration, net	27	15	135	1,226
General and administrative	28	1,615	960	887
Loss on issuance to third party		285	-	-
		1,958	1,192	2,213
Income before taxes on income		15,236	6,989	1,964
Taxes on income	19d	1,781	1,579	566
Income after taxes on income		13,455	5,410	1,398
Net income for the year		13,455	5,410	1,398
Earning per NIS 1 par value of common shares (in adjusted NIS):	29			
Basic earnings		0.95	0.55	0.23
Diluted earnings		-	-	0.16

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of December 1998

	Share capital	Share premium	Additional paid-in capital	Cumulative foreign currency translation adjustments	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at January 1, 1996	57,580	54,829	-	-	(45,439)	66,970
Capital issuances, net	5,017	25,886	-	-	-	30,903
Foreign currency translation adjustments	-	-	-	(372)	-	(372)
Capital contribution from investments in subsidiary abroad *)	-	-	(*** (22,524)	-	-	(22,524)
Net income for the year	-	-	-	-	1,398	1,398
Dividend proposed for payment	-	-	-	-	(1,162)	(1,162)
Balance at December 31, 1996	62,597	80,715	(22,524)	(372)	(45,203)	75,213
Capital issuances, net	3,813	21,705	-	-	-	25,518
Foreign currency translation adjustments	-	-	-	2,695	-	2,695
Capital contribution from investments in subsidiary abroad *)	-	-	(*** (7,765)	-	-	(7,765)
Net income for the year	-	-	-	-	5,410	5,410
Erosion of dividend declared previous year	-	-	-	-	29	29
Divided paid	-	-	-	-	(2,408)	(2,408)
Balance at December 31, 1997	66,410	102,420	(30,289)	2,323	(42,172)	98,692
Assignment of assets, net from the parent company against capital issuance, net (Note 1b(5))	6,169	-	43,576	(742)	-	49,003
Foreign currency translation adjustments	-	-	-	7,590	-	7,590
Capital contribution from subsidiary's liability to a former related party **)	-	-	(1,331)	-	-	(1,331)
Capital contribution from realization of option for the purchase of land **)	-	-	1,220	-	-	1,220
Write-off of provision for loss on decrease in holding rate in subsidiary	-	-	364	-	-	364
Net income for the year	-	-	-	-	13,455	13,455
Dividend declared	-	-	-	-	(5,176)	(5,176)
Balance at December 31, 1998	72,579	102,420	13,540	9,171	(33,893)	163,817

*) See Note 7e.
**) See Note 1b(3).
***) Reclassified.

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 1998

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1998	1997	1996	1998	1997	1996
	Adjusted NIS in thousands					
Cash flows from operating activities:						
Net income for the year	13,455	5,410	1,398	13,455	5,410	1,398
Adjustments to reconcile net income to net cash provided by operating activities (a)	24,808	24,290	5,383	(7,271)	(808)	1,283
Net cash provided by operating activities	38,263	29,700	6,781	6,184	4,602	2,681
Cash flows from investing activities:						
Investment in well that produces oil	-	-	(592)	-	-	(592)
Investment in newly consolidated subsidiaries (b)	513	-	(12,547)	-	-	(35,661)
Collection of loans from subsidiaries	-	-	-	2,637	-	2,220
Investment in subsidiary	(4,867)	-	-	-	(8,239)	-
Dividend received from a consolidated entity, net	-	-	-	1,086	-	-
Investment in loans to subsidiary, net	-	-	-	(25,223)	(21,659)	(10,682)
Losses related to hedging transactions	-	(620)	-	-	-	-
Investment in fixed assets	(127,782)	(38,549)	(43,733)	(60)	-	-
Proceeds on sale of real estate	28,013	-	-	-	-	-
Investment in long-term loans	(1,464)	-	-	(1,544)	-	-
Marketable securities and deposits, net	(4,183)	21,010	(9,462)	717	3,500	2,762
Deposits in banks, net	(28,205)	(3,151)	3,744	-	-	1,078
Net cash used in investing activities	(137,975)	(21,310)	(62,590)	(22,387)	(26,398)	(40,875)

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 1998

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1998	1997	1996	1998	1997	1996
	Adjusted NIS in thousands					
Cash flows from financing activities:						
Capital issuances net of issuance expenses	-	25,534	30,955	(430)	25,534	30,955
Issuance to minority in subsidiary	107,546	-	-	-	-	-
Proceeds on exercise of option by minority in subsidiary	-	10,300	5,810	-	-	-
Deferred charges	(1,037)	(1,428)	(643)	(79)	-	-
Dividend paid	-	(3,541)	-	-	(3,541)	-
Dividend paid to minority in subsidiary	(21,351)	(15,821)	(6,132)	-	-	-
Proceeds on principal of long-term loans	60,892	52,246	40,138	2,240	-	-
Principal payment of loan to Gazit Group	(6,634)	-	-	-	-	-
Sale of Company's debentures by subsidiaries	2,066	-	-	-	-	-
Principal payment of long-term loans	(69,161)	(73,665)	(13,770)	-	-	-
Short-term bank credit, net	22,357	(10)	10	18,171	(10)	10
Net cash provided by (used in) financing activities	94,678	(6,385)	56,368	19,902	21,983	30,965
Effect of exchange rate changes on cash and cash equivalents	7,268	651	(181)	-	-	-
Increase (decrease) in cash and cash equivalents	2,234	2,656	378	3,699	187	(7,229)
Cash and cash equivalents at the beginning of the year	15,390	12,734	12,356	5,314	5,127	12,356
Cash and cash equivalents at the end of the year	17,624	15,390	12,734	9,013	5,314	5,127

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

GAZIT-GLOBE (1982) LTD. AND ITS SUBSIDIARIES
STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 1998

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1998	1997	(* 1996	1998	1997	1996
	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	1,016	221	117	608	214	38
Equity in earnings of subsidiaries net of dividend received therefrom	-	-	-	(1,025)	(1,183)	(853)
Minority interest in subsidiary	24,656	17,380	6,496	-	-	-
Depreciation	14,128	9,746	4,096	42	-	-
Adjustment differences on monetary assets and long-term liabilities, net	(4,516)	(4,267)	(3,063)	(3,905)	(352)	353
Write-down of investments in wells producing oil and gas	-	84	1,149	-	84	1,149
Expenses related to investments in wells producing oil	-	-	36	-	-	36
Amortization of other assets	2,171	1,806	1,129	43	97	99
Increase in lessees' security deposits	500	224	423	-	-	-
Gain on sale of land	(8,702)	-	-	-	-	-
Gain (loss) on issuance to third party	(2,215)	-	-	285	-	-
Changes in assets and liabilities:						
Decrease (increase) in lessees and other accounts receivable	(5,009)	(925)	(353)	(3,733)	83	658
Increase (decrease) in trade payables and other accounts payable	2,779	21	(4,647)	414	249	(197)
	24,808	24,290	5,383	(7,271)	(808)	1,283

*) See Note 1b(6).

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

Adjusted to the NIS of December 1998

	Consolidated		
	Year ended December 31,		
	(** 1998	1997	(* 1996
	Adjusted NIS in thousands		
(b) Investment in newly consolidated subsidiaries:			
Subsidiaries' assets and liabilities at acquisition date:			
Working capital (excluding cash and cash equivalents):			
Current assets	(762)	-	(12,804)
Current liabilities	7,749	-	14,207
	6,987	-	1,403
Long-term loans and investments (mainly land)	(59,571)	-	(381,360)
Other assets	(2,701)	-	(6,042)
Long-term liabilities	8,181	-	227,769
	(47,104)	-	(158,230)
Minority interest in subsidiary shareholders' equity	(74,545)	-	122,304
Initial difference	-	-	(21,511)
	(121,649)	-	(57,437)
Investment in the subsidiary before its consolidation	-	-	44,890
Shares allocated to the parent company against subsidiaries' shares	122,162	-	-
	513	-	(12,547)
(c) Significant non-cash operations:			
Allocation of shares against assets and liabilities assigned to the Company:			
Consolidated	(73,159)	-	-
The Company	49,433	-	-
Dividend declared - Consolidated and the Company	5,176	-	-

*) See Note 1b(6).
**) See Note 1b(5).

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

NOTE 1:- GENERAL

a. Definitions:

The Company - Gazit-Globe (1982) Ltd.

The parent company - Gazit Inc.

Subsidiaries - companies over which the Company has control (as defined in Statement No. 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 Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993, including Opinion No. 29 of the Institute of an 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. Until December 15, 1993, the Company was, directly and indirectly, a Government-owned company whose principal activity was the oil and gas exploration. At the above date, 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.

2. From the end of 1994, following a resolution accepted by the Company to expand its objectives so that it will be able to be engaged in other fields, the Company commenced to invest, directly and indirectly, in Equity One, Inc. ("Equity 1") an American company which specializes in the acquisition, development and management of income properties in the U.S.

3. In May 1998, Equity 1 effected an IPO whereby 4.7 million shares (46%) were offered to the public, of which Equity 1 issued 3.3 million shares (32.5%) for the inclusive proceeds of $ 51 million (of which Equity 1 raised $ 32.2 million, net). Following the above offer, the Company derived net gain on decrease in holding rate of NIS 2,143 thousand.

   Proximate to the offering of its shares on the Stock Exchange, Equity 1 transferred as "in kind dividend" to Golden Equity, a limited partnership registered in the U.S. ("Golden Equity") whose partners are the ones who were the shareholders in Equity 1 prior to the IPO (excluding Mashvim, which sold its share in the partnership to the Company), mainly certain vacant land in the U.S. which are designated for development.

