GAZIT-GLOBE (1982) LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2000

ADJUSTED TO THE NIS OF DECEMBER 2000

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REPORT OF INDEPENDENT AUDITOR

To the Shareholders of

GAZIT-GLOBE (1982) LTD.

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 2000 and 1999 and the consolidated balance sheets for the same dates and the related statements of income, changes in equity and cash flows - the Company and the Consolidated - for each of the years ended on those dates. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 96.5% and 84.6% as of December 31, 2000 and 1999, and total revenues constituting approximately 99.5% and 91.9% of the related consolidated totals for the years then ended, respectively. 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 Auditors' Regulations (Auditor's Mode of Performance), 1973. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentations. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of - the Company and the Consolidated - as of December 31, 2000 and 1999, and the related results of operations, changes in equity and cash flows - the Company and the Consolidated - for each of the years ended on those dates, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the aforementioned financial statements comply with the requirements of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

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

Tel-Aviv, Israel
March 25, 2001

KOST FORER & GABBAY
A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2000

	Note	December 31, 2000	December 31, 1999
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	102,422	24,721
Short-term investments	4	169,102	26,798
Receivables from tenants	5	35,752	10,505
Accounts receivable	6	35,390	8,736
Loans to a partner in proportionately consolidated subsidiaries	7	87,311	-
		429,977	70,760
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	9	152,550	163,803
Long-term loans	10	50,027	9,133
		202,577	172,936
FIXED ASSETS:	11		
Cost		4,328,649	1,120,219
Less - accumulated depreciation		110,690	62,799
		4,217,959	1,057,420
OTHER ASSETS AND DEFERRED CHARGES, NET	12	106,973	10,982
		4,957,486	1,312,098

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of December 2000

	Note	December 31, 2000	December 31, 1999
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	295,479	22,033 *)
Trade payables	14	38,082	3,192
Other accounts payable	15	83,551	12,223
Dividend declared	16	6,835	-
		423,947	37,448
LONG-TERM LIABILITIES:			
Debentures	17	155,481	106,161
Convertible debentures	18	-	16,215
Liabilities to financial institutions and others	19	2,626,731	736,535 *)
Tenants' security deposits	20	122,745	5,432
Accrued severance pay	21	603	69
Deferred taxes	22c	464	-
		2,906,024	864,412
CONVERTIBLE DEBENTURES REDEEMABLE FOR SHARES IN A SUBSIDIARY	18b	899,866	-
MINORITY INTEREST		271,445	157,413
CONVERTIBLE DEBENTURES	18c	1,009	-
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	455,195	252,825
		4,957,486	1,312,098

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

March 25, 2001		
Date of approval of the financial statements	D. Segal Managing Director	V. Zuntz Director

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY
Adjusted to the NIS of December 2000

		December 31,	
		2000	**1999**
	Note	**Adjusted NIS in thousands**	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	1,525	19,178
Short-term investments	4	28,863	242
Accounts receivable	6	3,497	2,661
		33,885	22,081
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	705,591	385,052
Long-term investments	9	87,196	126,263
Long-term loans	10	148	203
		792,935	511,518
FIXED ASSETS:	11		
Cost		2,034	793
Less - accumulated depreciation		572	424
		1,462	369
OTHER ASSETS AND DEFERRED CHARGES, NET	12	678	562
		828,960	534,530

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

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY
Adjusted to the NIS of December 2000

	Note	December 31, 2000	December 31, 1999
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	49,443	7,588
Trade payables	14	270	223
Other accounts payable	15	20,039	3,066
Dividend declared	16	6,835	-
		76,587	10,877
LONG-TERM LIABILITIES:			
Debentures	17	89,903	113,156
Convertible debentures	18a	-	16,215
Liabilities to financial institutions and others	19	206,216	141,410
Accrued severance pay	21	50	47
		296,169	270,828
CONVERTIBLE DEBENTURES	18c	1,009	
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	455,195	252,825
		828,960	534,530

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

March 25, 2001		
Date of approval of the financial statements	D. Segal Managing Director	V. Zuntz Director

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

Adjusted to the NIS of December 2000

	Note	Year ended December 31, 2000	1999	1998
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Rental income	27	357,929	129,728	99,251
Other income	28	70,574	17,469 *)	11,814 *)
		428,503	147,197	111,065
Costs and expenses:				
Operating properties for rent	29	119,902	36,927	27,322
Depreciation of properties for rent		48,029	18,423	13,960
General and administrative	30	35,040	15,728 *)	10,641 *)
Financial, net	31	103,601	27,855 *)	17,066 *)
Other expenses	32	8,290	97	15
		314,862	99,030	69,004
Income before taxes on income		113,641	48,167	42,061
Taxes on income	22d	12,178	3,669	3,438
Income after taxes on income		101,463	44,498	38,623
Minority interest in earnings of subsidiaries		(25,947)	(23,286)	(24,987)
Equity of previous shareholders in earnings of newly consolidated company	16(5)	(8,350)	-	-
Net income for the year		67,166	21,212	13,636
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		1.70	0.92	0.86
Diluted earnings			0.86	

*) Reclassified.

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF INCOME - THE COMPANY
Adjusted to the NIS of December 2000

	Note	2000	1999	1998
		Year ended December 31,		
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		51,770	20,246	5,327
Other income	28	36,104	4,234 *)	828*)
Financial, net	31	-	-	11,269*)
		87,874	24,480	17,424
Costs and expenses:				
General and administrative	30	3,344	1,580 *)	1,681*)
Financial, net	31	14,609	-	-
Other expenses	32	12	19	303*)
		17,965	1,599	1,984
Income before taxes on income		69,909	22,881	15,440
Taxes on income	22d	2,743	1,669	1,804
Net income for the year		67,166	21,212	13,636
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		1.70	0.92	0.86
Diluted earnings			0.86	

*) Reclassified.