Equity 1 was granted an option, exercisable by May 2003, to re-purchase from Golden Equity, in consideration for the inclusive amount of $ 4.8 million, the above land. In December 1998, Equity 1 re-purchased land in consideration for $ 1.7 million, in line with the option it was granted.

Within the framework of the above issuance, Equity 1 granted Mashvim a PUT option according to which, if Mashvim announces Equity 1 of its intention to exercise such option during the first half of December 1999, Equity 1 will purchase from Mashvim either up to 293,430 stock options (series C) held by it at greed upon price of $ 7.25 per option, or Equity 1 shares derived from the exercise of such options at greed upon price of $ 15.5 per share. In respect of the above, Equity 1 recorded a liability of NIS 8,848 thousand in favor of Mashvim.

In furtherance to an agreement signed in May 1996 between the Company, Equity 1, Mashvim and Gazit and within the framework of the above issuance, a subsidiary purchased 580,288 shares of Equity 1 in consideration for an inclusive amount of $ 6.4 million, which was mainly financed by a credit line extended by a bank in Israel.

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

(4) As the above issuance was effectuated, the agreement entered between Mashvim and Gazit in March 1998 including additions thereto made in May 1998, became valid. According to the agreement, Mashvim sold its entire holdings in the Company to Gazit.

(5) In November 1998, and in furtherance 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 assignment date") 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 via Gazit and the holders of these debentures. The outstanding balance at the assignment date is NIS 75,313 thousand (see Note 16).

According to the agreement, commencing from the assignment date, five individuals employed at Gazit headquarters became a subsidiary employees. In addition, commencing that date, all the rights and obligations deriving from agreements entered between Gazit and Mess. 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. 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 deriving from that date. It was also determined that an agreement for providing management services by the Company to Gazit Group, commencing from the assignment date, 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 in Gazit 1995 Inc. ("Gazit 1995") which held, at the assignment date, 18.8% of Equity 1 issued share capital and stock options exercisable into Equity 1 shares for the payment of $ 3,673 thousand ($ 8.25 per share), that should they be exercised, Gazit 1995 holdings in Equity 1 issued share capital will increase to 20.97%.

   In addition, Gazit 1995 holds 56.45% of the partnership rights to Golden Equity. Subsequent to the above transaction, and in view of the mentioned in 3 above, the Company holds, directly and indirectly, 92.36% of the rights to Golden Equity.

b. 100% ownership in a subsidiary which holds 75% of First Capital Inc. ("First Capital") which purchases, develops and manages income producing property properties in Canada.

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

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

e. Marketable securities of a company which operates in the real estate field at a rate which does not confer significant influence.

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

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

(6) As of balance sheet date, the Company holds, directly and indirectly, 50% (52.8% assuming the full conversion of securities convertible into shares) of Equity 1 share capital. Following an agreement entered in May 1996, between the Company, Equity 1, Mashvim and Gazit, which, among other things, entitles the Company the right to appoint all the members of Equity 1 Board at least until May 2001, the Company commenced to consolidate Equity 1 accounts from July 1, 1996. Within the framework of the issuance mentioned in 3 above, Equity 1 articles of association was amended in such a fashion that the majority of its members on the Board will meet the definition of outsider directors. Company estimates that the above amendment in Equity 1 articles of association does not bring to the cessation of the required control, according to generally accepted accounting principles, in order to continue to report on its investments in Equity 1 on a consolidated basis.

Following the purchase of additional shares and realization of convertible securities by subsidiaries subsequent to the balance sheet date, close to the date of the approval of these financial statements the Company reached the holding rate, directly and indirectly, of 58.3% (60% assuming the full conversion of securities convertible into shares) of Equity 1 share capital.

(7) Adoption of dividend distribution policy:

The Company's Board decided that by the end of each quarter in 1999 a dividend will be declared in an amount not lower then 12 agora per NIS 1 par value of common shares (subject to adjustments). In addition, the Board has decided that during the fourth quarter of 1999, and during the fourth quarter of each successive year, the minimal dividend payable in the following four quarters after the said announcement is made will be published.

The above is pending the existence of sufficient sums of distributable earnings at the relevant dates and subject to the instructions of the law applicable to distribution of dividend and the resolutions that the Company is authorized to accept including for other designation to its earnings and change in this policy.

c. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Data-Sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The affects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Group's ability to conduct normal business operations.

It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Group, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows.

a. Financial statements in adjusted new Israeli shekels:

1. The Company and its Israeli subsidiaries maintain their accounts in nominal new Israeli shekels (NIS). The accompanying financial statements are presented in NIS adjusted for the changes in the general purchasing power of the Israeli currency, as measured by the changes in the Israeli CPI, in accordance with the Statements of the Institute of Certified Public Accountants in Israel. All nominal figures have been adjusted to the Israeli CPI for December 1998, published on January 15, 1999 (166.3 points on the average basis of 1993 = 100).

   As for subsidiaries abroad whose financial statements are prepared in their respective local currency, see c. Below.

2. The adjusted amounts of non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets in terms of adjusted NIS.

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 32.

b. Principles of adjustment:

1. Balance sheet:

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

      The following items have been treated as non-monetary items: investments in rights to land, prepaid expenses, fixed assets and the related accumulated depreciation and shareholders' equity items derived from cash received from shareholders.

   b) The equity in the investments in investees 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, 1998 in their nominal amounts (comparative figures have been adjusted to the December 1998 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, 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 included in the balance sheet, such as: accrued severance pay, net, and 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 taxes on income include the expense which derives from the erosion of the value of the payments on account from the date of payment to the end of the year.

   e) The equity 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. Comparative figures in these financial statements were also adjusted to the NIS of December 1998.

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

c. Adjustment of financial statements of consolidated entities abroad which are prepared on the basis of foreign currency:

1. For the presentation of the Company's investment in consolidated entities abroad (Equity 1, Golden Equity and First Capital), which were classified as entities operating independently of the Company (as the term is defined in Interpretation No. 8 to Opinion 36 of the Institute of Certified Public Accountants in Israel), and for the inclusion of those entities' data in the consolidated financial statements, the financial statements of these consolidated entities were translated according to the principles determined in the Interpretation. Prior to the translation, the financial statements of these consolidated entities were matched to the accounting principles applied by the Group.

Following are the main principles determined in Interpretation No. 8 which refer to an entity operating independently of the Company:

- All the items in the consolidated entity'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 entity 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 entity were adjusted to the changes in the general purchasing power of the Israeli currency at the reported year.

- Differences resulting from this treatment are carried to a separate item within the framework of shareholders' equity ("Cumulative foreign currency translation adjustments").

- The erosion of loans which were extended for the direct financing of the investment in an entity operating independently of the Company and which are stated in or linked to the respective currency in which the financial statements of that entity were prepared is 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 holds entities operating independently of the Company (the U.S. and Canada), see o. below.

2. For the presentation of the Company's investment in other subsidiaries abroad, which were classified as foreign subsidiaries whose activities represent an integral part of the activity of the group (as the term is defined in Interpretation No. 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 Interpretation. Prior to the remeasurement, the financial statements of these other subsidiaries were matched to the accounting principles applied by the Group.

   Following are the main principles determined in Interpretation No. 8 which refer to foreign subsidiaries whose activities represent an integral part of the activity of the group:

   - 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 activities and the nature of its revenues and expenses require other classification of the statement of income items then the order prescribed in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993, 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 and marketable debentures of the State of Israel, that have been originally deposited for less than three months, and that are not restricted by any specific charge.

g. Marketable securities:

Marketable securities invested for the short-term and designated for sale in the short-term are presented at market value as of balance sheet date in accordance with Opinion No. 44 of the Institute of Certified Public Accountants in Israel. Changes in their value are carried to the statement of income among financing.

h. Allowance for doubtful accounts:

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

i. Properties for lease:

1. Properties for lease 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. Significant improvements, renovations and renewal are carried to cost whereas current maintenance and repair expenses are expensed as incurred.

3. Depreciation is calculated using the straight line method over the estimated useful lives of the assets, at the following annual rates:

	%
Buildings for lease	2.5 - 4 (mainly 2.5%)
Office furniture and equipment	14 - 33
Motor vehicles	15

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 with the addition of the net operating results of those companies or of other changes in their shareholders' equity since their acquisition or establishment.

Excess of investments over equity upon acquisition date ("initial difference") which can not be attributed to specific assets and on which the provisions of the Israeli Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Party 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 amortized in 5 equal annual payments.

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:

1. Deferred charges in respect of Company's securities:

a) The deferred charges in respect of the increase in the authorized share capital are generally amortized to the statement of income at equal annual payments over 3 years providing that an amount which is similar to the above deferred charges, as the ratio of all the number of par value allocated of the authorized share capital and the authorized share capital in respect of which the above deferred charges were created are set-off from the premium derived on each issuance.

b) Deferred charges which originate from rights issued to the Company's shareholders are set-off from the premium derived on the issuance.

c) Deferred charges in respect of stock options allocated to related parties are amortized to the statement of income over the vesting period. Deferred charges, as above, net of amortization in respect of stock options which were exercised, are set-off from the premium derived on the exercise of the stock options.

2. Deferred charges in respect of raising long-term loans and debentures:

   Deferred charges which originate from raising long-term loans and debentures are amortized using the straight line method over the repayment period which ranges between 5 - 30 years.

l. Deferred taxes:

1. Deferred taxes are computed 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.

2. Deferred tax balances are measured using the enacted tax rates that will be in effect when the differences are expected to reverse, as known at the date the financial statements were prepared.

3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing the deferred taxes, as it is the Company'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:

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

n. Derivatives:

The results of forward transactions for hedged liabilities the Company assumed 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.

o. 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, 1998.

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

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	
	In Israel	In U.S.	In Canada **)	U.S.	Canada **)
	Points *)			NIS	
Year ended:					
December 1998	166.3	163.9	108.7	4.160	2.6868
December 1997	153.1	161.3	107.6	3.536	2.4673
December 1996	143.1	158.6		3.251	
December 1995	129.4	153.5		3.135	
December 1994	119.7	149.7		3.018	
Increase in the year:					
	%				
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	
1995	8.1	2.5		3.9	

*) 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.

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

p. Earnings per share:

Earnings per share is computed in accordance with Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

q. 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 and other accounts payable). Due to the nature of these financial instruments, their fair value, generally, approximates the value in which they are presented in the financial statements.

As for derivatives, see n. above.

r. 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.

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	8,059	11,504	1	1,901
Short-term deposits	9,565	3,886	9,012	3,413
	17,624	15,390	9,013	5,314

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value -				
Traded shares *)	(* 7,526	644	(** 800	644
Debentures	67	173	-	-
	7,593	817	800	644
Deposits in dollars (1)	3,619	5,143	-	-
Restricted cash (2)	28,205	-	-	-
	39,417	5,960	800	644

*) In the consolidated - mainly investment in preferred shares of REIT companies in the U.S.

**) Presented net of NIS 300 thousand in respect for provision for decline in value.

(1) Deposits for the examination of investments in real estate and other deposits.

(2) Proceeds from 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.

NOTE 5:- TENANTS

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Open accounts	4,959	3,364	-	-
Less - allowance for doubtful accounts	470	111	-	-
	4,489	3,253	-	-

NOTE 6:- OTHER ACCOUNTS RECEIVABLE

Interest receivable	328	-	66	-
Interest receivable from subsidiaries	-	-	996	21
Loan to subsidiary (1)	-	-	18,180	-
Government authorities	401	153	33	27
Related parties (2)	2,884	185	2,884	-
Prepaid expenses	3,124	1,661	86	-
Employees	175	80	-	1
Others	523	-	-	-
	7,435	2,079	22,245	49

(1) The loan to subsidiary is against a short-term loan from a Bank in Israel extended to the Company, see Note 1b(3).

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(2) The highest debit balance in 1998 was NIS 2,884 thousand (1997 - NIS 185 thousand). The balance in 1998 is composed of reckoning resulting from the private placement agreement between the Company and Gazit and was fully repaid on January 12, 1999 (see Note 1b(5)).

NOTE 7:- INVESTMENTS IN SUBSIDIARIES

a. Composition:

	The Company	
	December 31,	
	1998	1997
	Adjusted NIS in thousands	
Cost of shares	173,026	86,560
Capital contribution on investment in subsidiaries (e. below)	(30,036)	(30,289)
Equity in post-acquisition earnings	12,873	7,617
Dividend received from subsidiaries	(10,897)	(5,580)
Cumulative foreign currency translation adjustments	16,730	2,322
	161,696	60,630
Loans *)	93,405	32,294
	255,101	92,924

*) The loans are in U.S. dollars and in Canadian dollars and bear interest of 6% - 9% and 10.25%, respectively. The principal and th 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, 1998	
	Carrying amount	Market value
	Adjusted NIS in thousands	
Shares	196,396	193,046

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

	The Company	
	December 31,	
	1998	1997
	Adjusted NIS in thousands	
Cost	7,816	8,685
Balance as of balance sheet date	7,424	8,385
d. dividend received during the year	5,317	3,862

e. In May 1996, an agreement was entered between the Company, Equity 1, Gazit and Mashvim relating mainly to the allocation of shares and stock options by Equity 1 to a subsidiary and the right entitled to the Company to appoint all the members of Equity 1 Board at least until May 2001 (see Note 1b(6)).

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 30,289 thousand were carried to additional paid-in capital.

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	Total number in units - owned by the Company
Options (series C)	$ 8.25	31.12.99	(* 1,012,694	(** 843,996
Options issued to employees	$ 8.25	31.12.99	48,000	-
Options issued to employees	$ 10	31.12.2006	264,415	-
Options issued to employees	$ 12.375	31.12.2006	15,000	-

*) Presented net of Equity 1 obligation to a former related party for the purchase of 293,430 options via a PUT option granted to him (see Note 1b(3)).

**) As for the exercise of stock options subsequent to the balance sheet date, see Note 31.

NOTE 8:- LOANS

a. Composed as follows:

	Interest rate	Consolidated December 31, 1998 In U.S. $	Consolidated December 31, 1998 In C.D. $	Consolidated December 31, 1998 In NIS linked to CPI	Consolidated December 31, 1998 Total	Consolidated December 31, 1997 In U.S. $	The Company December 31, 1998 In U.S. $	The Company December 31, 1998 In NIS linked to CPI	The Company December 31, 1998 Total	The Company December 31, 1997 Total
	%	Adjusted NIS in thousands								
Employees	(*	1,647	-	201	1,848	1,521	-	201	201	-
Minority in subsidiary	9.75	-	1,343	-	1,343	-	1,343	-	1,343	-
Related parties	(**	5,030	-	-	5,030	4,336	-	-	-	-
		6,677	1,343	201	8,221	5,857	1,343	201	1,544	-

b. Repayment dates:

	Consolidated 1998 In U.S. $	Consolidated 1998 In C.D. $	Consolidated 1998 In NIS linked to CPI	Consolidated 1998 Total	Consolidated 1997 In U.S. $	The Company 1998 In U.S. $	The Company 1998 In NIS linked to CPI	The Company 1998 Total	The Company 1997 Total
In 2001	333	-	-	333	-	-	-	-	-
In 2002	1,647	1,343	-	2,990	1,521	1,343	-	1,343	-
In 2003	4,697	-	-	4,697	4,336	-	-	-	-
Amounts for which the repayment date was not yet determined	-	-	201	201	-	-	201	201	-
	6,677	1,343	201	8,221	5,857	1,343	201	1,544	-

*) The loans are in U.S. dollars and bear interest of 5.25%. The loans in NIS do not bear interest.

**) Loans in the amount of adjusted NIS 4,697 thousand (1997 - adjusted NIS 4,336 thousand) bear interest of 6.86% and a loan in the amount of adjusted NIS 333 thousand bears interest of Libor + 1%.

NOTE 9:- WELLS THAT PRODUCE OIL AND GAS

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

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

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

c. The Company has rights to the Amuna 1 drill, drill for the exploration of oil at the participation rate of 4%.

NOTE 10:- FIXED ASSETS

a. Composition in the consolidated balance sheet:

	Real estate abroad (c)	Real estate in Israel (c)	Office furniture and equipment	Motor vehicles	Total
	Adjusted NIS in thousands				
Cost:					
Balance at January 1, 1998	524,123	-	-	-	524,123
Cumulative foreign currency translation adjustments	52,943	-	-	-	52,943
Purchases during the year	126,644	355	594	189	127,782
Additions in respect of newly consolidated subsidiaries	24,711	38,926	503	-	64,140
Disposals during the year	(26,330)	-	-	-	(26,330)
Balance at December 31, 1998	702,091	39,281	1,097	189	742,658
Depreciated cost:					
Balance at January 1, 1998	29,683	-	-	-	29,683
Cumulative foreign currency translation adjustments	2,986	-	-	-	2,986
Additions during the year	12,897	559	336	8	13,800
Additions in respect of newly consolidated subsidiaries	262	4,892	86	-	5,240
Disposals during the year	(2,716)	-	-	-	(2,716)
Balance at December 31, 1998	43,112	5,451	422	8	48,993
Depreciated cost at December 31, 1998	658,979	33,830	675	181	693,665
Depreciated cost at December 31, 1997	494,440	-	-	-	494,440

b. Composition in the Company's balance sheet:

	Motor vehicles	Office furniture and equipment	Total
	Adjusted NIS in thousands		
Cost:			
Balance at January 1, 1998	-	-	-
Additions during the year	91	587	678
Balance at December 31, 1998	91	587	678
Depreciated balance:			
Balance at January 1, 1998	-	-	-
Additions during the year	8	312	320
Balance at December 31, 1998	8	312	320
Deprecated cost at December 31, 1998	83	275	358

c. Rights to real estate:

	December 31,		
	1998		1997
	Abroad	In Israel	Abroad
	Adjusted NIS in thousands		
Real estate, net -			
Owned (1)	648,259	-	486,056
Capitalized lease (2)	-	31,661	-
	648,259	31,661	486,056
Balance of initial difference attributed to the above properties	10,720	2,169	8,384
	658,979	33,830	494,440

(1) The ownership rights to real estate in the U.S. which are owned by Equity 1 through its subsidiaries, are insured by a company for the transfer of ownership rights, as common in the U.S.

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

(3) As for charges, see Note 22.

d. During the reported year, financial expenses amounting to NIS 2,633 thousand were capitalized to construction in progress.

NOTE 11:- OTHER ASSETS

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Cost:				
Increase in authorized share capital and allocation of stock options	320	320	320	320
Raising of long-term loans and debentures	10,694	5,821	506	-
Issuance expenses	-	1,383	-	-
	11,014	7,524	826	320
Goodwill	4,627	4,205	-	-
	15,641	11,729	826	320
Accumulated amortization:				
Increase in authorized share capital and allocation of stock options	320	278	320	278
Raising of long-term loans and debentures	2,530	1,127	131	-
	2,850	1,405	451	278
Goodwill	4,627	3,368	-	-
	7,477	4,773	451	278
Amortized balance at the end of the year	8,164	6,956	375	42

NOTE 12:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Short-term credit from banks	22,992	-	19,171	-
Short-term credit from others	-	26,886	-	-
	22,992	26,886	19,171	-
Current maturities of long-term loans (Note 17)	14,314	6,699	-	-
	37,306	33,585	19,171	-

b. Linkage and interest terms:

	Weighted interest rate					
	1998	1997				
	%					
In NIS - unlinked	14.75	-	19,171	-	19,171	-
In U.S. dollar	7.9	7	3,821	26,886	-	-
			22,992	28,886	19,171	-

NOTE 13:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Open accounts	975	251	3	-
Notes payable	52	-	29	-
	1,027	251	32	-

NOTE 14:- DIVIDEND DECLARED

On December 21, 1998, the Company declared on an interim dividend for 1998 in the amount of NIS 5,176 thousand. The date of receipt was determined to be December 28, 1998. The dividend was paid on January 12, 1999.