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

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

Adjusted to the NIS of December 2000

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at January 1, 1998	67,301	103,795	-	2,355	(73,433)	-	100,018
Capital reserve from subsidiary's liability to former related party **)	-	-	-	-	(1,349)	-	(1,349)
Assignment of assets, net from the parent company against capital issuance, net (Note 1b(4))	6,254	-	12,117	(752)	32,044***)	-	49,663
Foreign currency translation adjustments for foreign autonomous units	-	-	-	7,691	-	-	7,691
Capital reserve from realization of option for the purchase of land **)	-	-	1,237	-	-	-	1,237
Write-off of provision for loss on decrease in holdings in subsidiary	-	-	369	-	-	-	369
Net income for the year	-	-	-	-	13,636	-	13,636
Dividend declared	-	-	-	-	(5,246)	-	(5,246)
Balance at December 31, 1998	73,555	103,795	13,723	9,294	(34,348)	-	166,019
Capital issuance, net	7,724	68,428	-	-	-	-	76,152
Foreign currency translation adjustments for foreign autonomous units	-	-	-	749	-	-	749
Net income for the year	-	-	-	-	21,212	-	21,212
Dividend paid	-	-	-	-	(11,307)	-	(11,307)
Balance at December 31, 1999	81,279	172,223	13,723	10,043	(24,443)	-	252,825
Capital issuances net	6,927	72,934	-	-	-	(12,198)	67,663
Conversion of debentures to shares	2,442	23,723	-	-	-	-	26,165
Options exercised to shares	4,769	39,334	-	-	-	(5,992)	38,111
Sale of shares by a subsidiary	-	3,315	-	-	-	17,567	20,882
Reimbursement of issuance expenses	-	652	-	-	-	-	652
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,113	-	-	1,113
Net income for the year	-	-	-	-	67,166	-	67,166
Dividend paid	-	-	-	-	(12,547)	-	(12,547)
Dividend declared	-	-	-	-	(6,835)	-	(6,835)
Balance as of December 31, 2000	95,417	312,181	13,723	11,156	23,341	(623)	455,195

*) See Note 1b(2).

**) Carried to "Accumulated deficit" in an amount which is equal to the additional paid-in capital in deficit which was carried to this item in prior years.

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2000

	Year ended December 31,		
	2000	**1999**	**1998**
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	67,166	21,212	13,636
Adjustments to reconcile net income to net cash provided by operating activities (a)	12,415	32,827	25,141
Net cash provided by operating activities	79,581	54,039	38,777
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	(449,645)	-	519
Investment in subsidiary	(21,926)	(47,837)	(4,932)
Investments in fixed assets	(217,877)	(379,478)	(129,498)
Proceeds on sale of real estate	60,534	32,661	28,389
Granting of long-term loans	(60,328)	-	(1,483)
Repayment of long-term loans	55,783		
Short-term investments, net	(59,336)	12,436	(32,823)
Purchase of marketable securities and long-term investments	(185,006)	(165,802)	-
Proceeds from sale of long-term investments	217,590		
Proceeds from sale of land to a former minority in a subsidiary	2,545		
Net cash used in investing activities	(657,706)	(548,020)	(139,828)
Cash flows from financing activities:			
Capital issuances, net	67,663	76,152	-
Exercise of options to shares	38,111		
Sale of shares by the Company and a subsidiary	20,882		
Reimbursement of issuance expenses	652		
Issuance to minorities in subsidiary, net	43,957	-	108,991
Proceeds on exercise of options by minorities and a related party in subsidiary	-	4,111	-
Purchase of options of a subsidiary by that subsidiary from former related party (Note 1b(2))	-	(8,833)	-
Deferred charges in respect of raising loans and debentures	(18,291)	(4,125)	(1,051)
Dividend paid	(12,547)	(16,553)	-
Dividend paid to minorities in subsidiary	(20,226)	(17,914)	(21,637)
Receipt of long-term loans	722,189	414,743	61,710
Principal payment of loan to Gazit Group	-	-	(6,723)
Early redemption of debentures and convertible debentures	(45,960)		
Sale of Company's debentures by subsidiaries	7,224	5,225	2,095
Purchase of Company's debentures by subsidiary	-	(1,525)	-
Principal payment of long-term loans	(154,250)	(26,349)	(70,091)
Short-term bank credit, net	(3,115)	42,546	22,656
Debentures assigned to the Company	-	16,902	-
Issuance of convertible debentures	11,099	16,290	-
Net cash provided by (used in) financing activities	657,388	500,670	95,950
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	(1,560)	171	7,366
Increase in cash and cash equivalents	77,701	6,860	2,265
Cash and cash equivalents at the beginning of the year	24,721	17,861	15,596
Cash and cash equivalents at the end of the year	102,422	24,721	17,861

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2000

	Year ended December 31,		
	1999	**1998**	**1997**
	Adjusted NIS in thousands		
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Loss (gain) on realization and revaluation in value of marketable securities, net	(35,608)	1,257	1,029
Minority interest in earnings of subsidiaries	25,947	23,286	24,987
Depreciation	48,029	18,577	14,318
Deferred taxes, net	(825)	(598)	123
Income from early redemption of debentures and convertible debentures of a subsidiary	(9,506)	-	-
Adjustment differences on monetary assets and long-term liabilities, net	(52,445)	(5,191)	(4,698)
Write-down of long-term investments	-	1,809	-
Amortization of other assets and deferred charges	22,544	1,652	3,602
Gain on sale of land	(2,931)	(12,572)	(8,819)
Accrued severance pay	28	12	-
Gain (loss) on issuance to third party and related party	(2,446)	97	(2,245)
Changes in asset and liability items:			
Increase (decrease) in tenants and other accounts receivable	15,965	(4,955)	(5,077)
Increase in trade payables and other accounts payable	3,374	7,833	1,415
Increase in tenants' security deposits	289	1,620	506
	12,415	32,827	25,141