As for the adoption of dividend distribution policy, see Note 1b(7).

NOTE 15:- OTHER ACCOUNTS PAYABLE

	Consolidated		The Company	
	December 31,		December 31,	
	1998	1997	1998	1997
	Adjusted NIS in thousands			
Accrued expenses	4,018	2,839	500	79
Government authorities	163	471	163	159
Related parties	718	244	-	34
Revenues received in advance from tenants	935	1,053	-	-
Unrealized gain	-	-	416	-
Expenses related to planned issuance	-	1,383	-	-
Employees	16	12	-	9
Expenses related to PUT option (see Note 1b(3))	8,848	-	-	-
Others	33	-	-	-
	14,731	6,002	1,079	281

NOTE 16:- DEBENTURES

Within the framework of an agreement signed between the Company and Gazit Group in August 1998 (see Note 1b(5)), the Company has assumed, commencing July 1, 1998 ("the assignment date"), the liabilities in respect of debentures (series D) which were issued in the past by Gazit via Gazit and the holders of these debentures.

The series includes NIS 76,498,200 par value of registered debentures, redeemable in five equal payments commencing 2001, bear interest of Libor for dollar deposits for a period of 3 months + 0.5% per year (31.12.1998 - 5.72%) and are linked (principal and interest) to the representative exchange rate of the dollar.

On July 1, 1998, certain subsidiaries held 7.8% of the amount of the bonds. In the period from the assignment date to the balance sheet date, the subsidiaries sold NIS 1,997 par value (approximately 2.6%) in consideration for NIS 2,241 thousand. As of balance sheet date, the subsidiaries hold 5.2% of the bonds. Subsequent to the balance sheet date, the subsidiaries sold the remaining debentures (series D) they held.

As for collaterals provided to secure these debentures, see Note 22b.

NOTE 17:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Composition:

	Weighted interest rate	Consolidated December 31, 1998 In C.D. $	Consolidated December 31, 1998 In U.S. $	Consolidated December 31, 1998 Total	Consolidated December 31, 1997 In U.S. $	The Company December 31, 1998 In NIS linked to CPI	The Company December 31, 1997 In NIS linked to CPI
	%	Adjusted NIS in thousands					
From insurance							
Fixed interest	8.00	14,772	255,699	270,471	223,469	-	-
Fixed interest *)	7.88	-	23,625	23,625	22,362	-	-
		14,772	279,324	294,096	245,831	-	-
From related companies	**)	-	-	-	-	12,077	-
From others	-	704	-	704	-	-	-
		15,476	279,324	294,800	245,831	12,077	-
Less - current maturities		1,209	13,105	14,314	6,699	-	-
		14,267	266,219	280,486	239,132	12,077	-

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

First year (current maturities)	1,209	13,105	14,314	6,699	-	-
Second year	524	8,819	9,343	11,766	-	-
Third year	540	19,772	20,312	11,062	-	-
Fourth year	6,236	42,457	48,693	17,834	-	-
Fifth year	312	8,898	9,210	51,022	-	-
Six year and thereafter	6,655	186,273	192,928	147,448	-	-
Repayment date was not yet determined	-	-	-	-	12,077	-
	14,267	266,219	280,486	239,132	12,077	-
	15,476	279,324	294,800	245,831	12,077	-

c. As collateral for the above loans, the subsidiaries have placed charges on specific assets, see Note 22b.

*) In 2006, the interest rate will be changed, as determined in the loan agreement.

**) NIS 9,249 thousand bear annual interest of 5% and NIS 2,828 thousand do not bear interest.

NOTE 18:- 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 provident funds as well as by the balance sheet accrual.

The amounts accrued in managers' insurance policies and provident funds in the name 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.

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 social insurance, medical insurance, unemployment pay fees and by payments that the employee make (such as: insurance fees for loss of working ability). Additional payments for sick leave, compensation 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.

NOTE 19:- TAXES ON INCOME

a. Commencing January 1, 1995, Equity 1 does not record taxes on income since its status for tax purposes in the U.S. has changed to a REIT, in effect from the above date. The implication of this status, providing that Equity 1 complies with the required terms, is tax-exempt income, 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	303
Amounts carried to the statement of income	121
Balance as of December 31, 1998	424

The deferred taxes are provided for depreciable fixed assets.

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

Composition:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1998	1997	1996	1998	1997	1996
	Adjusted NIS in thousands					
Current taxes (1)	3,209	2,229	677	1,718	1,579	566
Deferred taxes	121	-	-	-	-	-
Taxes in respect of previous years	63	-	-	63	-	-
	3,393	2,229	677	1,781	1,579	566

(1) Including mainly dividend withholding tax of 30% on dividend paid by Equity 1 to the Company and withholding tax on interest paid by other foreign subsidiaries to the Company. The consolidated item includes, in addition to the aforementioned, also current tax expenses in respect of the activities of these subsidiaries.

e. The Company has received final tax assessments through the tax year 1992.

f. The Company has carryforward loss for tax purposes. In respect of this tax benefit and in respect of other temporary differences, the Company did not provide for deferred taxes.

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

NOTE 20:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

As for commitments with present and former related parties, see Notes 30 and 1b.

b. Contingent liabilities:

A subsidiary is a guarantor towards the Bank of Israel in respect of debts of one of the companies that was owned by it in the past up to an amount equals to 20% of the obligo 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 obligo balance is NIS 0.5 million.

NOTE 21:- SHAREHOLDERS' EQUITY

a. Composition of the share capital:

	December 31, 1998		December 31, 1997	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	200,000,000	17,252,016	200,000,000	11,083,236

b. The holders of common shares of NIS 1 par value each are entitled to receive dividend, to receive stock dividend and to receive the Company's assets in the event of liquidation whether voluntary or in 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 inclusive consideration of NIS 20,859 thousand. Options (series 2) which were not exercised, expired.

d. In October 1997, Mashvim and Gazit exercised all the stock options (series 1) which the Company allocated in February 1995 into 529,458 common shares of NIS 1 par value each for the inclusive net exercise increment of NIS 4,676 thousand.

e. As for a private placement of shares during the reported year, see Note 1b(5).

NOTE 22:- 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 which is held by the Group companies.

The balance of the secured liabilities is as follows:

	Consolidated	
	December 31,	
	1998	1997
	Adjusted NIS in thousands	
Short-term loans and credit	18,180	-
Long-term liabilities (including current maturities)	294,800	245,831
Debentures (see b. below)	83,730	-
	396,710	245,831

b. As collateral for the liability in respect of NIS 76,498 thousand par value of debentures (series D) of Gazit, assumed by the Company towards Gazit and the holders of these debentures (see Note 1b(5)), the Company placed a first degree fixed charge in favor of a trustee on these debentures, on an income property known as "Gazit House" in Tel Aviv in the amount of $ 9 million and on 1,888,000 Equity 1 common shares of $ 0.01 par value each held by a subsidiary.

NOTE 23:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 1998				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C.D. $ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	-	16,434	1,158	32	17,624
Short-term investments	-	30,406	1,418	-	31,824
Tenants	-	4,314	108	67	4,489
Other accounts receivable	2,884	816	521	90	4,311
Long-term loans	201	6,677	1,343	-	8,221
	3,085	58,647	4,548	189	66,469
Liabilities:					
Short-term credit from banks and others	-	16,927	1,208	19,171	37,306
Trade payables	-	142	813	72	1,027
Dividend payable	-	-	-	5,176	5,176
Other accounts payable	-	13,444	241	1,046	14,731
Long-term liabilities	-	266,219	14,267	-	280,486
Debentures	-	83,730	-	-	83,730
Accrued severance pay	-	-	-	57	57
Tenants' security deposits	-	3,682	34	-	3,716
	-	384,144	16,563	25,522	426,229

b. The Company:

	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C.D. $ or linked thereto	In NIS - unlinked	Other	Total
	December 31, 1998					
	Adjusted NIS in thousands					
Assets:						
Cash and cash equivalents	-	9,012	-	1	-	9,013
Short-term investments	2,891	409	646	33	-	3,979
Investments in subsidiaries	-	104,740	6,845	-	-	111,585
Long-term loans	201	-	1,343	-	-	1,544
	3,092	114,161	8,834	34	-	126,121
Liabilities:						
Short-term credit from banks	-	-	-	19,171	-	19,171
Trade payables	-	-	-	32	-	32
Dividend payable	-	-	-	5,176	-	5,176
Other accounts payable	-	-	-	663	416	1,079
Debentures	-	88,034	-	-	-	88,034
Liabilities to financial institutions and others	12,077	-	-	-	-	12,077
Accrued severance pay	-	-	-	50	-	50
	12,077	88,034	-	25,092	416	125,619

NOTE 24:- 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 lessees based on their gross sales turnover. In 1998, revenues from lease include contingent lease fees in the amount of NIS 483 thousand (1997 - NIS 660 thousand and from July 1, 1996 until December 31, 1996 - NIS 235 thousand).

b. The Group has one major tenant the revenues from whom totaled in 1998 NIS 10,804 thousand, which constitute 11% of revenues from rental income in that year (in 1997 - NIS 6,883 thousand representing 9% of revenues from rental income in that year and from July 1, 1996 until December 31, 1996 - NIS 3,506 thousand representing 11% of revenues from rental income in that period).

NOTE 25:- FINANCIAL INCOME (EXPENSES), NET

a. Consolidated:

The item "Financial expenses, net" includes, mainly, real financial expenses in respect of short-term and long-term loans provided to Equity 1. In 1998, the item also includes real financial expenses in respect of loans provided to First Capital from July 1, 1998 in the amount of NIS 465 thousand as well as real financial expenses in respect of the debentures the Company assumed from that date (in excess of the financial expenses that were carried to "Cumulative foreign currency translation adjustments") in the amount of NIS 3,124 thousand.

b. The Company:

The item "Financial income, net" includes, mainly, real financial income in respect of loans provided to subsidiaries. In 1998, the item also includes real financial interest expenses in respect of the debentures the Company assumed from July 1, 1998, as aforementioned, in the amount of NIS 3,199 thousand.

NOTE 26:- OPERATING EXPENSES

	Consolidated		
	Year ended December 31,		
	1998	1997	1996
	Adjusted NIS in thousands		
Salaries and related expenses	2,256	(* 1,352	(* 728
Insurance and security expense	2,830	(* 2,280	(* 1,214
Fees and real estate property tax	10,841	8,306	3,397
Maintenance and repairs	5,353	4,095	1,526
Utilities	2,305	(* 1,884	(* 866
Others	3,375	(* 2,327	(* 550
	26,960	(* 20,244	(* 8,281

*) Reclassified.

NOTE 27:- EXPENSES RELATED TO GAS AND OIL EXPLORATION, NET

The item is composed mainly from write-down of the Company's investments in drills for the exploration of gas and oil and includes, in addition to the aforementioned write-downs, current payments to a consultant in connection with oil issues.

NOTE 28:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	1998	1997	1996	1998	1997	1996
	Adjusted NIS in thousands					
Salaries and management fees **)	5,294	(* 3,346	(* 1,945	821	543	622
Professional services	1,941	(* 762	(* 686	319	254	152
Doubtful accounts	351	-	-	-	-	-
Depreciation	66	-	-	42	-	-
Others (including office and office maintenance)	1,879	(* 1,161	(* 727	433	163	113
	9,531	(* 5,269	(* 3,358	1,615	960	887

*) Reclassified.
**) As for salaries and management fees to related parties, see Note 30.

NOTE 29:- 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,					
	1998		1997		1996	
	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	14,168	13,455	11,083	6,171	5,871	1,398
Convertible securities which were not included in the computation of basic earnings per share	-	-	-	-	1,695	(84)
Number of shares and diluted earnings	14,168	13,455	11,083	6,171	7,566	1,314

NOTE 30:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

1. Consolidated - financial income on loan Equity 1 extended to the chairman of the Board who is also a related party in the Company and on loans a subsidiary extended to the Company's CEO (see Note 8a) for the year ended December 31, 1998 and for the year ended December 31, 1997 and for the six months period from July 1, 1996 until December 31, 1996 (see Note 1b(2)) in the amount of NIS 344 thousand, NIS 224 thousand and NIS 106 thousand, respectively.

2. Commencing July 1998, management fees from the parent company amount to NIS 94 thousand ($ 4 thousand per month).

3. Revenues from management fees from subsidiaries total in 1998 NIS 632 thousand (1997 - NIS 197 thousand and for the six months period from July 1, 1996 until December 31, 1996 NIS 95 thousand).

4. Financial income from subsidiaries total in 1998 NIS 13,592 thousand (1997 - NIS 2,651 thousand and for the six months period from July 1, 1996 until December 31, 1996 NIS 182 thousand).

b. Other payments and expenses:

1. In October 1995, the Company and related parties have entered into the following agreements:

   An agreement with the Company's CEO, which was at that time a director, in effect from July 1, 1995, according to which he will provide management services to the Company in consideration for NIS 10,381 thousand per month + VAT. The amount is linked to the Israeli CPI of May 1995 (31.12.1998 - NIS 14,116 thousand). Commencing July 1, 1998, that amount constitutes a part of the Company's CEO salary.

2. Equity 1 has entered into an employment contract with the Company's chairman of the Board, who is also a related party and the chairman of Equity 1 Board for a period of 7 years beginning in January 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 par 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%. In addition, within the framework of a plan for the allocation of stock option to related parties in Equity 1, that related party 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 commencing January 1, 1996.

3. As for the employment contract entered between the chairman of the Board and the Company, see Note 1b(5).

4. Financial expenses paid by Equity 1 to a company of Gazit Group and to a company of Mashvim Group for the six months period from July 1, 1996 until December 31, 1996 amount NIS 181 thousand.

c. Other payments and expenses:

	Consolidated					
	Year ended December 31,					
	1998		1997		1996	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fee	11	187	8	430	8	263
Salaries and related expenses	2	2,230	1	981	1	455
Management fees to a corporation which is a related party *)	1	92	1	185	1	187
Management fees to directors, see (1) above	2	126	2	347	2	323
Consulting services in connection with the issuances to a director and to a corporation which is a related party	-	-	2	376	2	571

*) Management fees that the Company paid to a corporation which is a related party for professional and administrative services, pursuant to an agreement or understanding reached with it from time to time. For the period from 1995 until June 30, 1998, the corporation which is a related party was paid $ 4,000 per month. That agreement was nullified from July 1, 1998.

	The Company					
	Year ended December 31,					
	1998		1997		1996	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' fee	11	187	8	183	8	179
Management fees to a corporation which is a related party *)	1	92	1	185	1	187
Management fees to directors, see (1) above	1	83	1	175	2	256
Consulting services in connection with the issuances to a director and to a corporation which is a related party, see (1)	-	-	2	376	2	571

d. Balances:

As for balances with related parties, see Notes 6, 7a, 8, 14, 15 and 17.

e. Equity 1 securities:

As of December 31, 1998, the chairman of the Board of Equity 1, who is also a related party and the Company's Chairman of the Board, holds as custodian for his daughters 62,344 stock options (series C) of Equity 1 the terms of which are outlined in Note 7f.

NOTE 31:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In February 1999, the Company allocated, via a private placement to several provident funds, 270,000 Company's common shares of NIS 1 par value each for NIS 8.4 per share. In addition, those funds were allocated 162,000 stock options without consideration. Each stock option is exercisable into one Company's common share of NIS 1 par value each on each business day from its allocation until December 31, 1999 for the cash payment of NIS 10.5 linked to the representative exchange rate of the U.S. dollar (base exchange rate of U.S. $ 1 = NIS 4.1). The options will not be listed for trade on the Stock Exchange, however, the shares allocated following their exercise will be listed for trade on the Stock Exchange.

In addition, one of these provident funds was allocated a convertible debenture of NIS 16,000 thousand par value for its par value. The debenture is linked to the Israeli CPI for December 1998, bears annual interest of 5.5% and is redeemable in 4 equal annual payments on October 20 of each of the years 2003 - 2006.

The debenture is convertible, in whole or in part, on each business day in the period from 1 - 14 of April and October of each of the years 1999 - 2003, at the conversion ratio of NIS 10 par value of the debenture per one NIS 1 par value of common share. During the conversion period, in each six months the conversion ratio will increase by 1%. The conversion ratio is subject to the adjustments stipulated in the debenture allocation agreement. The debenture will not be listed for trade on the Stock Exchange, however, the shares allocated following its conversion will be listed for trade on the Stock Exchange.

The provident fund was granted the right to immediate redeem all the outstanding balance of the debentures if one of the events are met in connection with mainly the compliance of the Company with its liabilities and the continuance of the Company's operations.

The Company was granted the right to demand the conversion of the balance of the debenture into shares, at the conversion ratio of NIS 9.75 par value of debenture per one share (subject to adjustments) if certain conditions are met mainly in connection with a situation in which the conversion price of the Company's share at a certain period reflects market value which is lower then the Company's shareholders' equity.

b. In a suspending allocation agreement signed on February 25, 1999 between the Company and two other companies ("the underwriters") the following principal instructions were stipulated:

1. The Company will allocate to provident funds and trust funds, at the request of the underwriters, up to 230,000 shares and 138,000 stock options at terms to be determined between the parties close to the date of the allocation.

2. The Company will allocate to the underwriters (or to ones on their behalf, with certain reserve), up to 1,200,000 Company's shares for the payment of NIS 10.5 per share (subject to adjustments) linked to the exchange rate of the dollar (base exchange rate of U.S. $ 1 = NIS 4.1).

3. The Company is obligated to effect the allocation by December 31, 1999, however, its continuance is pending a minimal number of shares which will be purchased until two interim dates during that period.

c. Subsequent to the balance sheet date, Equity 1 and First Capital purchased several real estate properties as follows:

1. In January 1999, Equity 1 purchased a shoppingcenter in Florida, U.S. in consideration for $ 3.8 million. The shopping centers' GLA is some 6,900 sq. m. As a substitute for $ 1 million of the sales proceeds the seller received limited partnership units which participate in the shopping centers' earnings and which are convertible into Equity 1 shares at the exercise price of $ 10.3 par share.

2. In February 1999, Equity 1 purchased undeveloped real property in an area of some 113 dunam located in Tallahassee, Florida in consideration for $ 2.1 million. On half of the land a shopping center will be built and the other half is designated for future development.

3. In February 1999, First Capital purchased an open shopping center in Chatham, Ontario, Canada, in consideration for C.D. $ 7 million. The shopping centers' GLA is some 6,700 sq. m. on land of some 26 dunam.