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2000

	Year ended December 31,		
	2000	**1999**	**1998**
	Adjusted NIS in thousands		
(b) Investment in newly consolidated subsidiaries: (Note 1b(4) (5))			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	(54,243)	-	(773)
Current liabilities	134,273	-	7,853
	80,030	-	7,080
Fixed assets, long-term loans and investments (mainly land)	(3,247,736)	-	(60,371)
Other assets	(130,746)	-	(2,737)
Long-term liabilities	2,755,745	-	8,291
	(622,737)	-	(47,737)
Minority interest in subsidiary's shareholders' equity	93,062	-	(75,546)
		-	(123,283)
Shares allocated to the parent company against subsidiaries received	-	-	123,802
	(449,645)	-	519
(c) Significant non-cash operations:			
Allocation of shares against assets and liabilities assigned to the Company *)	-	-	74,143
Dividend declared	6,835	-	5,246
Capital issuance in subsidiary for minority and interested party against long-term loans	-	2,292	-
Purchase of fixed assets against long-term liabilities	29,591	4,209	-
Purchase of proportionately consolidated subsidiary	14,406	-	-
Sale of land to former minority interest in a subsidiary	17,449	-	-
Conversion of convertible debentures into Company shares	26,165	-	-

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2000

	Year ended December 31,		
	2000	1999	1998
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the year	67,166	21,212	13,636
Adjustments to reconcile net income to net cash provided by operating activities (a)	(47,192)	(11,111)	(7,369)
Net cash provided by operating activities	19,974	10,101	6,267
Cash flows from investing activities:			
Investment in subsidiary newly consolidated by proportionate consolidation method	(84,511)		
Investment in subsidiary	(44,052)	-	-
Dividend received from subsidiary	-	-	1,100
Loans extended to subsidiary, net	(140,391)	(91,593)	(22,890)
Investments in fixed assets	(1,358)	(106)	(61)
Granting of long-term loans	-	-	(1,564)
Sale of marketable securities and short-term deposits, net	(14,318)	1,130	728
Purchase of marketable securities and long-term investments	(36,670)	(126,263)	-
Proceeds from the sale of long-term marketable securities	75,737		
Repayment of long-term loans	55		
Proceeds from the sale of fixed assets	104		
Net cash used in investing activities	(245,404)	(216,832)	(22,687)
Cash flows from financing activities:			
Capital issuances, net	67,663	76,152	(436)
Exercise of options to Company shares	38,111		
Sale of shares by the Company and subsidiary	20,882		
Reimbursement of issuance expenses	652		
Deferred charges in respect of raising loans and debentures	(181)	(309)	(88)
Dividend paid	(12,547)	(16,553)	-
Receipt of long-term loans	121,507	112,321	2,278
Loan received from a proportionately consolidated subsidiary	38,246		
Principal payment of long-term loans	(72,875)	(1,215)	-
Short-term bank credit, net	(4,780)	6,776	18,415
Issuance of convertible debentures	11,099	16,290	-
Debentures assigned to the Company	-	23,313	-
Net cash provided by financing activities	207,777	216,775	20,169
Increase (decrease) in cash and cash equivalents	(17,653)	10,044	3,749
Cash and cash equivalents at the beginning of the year	19,178	9,134	5,385
Cash and cash equivalents at the end of the year	1,525	19,178	9,134

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2000

	Year ended December 31, 2000	1999	1998
	Adjusted NIS in thousands		
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Loss (gain) on marketable securities, net	(14,303)	(561)	616
Equity in earnings of subsidiaries net of dividend received therefrom	(46,700)	(15,718)	(1,038)
Depreciation	161	99	42
Adjustment differences on monetary assets and long-term liabilities, net	12,158	(61)	(3,963)
Amortization of other assets and deferred charges	65	127	48
Loss (gain) on issuance to third party	(351)	19	288
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	(836)	2,820	(3,783)
Increase in trade payables and other accounts payable	2,614	2,164	421
	(47,192)	(11,111)	(7,369)
(b) Significant non-cash operations:			
Allocation of shares against assets and liabilities assigned to the Company *)	-	-	50,096
Dividend declared	6,835	-	5,246
Conversion of convertible debentures into Company shares	26,165	-	-
Purchase of proportionately consolidated subsidiary	14,406	-	-

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

NOTE 1:- GENERAL

a. Definitions:

The Company	-	Gazit-Globe (1982) Ltd. (previously: Globe-Reit Investments Ltd.).
company	-	Gazit Inc. ("Gazit") through its subsidiary.
Subsidiaries	-	companies over which the Company exercises control (as defined in Statement No. 57) and whose financial statements are consolidated with those of the Company.
subsidiary	-	Proportionately consolidated a company held by parties between whom there is a contractual agreement for joint control, and whose financial statements are consolidated with those of the Company.
Investee companies	-	subsidiaries and the proportionately consolidated subsidiary detailed in the Appendix.
The Group	-	the Company and its subsidiaries.
Interested parties	-	as defined in the Securities Law, 1968.
Related parties	-	as defined in Statement No. 29 of the Institute of Certified Public Accountants in Israel.

b. The Company and its activity:

(1) The Company is engaged, through its subsidiaries, in establishing, acquiring and managing income producing properties in North America. Commencing in October 2000, the Company is also engaged, through a proportionately consolidated subsidiary, in construction, maintenance, marketing and management of senior citizen residence throughout Israel.

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

a) At the end of 1994, the Company commenced to invest, directly and indirectly, in Equity One, Inc. ("Equity 1") an American company which specializes in the acquisition and management of income producing properties in the U.S., whose shares are listed for trade on the New York Stock Exchange beginning in 1998.

b) In July 2000, EQ1, which prior to this allocation was held at a percentage of approximately 69.3% by the Company, signed an agreement in principle with Alony- Hetz Properties and Investments Ltd. ("Alony Hetz") for a private placement of 20% of the shares of EQ1 according to a price of $ 10.875, net per share.

In the first stage, 1.9 million shares will be allocated to Alony-Hetz which comprises up to approximately 14% of EQ1's share capital, in consideration of approximately $ 21 million. In addition, stock options will be allocated to Alony-Hetz to be exercised on two dates, such that, fully diluted, Alony-Hetz's holdings in EQ1 will reach about 20%.