4. In February 1999, Equity 1 purchased a shopping center in Orlando, U.S. in consideration for $ 9.1 million. The shopping centers' GLA is some 11,700 sq. m. on land of some 53 dunam.

5. In March 1999, First Capital purchased an open shopping center in Montreal, Canada, in consideration for C.D. $ 4.75 million. The shopping centers' GLA is some 6,750 sq. m. on land of some 27 dunam.

d. In March 1999, the Company's subsidiary exercised 242,136 stock options (series C) of Equity 1 in consideration for $ 2 million.

NOTE 32:- A SUMMARY OF THE COMPANY'S FINANCIAL STATEMENTS IN NOMINAL NIS

a. Balance sheets:

	December 31,	
	1998	1997
	NIS in thousands	
ASSETS		
Current assets	32,058	5,530
Investments in subsidiaries	221,258	73,933
Fixed assets, net	290	-
Deferred charges, net	328	31
	253,934	79,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	25,307	259
Long-term liabilities	100,161	-
Shareholders' equity	128,466	79,235
	253,934	79,494

b. Statements of income:

	Year ended December 31,		
	1998	1997	1996
	NIS in thousands		
Revenues:			
Revenues from maintenance of real estate	88	-	-
Dividend from subsidiary, net	-	-	906
Management fees from a subsidiary and related party	701	175	81
Equity in earnings of subsidiaries	739	2,575	1,379
Gain on issuance to third party	2,325	-	-
Financial, net	4,325	4,182	1,977
	8,178	6,932	4,343
Costs and expenses:			
Amortization of other assets	59	70	71
Gas and oil exploration, net	14	122	951
General and administrative	1,495	853	727
	1,568	1,045	1,749
Income before taxes on income	6,610	5,887	2,594
Taxes on income	1,693	1,437	480
Net income for the year	4,917	4,450	2,114

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Cumulative foreign currency translation adjustments	Retained earnings (deficit)	Total
			NIS in thousands		
Balance at January 1, 1996	3,481	23,202	-	22,678	49,361
Changes in 1996:					
Capital issuances, net	4,178	21,628	-	-	25,806
Foreign currency translation adjustments	-	-	711	-	711
Capital contribution from investments in subsidiary abroad *)	-	-	-	(20,250)	(20,250)
Net income for the year	-	-	-	2,114	2,114
Dividend proposed for payment	-	-	-	(1,000)	(1,000)
Balance at December 31, 1996	7,659	44,830	711	3,542	56,742
Changes in 1997:					
Capital issuances, net	3,424	19,522	-	-	22,946
Foreign currency translation adjustments	-	-	5,024	-	5,024
Capital contribution 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
Changes in 1998:					
Capital issuances, net	6,169	14,099	6,945	(1,269)	25,944
Foreign currency translation adjustments	-	-	23,492	-	23,492
Capital contribution from subsidiary's liability to a former related party	-	-	-	(1,243)	(1,243)
Capital contribution 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	78,451	36,172	(3,409)	128,466

*) See Note 7e.

Appendix - list of companies of the Group as of December 31, 1998

	Percentage of holding and control as of December 31, 1998		Registration place
Subsidiaries (1):			
Equity One. Inc.	50.01%	***)	U.S.
First Capital Inc. (2)	75%	**)	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%	*)	Caiman Islands
Hollywood Properties Ltd.	100%	*)	Caiman Islands
Dinerib 53 Ltd.	100%	**)	Israel
Dinerib 51 Ltd.	100%	**)	Israel
Gazit Financing Ltd. (founded by Gazit Inc. Panama) (3)	100%	*)	Israel
Dinerib 52 Ltd.	100%	**)	Israel
Automart (founded by Gazit Financing Group) Ltd. (previously: Gazit B.C. Ltd.)	100%	**)	Israel

*) Owned directly by the Company.
**) Owned by subsidiaries.
***) Owned directly and by subsidiaries.

(1) The list does not include companies held by entities operating independently of the Company (Equity 1 and First Capital).

(2) As for the control rate and the nomination of directors, see Note 1b(6).

(3) Subsequent to the balance sheet date, the name was changed to Gazit Globe Israel Ltd.

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GAZIT-GLOBE (1982) LTD.

Formerly: Globe-Rite Investments Ltd.

Report by board of directors to the shareholders for the year ended December 31, 1998

The board of directors of Gazit-Globe (1982) Ltd. (hereinafter "the Company") takes pleasure in presenting the financial statements of the Company and of its consolidated subsidiaries, for the year ended December 31, 1998:

1. (a) **General**

The Company is an investment company which engages in the acquisition, development and management of income-producing properties in the USA, Canada and in Israel. The Company focuses primarily on supermarket anchored shopping centers.

At the date of signing of the financial statements, the Company directly and indirectly owns approximately 32 properties which are recorded at a cost of about NIS 785 million and which produce annual rentals in an amount of approximately NIS 115 million (current list of properties on a calculation of annual gross rent).

In the USA the Company operates through Equity One Inc. (hereinafter "EQ1"), EQ1 is a self-administered, self managed real estate investment trust ("REIT"), traded on the NYSE. At the date of signing of the statements, the Company held some 58% of the share capital of EQ1. EQ1 is active mainly in the state of Florida in the acquisition management and development of incom-producing properties (primarily supermarket anchored shopping centres), and it owns 25 properties consisting of 232,000 sq.m of G.L.A.: 19 are commercial centers, 3 office and commercial buildings, a storage center, restaurant building, and an apartment block which is intended for demolition. On May 19, 1998, EQ1 completed an initial public offering as described below.
Operations in Canada are carried out through First Capital Inc. (hereinafter "F.C.I.") in which the Company holds 75% of the share capital, with the remainder of the shares being held by a local Canadian partner who has been active in the incom-producing real estate sector there for some 20 years. F.C.I. is active in the provinces of Ontario and Quebec, in the acquisition, management and development of income-producing real estate (primarily on supermarket anchored shopping centers). At the date of signing of the statements, it owns 4 commercial centers having a total built area of about 30,000 sq.m. as well as additional land intended for development as a commercial center.
In Israel the Company owens an office and commercial building in Tel Aviv, as well as an additional land in Tel Aviv for development.

(b) **<u>Agreement with the parent company for reorganization of the Company's activities</u>**

On August 20, 1998, Gazit Inc. and a wholly-owned subsidiary of Gazit Inc. (hereinafter "the Group") signed an agreement for the allotment of shares to Gazit Inc. and the subsidiary, against the transfer of corporations which engage in real estate activities in the USA, Canada and in Israel, and in particular shares of the subsidiary EQ1. This move was intended to concentrate all the Group's real estate activities abroad and in Israel within the framework of the Company. With regard to the entire agreement, see Note 1 to the financial statements.

(c) **<u>Profit per share for the period</u>**

In the reporting year the net profit amounted to approximately NIS 13.4 million, in comparison with NIS 5.4 million in the previous year.

The earnings per share for the year ended December 31, 1998 were NIS 0.95 per share in comparison with NIS 0.55 and NIS 0.23 for the years ended December 31, 1997 and 1996 respectively. The change in earnings per share reflects an increase in the year ended December 31, 1998 of 72.7% and 295.8%, respectively, as compared with the corresponding periods last year.
As of December 31, 1998 the equity share holders capital per share (NIS 1 par value) amounted to NIS 9.5.
As regards the results of operations, see Paragraph 4 below.

2. **<u>The Company and its business environment – main events and changes which took place during the reporting period</u>**

a. **<u>EQ1's IPO</u>**

In May 1998 EQ1 completed an initial public offering of 4,700,000 ordinary shares of 1 dollar par value each, in return for which it raised a total net amount of approximately 51 million dollars, of which EQ1 issued 3,330,398 ordinary shares of 1 dollar par value each, in consideration for a total net amount of 32.2 million dollars, and the balance was sold to the public by a former related party in the Company. See Note 1 to the financial statements.

b. **<u>Golden Equity Partnership (hereinafter "the Partnership")</u>**

Prior to the public offering, EQ1 transferred, as an in-kind distribution to the Partnership, the present owners of which are all the shareholders who were in EQ1 immediately prior to its IPO (a related party in EQ1 sold his share in the Partnership) and in which the Company serves as its general partner, a number of vacant landes at an overall cost of approximately $3.3 million and loans to related parties in EQ1 in an amount of about 1.5 million dollars. EQ1 has an call option which is valid until May 2003 to buy back the real estate properties of the Partnership for an aggregate amount of about 4.8

million dollars. In December 31, 1998 EQ1 exercised its right to buy back a vacant land adjacent to its office building in Miami, Florida from the Partnership in consideration for an amount of $1.7 million. The total assets and loans as referred to above, as at December 31, 1998, amounted to approximately NIS 19 million. As mentioned above, the Company's share in the Partnership at that time was about 92.4%.

c. **<u>Purchase and sale of assets and financial operations in EQ1</u>**

1) During 1998, EQ1 purchased 5 properties, primarily supermarket anchored shopping centers in Florida, consisting of 270,000 sq.m of G.L.A., on plots of land with a total area of approximately 162 dunams, at an overall cost of 19.4 million dollars.

2) In October 1998, EQ1 completed the sale of a rental property in Texas in consideration for an amount 6.9 million dollars. The amount of profit accruing to EQ1 was approximately 2.6 million dollars (the Company's share in the aforesaid profit is in the region of NIS 4.35 million).

3) In February 1998, EQ1 received a long-term mortgage in the scope of refinancing for a shopping center in Jacksonville in an amount of 3.3 million dollars, at interest of 7%, with a schedule of payments spread over 20 years, on a basis that the unpaid balance would be repayable in February 2008. In addition, the G.L.A. of the anchor tenant (the supermarket) was expanded from 3,200 sq.m. to approximately 4,200 sq.m.

(4) In May and June 1998, EQ1 made early repayment of 4 long-term mortgage which bear interest at a rate of 7%-9.49% per annum, in an aggregate amount of approximately 13 million dollars.

d. The cost of the investment in EQ1 as recorded in the books of the Company and its consolidated subsidiaries as at December 31, 1998, is approximately NIS 196.4 million. The market value on the NYSE in the USA of the investment in EQ1 shares as at December 31, 1998 is about NIS 193 million, and at the date of signing of the financial statements, about NIS 181.6 million.

(e) In November 1998, the Company adopted an annual dividend policy in the scope of which the Company will, at the end of each year, announce the amount of the dividend for the next year. For 1999 the Company has announced that it will distribute a dividend of at least 48 agorot per share, as compared with 30 agorot per share in the previous year, which - as at the date the resolution was passed - constitutes a dividend yield of about 6.5%. The dividend will be declared at the end of each quarter in 1999 in an amount of not less than 12 agorot per share.

3. **<u>Financial condition</u>**

The main balances and transactions in the consolidated financial statement are balances and transactions in US dollars, originating from the activities of EQ1.

As at December 31, 1998, the liquid balances in the hands of the Company and its consolidated subsidiaries, including short-term investments, amounted to approximately NIS 57 million as against about NIS 21.4 million as of December 31, 1997. The upswing in the volume of liquid balances in the reporting period was due to an increase in an amount of approximately NIS 2.2 million in cash and cash equivalents, and a rise of about NIS 33.4 million in short-term investments. The increase in liquid balances stems mainly from balances resulting from EQ1's public offering and the sale of a property in Texas by EQ1, the consideration for which has not yet been used.
The increase in the shareholders' equity item from about NIS 98.7 million to a sum of approximately 163.8 million resulted from the net issue of shares, the program for reorganization of the Company in a sum of approximately 49 million, and from the effect of adjustments stemming mainly from a foreign currency transtation in an amount of approximately NIS 7.9 million, additional net profits for the year 1998 totaling approximately NIS 13.4 million, and a deduction of the interim dividend declared by the Company for 1998 in an amount of NIS 5.2 million.

4. Liquidity and sources of finance

The Company has set for itself a policy of maintaining a high level of liquidity, coupled with its aiming to increase its shareholders' equity, in order to enable it to take advantage of business opportunities in its fields of activity.

a. The Company's equity capital, together with the minority interest totaling NIS 352.3 million, is about 45.2% of the total assets in the balance sheet.

b. The ratio of current assets to current liabilities amounted to approximately 1.2.

c. The cash flow from operating activities in 1998 was about NIS 38.2 million, as compared with approximately NIS 39.7 million in the previous year.

5. Operating results

During the reporting period the Company's profits totaled NIS 13.45 million, as against NIS 5.4 million in 1997 and approximately NIS 1.4 million in 1996.

The Company's activities in the reporting period, most of which was principally from EQ1's operations, were characterized by a growth in revenues as a result of an increase in the total number of assets and from a moderate rise in the percentage occupancy of existing properties, as against a lower growth in operating expenses for those properties and in administrative and general expenses, and against that a diminution in financial expenses as a result of the partial repayment of long-term loans, as compared with the corresponding period last year. In addition a capital gain was recorded in respect of issuance to the public by EQ1 and a gain on sale of real estate by EQ1.

Set forth below is an analysis of the main business results for 1998, on a quarterly basis (in thousands of NIS of December 1998):

	1 Quarter	2 Quarter	3 Quarter (1)	4 Quarter (2)	1998
Income					
Rental income	20,819	22,874	24,340	29,902	97,935
Gain on sale of real estate	-	-	-	8,702	* 8,702
Gain on issuance to third party	-	2,215	-	-	2,215
Management fees from related party	-	-	-	84	84
TOTAL	**20,819**	**25,089**	**24,340**	**38,688**	**108,936**
Costs and Expenses					
Operating expenses	4,608	5,013	6,033	11,306	26,960
Depreciation	2,730	2,856	3,442	4,747	13,775
Amortization of other assets	239	236	238	256	969
Oil and gas explorations	-	11	4	-	15
Administrative and general	2,024	2,178	2,067	3,262	9,531
Financial net	4,034	3,929	3,453	4,766	16,182
TOTAL	**13,635**	**14,223**	**15,237**	**24,337**	**67,432**
Income before taxes on income	7,184	10,866	9,103	14,351	41,504
Taxes on income	722	900	946	825	3,393
Income after taxes on income	6,462	9,966	8,157	13,526	38,111
Minority interest in earning of subsidiaries	4,829	6,085	6,432	7,310	24,656
Net Income for the period	**1,633**	**3,881**	**1,725**	**6,216**	**13,455**

(1) The business results for the third quarter are prior to the reorganization in the Company.

(2) The business results for the fourth quarter include the business results of the properties and liabilities which were transferred to the Company in the scope of the program for reorganization for the period commencing on July 1, 1998 and terminating on December 31, 1998.

* The sale is of a property in Texas by EQ1 (the Company's share – 50%).

6. <u>Effect of the year 2000 syndrome</u>

The Company has examined the effect of the year 2000 problem and the projections on the Company's activities and those of its subsidiaries and on its financial statements. Having regard to the nature of the Company's operations and those of its subsidiaries, and to the best of the knowledge of the Company's management, the Company believes that the year 2000 problem will not have a significant effect on the Company's activities and those of its subsidiaries and on its financial statement. (See details in the appendix to the report by the board of directors).

7. Additional information and events subsequent to the balance sheet date

(a) Private placement of securities to institutional bodies

In the scope of the Company's policy for increasing the volume of its business and its shareholders equity, the board of directors of the Company decided on January 20 to take steps for effecting a private placement of securities to several provident funds. In accordance with this resolution, the Company entered into agreements for a private placement of securities to Gmul Investment Company, as well as to provident funds of the Bank Leumi group. See Note 31 to the financial statements.

(b) Contractual arrangement with Gmul Sahar Underwriters and Leumi & Co. underwriters

In the scope of the Company's policy to enlarge its shareholders' equity and to improve the credibility in its securities, and in furtherance of the aforesaid resolution by the board of directors, the Company undertook to Gmul-Sahar and to Leumi & Co. to allot them up to 1,200,000 shares at a price of NIS 10.5 per share, subject to additional conditions. See Note 31 to the financial statements.

(c) Purchase of EQ1 shares

The Company, through a wholly-owned subsidiary, purchased 605,623 EQ1 shares from Danbar Resources and Development at a price of 8.86 US dollars per share, and also 96,900 warrants (Series C) of EQ1, at a price of 0.585 US dollars per warrant. The Company paid a total of approximately 5.4 million dollars.

During the third and fourth quarter and until December 31, 1998, a consolidated subsidiary of the Company acquired approximately 135 thousand EQ1 shares on the NYSE in the USA. After the balance sheet date and prior to the date of signing of the financial statements, a consolidated subsidiary of the Company purchased an additional 130 thousand shares approximately on the NYSE in the USA. These purchase transactions were executed in a price range of $8.5 – 9.5 per share, and at an additional investment of approximately 2.3 million dollars.

In addition, the Company exercised approximately 242 thousand C options for conversion into EQ1 shares of $8.25 per share and at an additional investment of about 2 million dollars.

Upon completion of the aforesaid acquisition, the Company's holdings in EQ1, directly and indirectly, rose from about 52.7% of the issued share capital of EQ1 to about 60% of EQ1's issued capital (on a full dilution).

Altogether the Company invested about 9.7 million dollars in increasing its share in EQ1.

d. After the balance sheet date, EQ1 purchased 3 properties, which include two shopping centers in a total GLA of 18.6 thousand sq.m., and a plot of land intended for development, which measures 113 dunams, at an overall cost of 15 million dollars. See Note 31 to the financial statements.

e. Subsequent to the balance sheet date, F.C.I. purchased 2 shopping centers in Canada having GLA of 13.4 thousand sq.m. On lands having a total area of 13.25 acre, at an aggregate cost of 11.7 million Canadian dollars. See Note 31 to the financial statement.

Chaim Katzman – Chairman of the board of directors	Dori Segal – managing director

GAZIT-GLOBE (1982) LTD.

Report by board of directors to the shareholders
For the three-month period ended March 31, 1999

The board of directors of Gazit-Globe (1982) Ltd. (hereinafter "the Company") has pleasure in hereby submitting the financial statements of the Company and its consolidated subsidiaries for the three-month period ended March 31, 1999:

1. (a) **General**

The Company is an investment company engaged in the purchase, development and management of income-producing properties in the USA, Canada and in Israel. The Company focuses primarily on supermarket anchored shopping centers.

At the date of signing of the financial statements, the Company owns some 32 properties, directly and indirectly, which are recorded in the books at a depreciated cost of approximately NIS 790 million, which the annual rental income amounting to NIS about 113 million (current list of properties on a calculation of annual gross rent).

In the USA the Company operates through Equity One Inc. (hereinafter "EQ1"), a public company traded on the NYSE, which enjoys the status of an REIT. At the date of signing of the statements, the Company held approximately 60% of EQ1's share capital. EQ1 does business mainly in the State of Florida in purchasing managing and developing income-producing real estate (principally open shopping centers), and it owns 25 properties having an aggregate G.L.A. of about 240,000 sq.m.: 19 are commercial shopping centers, 3 are office and commercial buildings, one a storage center, a restaurant building, and an apartment block intended for demolition.
Operations in Canada are performed through First Capital Inc. (hereinafter "F.C.I.") in which the Company holds 75% of the share capital, and the remainder of the shares are held by a local Canadian partner who has been active in income-producing real estate there for some 20 years. F.C.I. operates in the Ontario and Quebec, in the purchase, management and development of income-producing real estate (open shopping centers). As at the date of signing of the financial statements, it owns 4 shopping centers having a total G.L.A. of some 30,000 sq.m. and a plot intended for development by the construction of a commercial shopping center.
In Israel the Company has an office and commercial building in Tel Aviv, as well as an additional plot in Tel Aviv for development.