When the aforesaid allocation of shares is completed, and the stock options will be converted, the Company's holding percentage in EQ1 will decline to about 56%.

In November 2000, pursuant to this agreement, EQ1 allocated one million shares (7.8%) in consideration of the amount of $ 10.9 million such that the Company's holding percentage of EQ1's shares declined to approximately 64.1%. The Company realized income from the decline in the holding percentage in the amount of approximately NIS 3.3 million. The balance of the shares will be allocated in accordance with the requirements of EQ1 until August 2001.

(3) In November 1998, and subsequent to an agreement reached between the Company and Gazit and another company which it wholly-owns ("Gazit Group") in August 1998, during a meeting of the Company's shareholders a private placement was approved to Gazit Group of 6,168,780 Common shares of NIS 1 par value each (approximately 35.8% of the Company's outstanding share capital). In exchange for the above shares, Gazit Group transferred to the Company all its investments in EQ1 and other companies which hold certain real estate properties mainly abroad. The assets which are being transferred were recorded in the Company's books according to the value in the books of Gazit Group.

According to the above agreement, commencing July 1, 1998 ("the date of record") the Company is entitled to all operating results derived from the assigned assets.

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

(4) Acquisition of Centrefund Realty Corporation ("CFE")

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

CFE is a Canadian income producing real estate company which is listed for trade on the Toronto stock exchange.

b. In October 2000, an agreement was reached between Gazit 97 and the company owned by Alony-Hetz, pursuant to which Gazit 97 sold approximately 16% of the shares in CFE to Alony-Hetz at terms identical to those of the tender offer. Following this transaction, Gazit 97's holding percentage in CFE declined to approximately 68%.

c. The aggregate cost of the purchase (without the portion sold to Alony-Hetz) amounted to approximately NIS 383.4 million.

d. CFE's financial statements were consolidated with the financial statements of the Company commencing July 1, 2000. Income in the amount of approximately NIS 8,350 thousand, accumulated from the date of consolidation until the effective date of the acquisition (losses attributed to the former shareholders) were presented under a separate item in the statements of income, " Equity of previous shareholders in earnings of newly consolidated company".

e. Below are details with respect to the amounts of the assets as of the date of acquisition of CFE which was newly consolidated:

	NIS in thousands
Current assets	46,783
Long-term investments and loans (including current maturities)	161,306
Fixed assets	2,857,116
Other assets and deferred charges, net	123,727
	3,188,932

Below are details with respect to the amount of the income and the amount of the net income (before amortization of the original difference) of CFE which were included in the Company's consolidated statements of income for the year ended December 31, 2000:

	NIS in thousands
Rental income of properties from the date it was newly consolidated	196,486
Net income	8,677

(5) Acquisition of 49% of the share capital of Mishkenot Clal (1982) Ltd.

a) In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the purchase of shares and a private placement, 49% of the share capital of Mishkenot Clal (1982) Ltd. ("Mishkenot Clal") in consideration of the net total of approximately NIS 66 million. In addition, in the context of the purchase agreement, the Company was granted the right to purchase from Azorim an additional 1% of Mishkenot Clal's share capital. According to the agreement between the shareholders, the Company is entitled to appoint half of the directors to the board of directors of Mishkenot Clal.

Mishkenot Clal is engaged in construction, maintenance, marketing and management of senior citizen residence throughout Israel.

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

b) Below are details with respect to the amounts of the assets of Mishkenot Clal, which were newly consolidated by the proportionate consolidation method (49%), as of the date of acquisition:

	NIS in thousands
Current assets	8,046
Long-term investments and loans	32,514
Fixed assets	165,193
Other assets	22,749
	228,502

Below are details with respect to the amount of the income and the amount of the net income (before amortization of the original difference) of Mishkanot Clal which were included in the Company's consolidated statements of income for the year ended December 31, 2000:

	NIS in thousands
Income	3,625
Net income	581

(6) Dividend distribution policy

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

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

In December 2000, the Company's Board of Directors decided to distribute a dividend of at least 64 agorot per share (16 agorot per share per quarter), in contrast with the amount of at least 47 agorot per share which was determined in 2000.

(7) With respect to the issuance to the public and the private placements by the Company during the reported period, see Note 24.

(8) With respect to the private placements subsequent to the balance sheet date - see Note 35a and b.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial statements in adjusted new Israeli shekels:

1. The Company and its Israeli subsidiaries maintain their accounting records in nominal new Israeli shekels ("NIS"). In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a stable purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 1999, according to the Israeli CPI published on January 15, 2001 (168.5 points on the average basis of 1993 = 100).

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

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

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

4. A summary of the Company's financial statements in nominal NIS is presented in Note 36.

b. Principles of adjustment:

1. Balance sheet:

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

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

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

c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2000 in their nominal amounts (comparative data have been adjusted to the December 2000 Israeli CPI).

2. Statement of income:

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

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

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

d) Current tax expenses on income include the erosion of the value of the payments from the date of payment to the end of the year.

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

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

3. Statement of changes in shareholders' equity:

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

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

4. Comparative figures in these financial statements were also adjusted to the NIS of December 2000.

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

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

1. For the presentation of the Company's investment in consolidated foreign units, which were classified as autonomous entities (as the term implies in clarification 8 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel), and for the inclusion of those units' data in the consolidated financial statements, the financial statements of these consolidated units were translated according to the principles determined in the clarification. Prior to the translation, the financial statements of these consolidated units were adjusted according to the accounting principles applied by the Group.

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

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

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

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

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

As for data pertaining to the changes in the Consumer Price Index in those countries in which the Group has autonomous investee units (U.S. and Canada), see q. below.

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

Following are the main principles determined in clarification 8 which refer to foreign subsidiaries whose activities represent an integral part:

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

- After such translation, 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 translated into NIS according to the exchange rate prevailing at balance sheet date.

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

d. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances among the companies whose accounts have been consolidated, have been eliminated in consolidation.

e. Reclassification of the statement of income:

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

f. Cash equivalents:

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

g. Marketable securities:

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

2. Investments in long-term marketable securities are presented at cost net of a provision for a decline in value if the decline in value is of a temporary nature.

h. Allowance for doubtful accounts:

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

i. Fixed assets:

1. Fixed assets are stated at cost. Financial expenses related to the financing of the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.

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

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

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

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

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

j. Investments in subsidiaries:

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

Excess of investments over equity upon date of acquisition ("initial difference") which can not be attributed to specific assets and to which the provisions of the Israeli Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements) 1996, do apply, is presented according to the principles prescribed in those regulations, meaning, as an addition to or disposal from the shareholders' equity, as is applicable.

The initial difference attributed to the buildings is presented under fixed assets in the consolidated financial statements, and is amortized over the remaining amortization period of the land to which they are attributed, up to 50 years.

An initial difference attributed to land is also presented in the consolidated financial statements under fixed assets and is not amortized.

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

The original difference which is not attributed to certain assets and to which the aforesaid regulations do not apply, is carried to goodwill which is presented in the consolidated financial statements under other assets, and is amortized over a period of between five and 20 years in equal annual installments.

Pursuant to Statement of Opinion No. 57 of the Institute of Certified Public Accountants in Israel, the amortization period for goodwill will generally be up to 10 years, unless an amortization period which is longer, but which will not exceed 20 years, is more appropriate under the circumstances. The special circumstances and characteristics justifying a goodwill amortization period, arising on the acquisition of the proportionately consolidated subsidiary, of 20 years are as follows:

a. This company, which is engaged in establishing and managing residential centers for senior citizens, is the leading company in this branch in Israel.

b. This branch is characterized by long-term commitments and tenant loyalty.

c. The accepted practice for amortizing the goodwill on the acquisition of similar companies in this branch worldwide exceeds 20 years.

As for deferred taxes, see l. below.

k. Other assets and deferred charges, net:

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

l. Deferred taxes:

1. Deferred taxes are calculated in respect of differences between the value of real estate properties and fixed assets included in these financial statements and those to be considered for tax purposes (taking into account Opinion 40 of the Institute of Certified Public Accountants in Israel).

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

3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in calculating the deferred taxes, as it is the Group's intention to hold these investments.

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

m. Revenue recognition from rental income and management fees:

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

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

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

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

o. Convertible debentures:

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

p. Derivative financial instruments:

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

q. 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, 2000.

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

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

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

	Consumer Price Index			**Exchange rate of $ 1 of**	
	Israel	**U.S.**	**Canada**	**U.S.**	**Canada**
		Points *)		**NIS**	
As of:					
December 31, 2000	168.5	174.0	115.1	4.041	2.6913
December 31, 1999	168.5	168.3	111.5	4.153	2.8568
December 31, 1998	166.3	163.9	108.7	4.160	2.6868
Increase (decrease) in:					
			%		
2000	-	3.4	3.2	(2.7)	(5.8)
1999	1.3	2.7	2.6	(0.2)	6.3
1998	8.6	1.6	1	17.6	8.9

*) 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.

r. Earnings per share:

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

s. Fair value of financial instruments:

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

As for derivatives, see p. above.

t. Use of estimates:

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

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	102,009	5,553	1,112	10
Short-term deposits	413	19,168	413	19,168
	102,422	24,721	1,525	19,178

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value (1)	111,546	23,802	28,863	242
Debentures and convertible debentures of CFE (2)	12,963	-	-	-
	124,509	23,802	28,863	242
Deposits in dollars (3)	3,771	2,996	-	-
Restricted cash (4)	40,822	-	-	-
	169,102	26,798	28,863	242

(1) Mainly investment in shares of the income producing real estate companies in the U.S. and Canada, as well as part of Supersol's shares held as a short-term investment (See Note 9(2)).

(2) In January 2000, the debentures were sold to Alony-Hetz at cost, pursuant to the agreement with that company - See Note 1b(4)(b).

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

(4) Cash designated to secure the liabilities of various subsidiaries. The restriction on an amount of approximately NIS 10.5 million is expected to end in April 2001. The restriction on an additional NIS 6.8 million is expected to end during the third quarter of 2001. The restriction on the balance of the amount is expected to end during the coming year.

NOTE 5:- RECEIVABLES FROM TENANTS

a. Composition:

	Consolidated	
	December 31,	
	2000	1999
	Adjusted NIS in thousands	
Open accounts	36,721	11,236
Less - allowance for doubtful accounts	969	731
	35,752	10,505

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

NOTE 6:- ACCOUNTS RECEIVABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Dividend receivable	2,246	-	2,246	-
Interest receivable	141	271	-	167
Government authorities	2,798	150	953	99
Interested parties (1)	323	42	-	-
Loan to proportionately consolidated subsidiary	463		-	
Prepaid expenses	28,685	4,721	101	844
Employees	333	245	-	-
Minority in subsidiary	-	3,180	-	1,428
Others	401	127	197	123
	35,390	8,736	3,497	2,661

*) Reclassified.

(1) The balance as of December 31, 2000 is a loan to the Managing Director, see Note 10(2).

NOTE 7:- LOANS TO A PARTNER IN SUBSIDIARIES

The loans were extended by CFE to a partner in property development companies for his part in financing the development of the properties of these companies. The loans are in U.S. dollars and in Canadian dollars, in accordance with the location of the property, and bear interest at the rate of the costs of these financings for CFE and up to 10%. The loans are secured by the partner's rights in the development companies. According to the partnership agreement, these loans will mature in the context of the liquidation of the partnership during the approaching year and, therefore, the loans are presented in the context of current assets.