(b) **Profit per share results for the period**

During the reporting period the net profit totaled approximately NIS 2.4 million as against about NIS 1.6 million in the corresponding period last year – an increase of some 50%.

In 1998 the net profit amounted to approximately NIS 13.3 million (including capital gains).

The Earning per share for the three months ended March 31, 1999 is NIS 0.14 per share, as compared with NIS 0.15 in the corresponding period last year and NIS 0.94 for the year ended December 31, 1998.
In addition, depreciation on properties (less the share of the minority) amounted to NIS 2.52 million, which is NIS 0.14 depreciation per share.
At March 31, 1999 the shareholders' equity per share (NIS 1 par value) amounted to NIS 9.26.
With regard to results of operations, see Paragraph 4 below.

2. **<u>The Company and its business environment – events and main changes which occurred during the reporting period</u>**

a. **<u>General</u>**

During the reporting period the Company made investments, directly and through subsidiaries, of approximately NIS 100 million in the purchase, development and improvement of fixed assets. Some of these assets were acquired during the first quarter and their effect on the results of operations will be fully manifested during the course of the year.

b. **<u>Acquisition of assets by EQ1 and F.C.I.</u>**

1. During the three months ended March 31, 1999, EQ1 purchased 3 properties which include two shopping centers having G.L.A.. of 18.6 thousand sq.m. and a vacant lot intended for development which measures 113 dunams, at an overall cost of 15 million dollars. See Note 31 to the Company's annual financial statements.

2. In the three months ended March 31, 1999, F.C.I. purchased 2 shopping malls in Canada, having G.L.A. of 13.7 thousand sq.m., on plots with a total area of 53 dunams, at an overall cost of 11.7 million Canadian dollars. See Note 31 to the Company's annual financial statements.

c. **<u>Purchase of EQ1 shares</u>**

January 1999	-	About 606 thousand shares were bought from Danbar Resources and Development at about 8.88 dollars per share.
In the reporting period	-	Approximately 139 thousand shares were acquired in trading on the Stock Exchange, in a range of prices of 8.50-9.70 dollars per share.
After the balance sheet date	-	Approximately 160 thousand shares in the course of trading on the Stock Exchange in a price range of 8.70-9.50 dollars per share.
Exercise of options C	-	In the reporting period and after the date of the balance sheet about 484 thousand warrants C were exercised for conversion into shares at exercise prices of 8.25 dollars per share.

On completion of the aforesaid purchases, the Company's holdings in Equity 1, both directly and indirectly, rose from 52.7% of Equity's issued capital to about 61% of the issued capital of EQ1 (on a full dilution).

0The Company's total investment in increasing its percentage holdings in EQ1 was about 12 million dollars.

In the books of the Company and its consolidated subsidiaries, the cost of the investment in EQ1 as at March 31, 1999 stands as NIS 226.1 million. The market value on the NYSE in the USA of the investment in shares of EQ1 was approximately NIS 214 million as of March 31, 1999 and at the date of signing of the financial statements is about NIS 233 million.

d. **Private placement of securities to provident funds**

In February 1999 the Company effected a private placement to a number of provident funds of 270,000 ordinary shares of NIS 1 par value each of the Company, in consideration for NIS 8.4 per share and 162 thousand warrants, without consideration.

In addition, convertible debentures having a par value of NIS 16,000 thousand were allotted to one the above-mentioned provident funds in consideration for their par value.

In addition the Company undertook to Gmul-Sahar and Leumi & Co. to allot them up to 1,200,000 shares at a price of NIS 10.5 per share, subject to additional conditions.

For details see Note 4 to the attached financial statements.

e. In November 1998, the Company adopted an annual dividend policy in the scope of which the Company will make an announcement at the end of each year as to the amount of the dividend for the next year. For 1999 the Company announced that it would distribute a dividend of at least 48 agorot per share as against 30 agorot per share in the previous year, which at the date of passing of the resolution represented a dividend yield of approximately 6.5%. The dividend will be declared at the end of each quarter during 1999 in an amount of not less than 12 agorot per share. In March 1999 the Company declared a dividend of 12 agorot per share.

f. During March 1999 and up to the date of signing of the financial statements, the Company, through a wholly-owned subsidiary, acquired approximately 2.5% of a real estate company (which enjoys the status of a REIT) which engages in the purchase, management and Development of open shopping centers which have anchor tenants, primarily supermarkets, and the shares of which are traded on the Stock Exchange in New York. The purchase price for this acquisition was approximately 7.7 million dollars (as at March 31, 1999 a sum of about 2.7 million dollars). The amount of the dividend expected to be received from this investment reflects a dollar yield of about

10%. The investment in the aforesaid company is presented as part of the balance of short-term investments in the Company's financial statements.

3. **Financial condition**

The main balances and transactions in the consolidated financial statements are balances and transactions in US dollars which originate from the activities of EQ1.

As at March 31, 1999, the liquid balances available to the Company and its consolidated subsidiaries, including short-term investments, amounted to approximately NIS 33.2 million, as against a sum of approximately NIS 56.2 million as at December 31, 1998 and about NIS 18.7 million as of March 31, 1997. The down turn in the volume of liquid balances in the reporting period was due to a decline by approximately NIS 8.2 million in cash and cash equivalents, a fall of about NIS 14.8 million in short-term investments. The decrease in the liquid balances served mainly for the purchase of assets by EQ1 and the purchase of EQ1's shares by the Company.
The increase in the shareholders' equity item from approximately NIS 161.5 million to an amount of NIS 162.4 million was emanated from a net issue of shares in the sum of NIS 2.1 million, and from a decline in the adjustments item stemming from a Foreign currency translation of EQ1 and F.C.I. in an amount of approximately 1.5 million, an increase in the Company's net profits for the three-month period ended March 31, 1999 in a sum of approximately NIS 2.4 million, and from the deduction of an interim dividend declared by the Company, in an amount of NIS 2.1 million.

4. **Liquidity and sources of finance**

The Company has set for itself a policy of maintaining of a high level of liquidity aimed at increasing its shareholders' equity, in order to enable it to take advantage of business opportunities in its field of activities.

a. The Company's equity capital together with the minority Interest, in an amount of NIS 319.8 million, financed approximately 38.2% of the total balance sheet.

b. The ratio of current assets to current liabilities (after neutralization of short-term liabilities which were discharged and/or became long-term liabilities subsequent to the date of the balance sheet) was approximately 1.27.

c. The cash flow provided by operating activities in the reporting period amounted to about NIS 15.1 million, as compared with approximately NIS 8.7 million during the corresponding period last year, and approximately NIS 37.7 million in 1998.

5. Operating Results

In the reporting period the Company's profits totaled NIS 2,430 thousand, as compared with approximately NIS 1,610 thousand in the corresponding period last year and about NIS 13,265 thousand in 1998.

The Company's operations in the reporting period are after the reorganization made in the Company during 1998, as described in Note 1 to the Company's annual financial statements as at December 31, 1998. These activities include mainly the operations of EQ1 in the USA, the activities of F.C.I. in Canada and the operations of subsidiaries in Israel, as compared with the corresponding period last year and the first half of 1998, during which period the Company's operating results included mainly the operations of EQ1 in the USA.

The activities of EQ1, which constitute the main operations of the Company, were characterized by a rise in income as a result of an increase in the total number of properties and a moderate improvement in the percentage occupancy of the existing properties as against a smaller increase in operating expenses and administrative and general expenses, and as against a diminution in financial expenses as a result of the partial repayment of long-term loans and the taking of loans on a "refinancing" basis under better conditions as compared with the corresponding period last year.

6. Effect of the year 2000 syndrome

There is no change as compared with the director's report as of December 31, 1998.

7. Additional information and events subsequent to the balance sheet date

a. Additional private placement of securities to institutional bodies

In furtherance of a resolution by the Company's board of directors in February 1999, the Company made an allotment in April 1999 to a provident fund of 230 thousand shares and 138 thousand warrants. The shares were issued at a price of NIS 8.7 per share and the warrants were allotted without consideration. The conditions of the warrants are identical to the conditions of the warrants issued to the provident funds in February 1999, as mentioned in Paragraph 2(d) above.

b. Issue of debentures (series D)

Pursuant to an agreement dated April 12, 1999, Gazit Inc. (the parent company) issued NIS 20,000,000 par value debentures (series D) in May 1999, of which NIS 5,500,000 par value were allotted to a consolidated subsidiary of the Company. On the strength of the aforesaid agreement, Gazit Inc. lent the money raised to the Company, under the same conditions and for the same period as the conditions of the debentures, and the Company for its part made an undertaking to Gazit in regard to fulfilling all Gazit's obligations to the holders of the debentures which were issued.

c. **<u>Acquisition of properties</u>**

In April 1999 EQ1 acquired a building located in a commercial shopping center which is owned by it in consideration for an amount of approximately 2.6 million dollars. The building was purchased on the basis of it being leased to an anchor tenant under a 15-year contract, and the G.L.A. of approximately 7,800 sq.m.

d. **<u>Submission of draft prospectus for the issue of shares and warrants of the Company</u>**

In April 1999, the Company submitted a draft prospectus to the Securities Authority and the Stock Exchange with respect to an offering of shares and warrants of the Company by way of a rights issue.

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Dori Segal – managing director	Eli Shahar Director

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