NOTE 8:- INVESTMENTS IN INVESTEE COMPANIES

a. Composition:

	The Company December 31, 1999	The Company December 31, 1998
	Adjusted NIS in thousands	
Cost of shares	325,082	185,696
Capital reserves on investment in subsidiaries (e. below)	(30,440)	(30,440)
Equity in post-acquisition earnings	85,062	33,292
Dividend received from subsidiaries	(20,642)	(15,572)
Foreign currency translation adjustments for foreign autonomous units	23,840	18,793
	382,902	191,769
Loans *)	322,689	193,283
	705,591	385,052

*) As of December 31, 2000, the loans are in U.S. dollars and in Canadian dollars and bear weighted interest of about 8.5% or LIBOR + 2.5% (whichever is higher). The principal and the interest are repayable upon the earlier of within five years from the receipt of loan or upon the Company's request.

b. The investment, directly and indirectly, in Equity 1, which is listed for trade on the New York Stock Exchange:

	December 31, 2000		December 31, 1999	
	Carrying amount	Market value	Carrying amount	Market value
	Adjusted NIS in thousands			
Shares	334,552	327,200	290,081	314,941

As of balance sheet date, the Company holds, directly and indirectly, 64.1% (53.2% assuming full dilution) of Equity 1's share capital. (See Note 1b(2)).

Following the purchase of additional shares and realization of convertible securities by subsidiaries and others subsequent to the balance sheet date, close to the date of the publication of these financial statements, the Company achieved holdings, directly and indirectly, of 64.5% (53.5% assuming full dilution) of Equity 1's share capital.

c. The direct and indirect investment in CFE which is listed for trade on the stock exchange in Toronto:

	December 31, 2000	
	Carrying amount	Market value
	Adjusted NIS in thousands	
Shares	383,486	250,700

The Company holds, through a subsidiary, approximately 68.1% (35.7% assuming full dilution) of the share capital of CFE (see Note 1b(4)).

	The Company	
	December 31,	
	2000	1999
	Adjusted NIS in thousands	
d. Dividend received in the reported year	5,070	4,528

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

Series	Exercise increment *)	Expiration date	Total number in units
Options to Alony-Hetz	$ 10.875	December 31, 2001	325,000
Options to Alony-Hetz	$ 10.875	December 31, 2002	650,000
Options issued to employees	$ 10	December 31, 2006	668,831
Options issued to employees	$ 12.375	December 31, 2006	22,500
Options issued to employees	$ 12.375	February 28, 2008	25,000

*) The price for an EQ1 share as of balance sheet date is $ 9.875.

f. The stock options of the subsidiary, CFE, as of balance sheet date are as follows:

Series	Exercise increment *)	Expiration date	Total number in units
Options to former employees and managers and employees of the property management company	C$ 14.30	October 3, 2008	487,500
Options to former controlling interests in CFE and others	C$ 14.00	January 1,2010	1,000,000

*) The price for CFE share as of balance sheet date is C$ 8.90.

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

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Long-term deposits (1)	5,080	745	1,586	745
Marketable securities presented at cost:				
Supersol Ltd. (2)	85,003	138,841	85,610	125,518
Income generating real estate companies in the in U.S. and Canada	60,820	24,217	-	-
Other	1,647	-	-	-
	152,550	163,803	87,196	126,263

(1) The deposit is pledged to secure loans received by the employees and Managing Director of the Company from a banks for the purchase of Company shares issued to them (see Note 24d).

(2) Commencing in October 2000, the Company is not an related party in Supersol. The additional investment in Supersol shares in the amount of about NIS 28.7 million is presented under short-term investments. The shares are pledged in favor of loans banks extended to the Company, see Note 25.

NOTE 10:- LONG-TERM LOANS

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Employees (1)	2,750	2,878	148	203
Interested parties (2)	5,762	6,255	-	-
Loan extended by a proportionately consolidated subsidiary (3)	19,506		-	
Others (4)	22,009		-	
	50,027	9,133	148	203

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

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

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

(2) The composition as of December 31, 2000 is as follows:

(a) A loan amounting to $ 1,129 thousand which a subsidiary extended to the Company's Chairman of the Board and owner in June 1996 for exercising stock options issued to him by EQ1. The loan bears annual interest of 6.86%, to be paid annually, maturing in June 2003 and is secured by the pledge of Equity 1 shares deriving from the said exercise.

(b) A loan amounting to about $ 297 thousand which EQ1 extended to the Company's Chairman of the Board in June 1999 for exercising stock options (series C) issued to him by EQ1. The loan bears annual interest of 6.35%, paid quarterly, maturing in December 2002 and is secured by a charge recorded on the EQ1 shares deriving from the said exercise

(c) A loan amounting to $ 80 thousand which a subsidiary extended to the Company's Managing Director (an interested party by virtue of his holdings in Gazit and as a director of the Company) in August 1997 for relocating, within the framework of his position, to Canada. The loan matures in August 2001, bears interest of LIBOR + 1% (December 31, 1999 - 7.2%) paid quarterly. As of December 31, 2000, the loan is presented under "Other accounts receivable" and short-term debit balances.

(3) The loan which Mishkanot Clal extended to Azorim. The loan is unlinked and bears interest at Prime minus 0.5%.

(4) Primarily loans extended by CFE to various parties and companies. The loans are in Canadian dollars bearing interest primarily at a rate between 8% - 10%.

NOTE 11:- FIXED ASSETS

a. Consolidated:

	Foreign real estate (c)	Real estate in Israel (c)	Office furniture and equipment	Motor vehicles	Total
	Adjusted NIS in thousands				
Cost:					
Balance at January 1, 2000	1,078,892	39,918	1,217	192	1,120,219
Foreign currency translation adjustments for foreign autonomous units	5,719	-	-	-	5,719
Entry to consolidation	2,889,156	165,193	-	-	3,054,349
Purchases during the year	220,889	2,735	122	674	224,420
Disposals during the year	(75,684)	-	-	(374)	(76,058)
Balance at December 31, 2000	4,118,972	207,846	1,339	492	4,328,649
Accumulated depreciation:					
Balance at January 1, 1999	55,555	6,654	552	38	62,799
Foreign currency translation adjustments for foreign autonomous units	257	-	-	-	257
Additions during the year	45,767	2,029	169	64	48,029
Disposals during the year	(379)	-	-	(16)	(395)
Balance at December 31, 2000	101,200	8,683	721	86	110,690
Depreciated cost at December 31, 2000	4,017,772	199,163	618	406	4,217,959
Depreciated cost at December 31, 1999	1,023,337	33,264	665	154	1,057,420

b. The Company:

	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	Adjusted NIS in thousands			
Cost:				
Balance at January 1, 2000	92	701	-	793
Additions during the year	529	114	715	1,358
Disposals during the year	(117)	-	-	(117)
Balance at December 31, 2000	504	815	715	2,034
Accumulated depreciation:				
Balance at January 1, 1999	22	402	-	424
Additions during the year	36	101	24	161
Disposal during the year	(13)	-	-	(13)
Balance at December 31, 2000	45	503	24	572
Deprecated cost at December 31, 2000	459	312	691	1,462
Deprecated cost at December 31, 1999	70	299	-	369

c. Rights to land - consolidated:

	December 31, 1999		December 31, 1998	
	Foreign	In Israel	Foreign	In Israel
	Adjusted NIS in thousands			
Land, net -				
Owned (1)	3,834,969	103,491	1,010,870	-
Capitalized lease (2)	-	49,615	-	31,066
	3,834,969	153,106	1,010,870	31,066
Balance of initial difference attributed to the above properties	182,803	46,057	12,467	2,198
	4,017,772	199,163	1,023,337	33,264

(1) The ownership rights to land in the U.S. and Canada, are registered in the names of the subsidiaries according to the registration regulations in their respective places of residence.

(2) The lease period terminates between 2011 and 2050. The subsidiaries have an option to extend the lease by additional 49 years.

(3) As for charges, see Note 25.

d. During the reported year, financial expenses amounting to NIS 13,421 thousand were capitalized to construction in progress. (1999 - adjusted NIS 7,550 was capitalized).

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Cost:				
Deferred sales expenses *)	1,234	-	-	-
Raising of long-term loans and debentures	58,818	14,845	1,004	823
Goodwill **)	14,014	-	-	-
	74,066	14,845	1,004	823
Accumulated amortization:				
Expenses for raising of long-term loans and debentures	9,011	4,024	326	261
Goodwill	175	-	-	-
	9,186	4,024	326	261
Amortized balance at the end of the year	64,880	10,821	678	562
Deferred taxes, see Note 22c.	42,093	161	-	-
	106,973	10,982	678	562

*) Expenses for selling protected residential units in a proportionately consolidated subsidiary.

**) Goodwill on the purchase of Mishkanot Clal, see Note 2j.

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

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Short-term credit from banks	11,334	(* 7,530	2,808	7,588
Current maturities of long-term loans (Note 19)	261,669	14,503	24,159	-
Current maturities of debentures (Note 17)	22,476	-	22,476	-
	295,479	(* 22,033	49,443	7,588

*) Reclassified.

b. Linkage terms and interest rates:

	Weighted interest rate December 31, 2000				
	%				
In NIS - unlinked	9.01	8,173	1,491	51	1,457
In U.S. dollar	6.94	3,128	(* 5,753	2,724	5,845
In Canadian dollar	7.00	33	286	33	286
	8.43	11,334	(* 7,530	2,808	7,588

*) Reclassified.

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

NOTE 14:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Open accounts	37,725	3,056	122	104
Notes payable	357	136	148	119
	38,082	3,192	270	223

NOTE 15:- OTHER ACCOUNTS PAYABLE

Interest payable	24,802	1,767	-	1,878
Accrued expenses	26,262	8,604	1,089	325
Current maturity of deposits and entrance fees from tenants (see Note 20(2))	9,216	-	-	
Government authorities	1,373	-	-	-
Interested parties	79	305	79	305
Revenues received in advance from tenants	3,177	1,376	-	-
Investee	-	-	3,916	
Unrealized gain	-	-	422	422
Employees	772	171	127	136
Payables for purchase of land and investments	14,700	-	14,406	-
Dividend declared by a subsidiary	3,170	-	-	
	83,551	12,223	20,039	3,066

NOTE 16:- DIVIDEND DECLARED

In December 2000, the Company declared an interim dividend for 2000 in the amount of NIS 6,835 thousand. The dividend was paid in January 2001.

In respect to the dividend distribution policy, see Note 1b(6).

NOTE 17:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2000	1999	2000	1999
	Adjusted NIS in thousands			
Evaluated par value of debentures (series D), see b. below	120,728	116,006	120,728	124,073
Less - discount on bonds	7,873	9,845	8,349	10,917
	112,855	106,161	112,379	113,156
Less - current maturities	22,476	-	22,476	-
	90,379	106,161	89,903	113,156
Debentures of CFE - See c. below	97,648	-	-	-
Less discount on bonds	32,546	-	-	-
	65,102	-	-	-
	155,481	106,161	89,903	113,156

b. Within the framework of the agreement signed between the Company and Gazit Group in August 1998 (see Note 1b(3)), the Company has assumed the liabilities in respect of debentures (series D) which were issued to the public primarily in November 1996 by Gazit via Gazit and the holders of these debentures as of July 1, 1998 ("the date of record").

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

By virtue of an agreement dated April 12, 1999, the Company's parent company issued in May 1999, under a private placement, an additional NIS 20,000,000 par value of debentures (series D) in consideration of about NIS 23,204 thousand. NIS 14,500,000 par value of debentures was issued to the underwriters and the balance was issued to the Company's subsidiary. By virtue of the above agreement, Gazit Inc. loaned the Company the raised funds at identical terms and for an identical period as the terms of the debentures, and the Company, on its part, has assumed all the obligations that Gazit Inc. has to fulfill towards the holders of the issued debentures.

With respect to the collateral provided to secure these debentures, see Note 25b.

c. Debentures in the amount of C$ 38,166 thousand were issued by CFE in consideration of their par value and they bear interest at a rate of 7.5% paid twice annually. The debentures mature in December 2003.

In December 2000, a subsidiary purchased C$ 17,181 thousand par value of debentures. In January 2001, the subsidiary sold approximately 22% of the debentures it held at cost to Alony-Hetz, see Note 1b(5)b. In addition, in the context of the obtaining of credit from a bank in order to purchase the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the purchase of an additional approximately 10% of the debentures it holds, at cost. With respect to the income from the early redemption which resulted from the purchase of the debentures, see Note 18b below.

With respect to the purchase of additional CFE debentures by the subsidiary subsequent to balance sheet date, see Note 35c.

In the consolidated financial statements, the debentures are presented net of the debentures purchased by the subsidiary and net of the discount which was calculated at the time CFE was acquired, taking into account the commercial interest rates at the time of the acquisition in order to present the debentures according to their full value.

NOTE 18:- CONVERTIBLE DEBENTURES

a. In February 1999, the Company issued to Gmul Investment Company Ltd. ("Gmul") a non-marketable convertible debenture of NIS 16,000 thousand par value in consideration of its par value. In September 2000, Gmul converted the debenture to approximately NIS 1,665 thousand par value shares of the Company.

b. Convertible debentures which are redeemable in shares of a subsidiary ("debentures"):

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

In December 2000, a subsidiary purchased C$ 11,783 thousand par value of convertible debentures which are redeemable in CFE shares. In January 2001, the subsidiary sold at cost approximately 22% of the debentures it held to Aloni Hetz, see Note 1b(4)b. In addition, in the context of the obtaining of credit from a bank in order to purchase the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the purchase of approximately an additional 10% of the debentures it holds at cost.

As a result of the purchase of the debentures and the debentures redeemable in shares of CFE during the reported period, the Company recorded gross income from the early redemption in the amount of approximately NIS 9.5 million, NIS 3.7 million net after the provision for tax and the minority interest. With respect to additional purchases of CFE convertible debentures by the subsidiary subsequent to balance sheet date, see Note 35c.

In the consolidated financial statements, the debentures are presented net of the debentures purchased by the subsidiary and net of the discount, which was calculated at the time of the purchase of CFE, taking into account the commercial interest rates at the date of the purchase, in order to present the debentures at their full value.

Below are details of the composition and terms of the debentures as of December 31, 2000:

Interest rate	First repayment date	Last repayment date	Conversion price per share *)	Balance
%			In Canadian $	NIS in thousands
8.5	Nov. 30, 2002	Nov. 30, 2006	15.50	157,254
7.875	Jan. 31, 2003	Jan. 31, 2007	17.00	265,823
7.0	Feb. 28, 2004	Feb. 28, 2008	23.50	256,554
7.25	June 30, 2004	June 30, 2008	25.25	256,963
				936,594
Net of discount on convertible debentures				36,728
				899,866

*) The price per a CFE share as of the balance sheet date is C$ 8.90. The above conversion price presents the right of conversion of the holder of the debentures.

c. In January 2000, agreements were reached between the Company and 11 provident funds, pursuant to which the Company allocated convertible debentures in the aggregate par value of NIS 11,000 thousand in consideration of their par value. The debentures are linked to the CPI, bear annual interest at a rate of 5.75% and mature in four equal annual installments on October 20 of each year from 2004 until 2007.

The debentures are convertible, in whole or in part, on each business day, on the following dates: between the first and fourteenth of January and April between 2000 and 2004, and between the first and the fourteenth of July and October between 2000 and 2003 and between May 1 and October 14 in 2004.

The debentures are convertible such that each NIS 13.25 par value of debentures is convertible into one share (subject to adjustments). Every six months during the conversion period, the conversion ratio will increase by a rate of 1%.

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

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

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31, 2000					December 31, 1999
	In NIS linked to CPI	**In unlinked NIS**	**In C$**	**In U.S. $**	**Total**	**Total**
	Adjusted NIS in thousands					
To banks	12,512	155,095	367,386	582,679	1,117,672	279,521
To other financial institutions	-	-	879,685	803,604	1,683,289	467,505
Provision for termination of commitment with former management of CFE (see Note 1b(4)) *)	-	-	34,476	-	34,476	-
Loan from proportionately consolidated subsidiary	-	19,506	-	-	19,506	-
Other liabilities	-	-	17,798	15,659	33,457	4,012
	12,512	174,601	1,299,345	1,401,942	2,888,400	751,038
Less - current maturities	1,105	22,871	212,710	24,983	261,669	14,503
	11,407	151,730	1,086,635	1,376,959	2,626,731	736,535
Weighted interest rate (%)	5.42	10.26	7.59	7.75	7.82	8.17

*) To secure this liability, the subsidiary recorded a fixed charge on two of the commercial centers it owns.

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

	December 31, 2000					December 31, 1999
	In NIS linked to CPI	**In unlinked NIS**	**In C$**	**In U.S. $**	**Total**	**Total**
	Adjusted NIS in thousands					
First year - current maturities	1,105	22,871	212,710	24,983	261,669	14,503
Second year	-	-	162,747	98,375	261,122	37,471
Third year	366	21,495	52,940	129,181	203,982	133,096
Fourth year	4,433	76,938	43,451	135,383	260,205	54,626
Fifth year	1,000	5,877	30,822	174,506	212,205	110,661
Sixth year and thereafter	4,023	5,043	566,166	744,137	1,319,369	348,506
Repayment date yet undetermined	480	19,506	17,799	70,394	108,179	37,672
	10,302	128,859	873,925	1,351,976	2,365,06	722,032

11,407	151,730	1,086,635	1,376,959	2,626,731	736,535

b. The Company:

1. Composition:

	December 31,				
	2000				1999
	In NIS linked to CPI	In unlinked NIS	In U.S. dollars	Total	In NIS linked to CPI
	Adjusted NIS in thousands				
To banks	12,032	155,095	11,731	178,858	130,386
To investee companies	13,271	38,246	-	51,517	11,024
	25,303	193,341	11,731	230,375	141,410
Less - current maturities	1,105	22,871	183	24,159	-
	24,198	170,470	11,548	206,216	141,410
Weighted interest rate (%)	5.56	10.14	7.86	9.52	10.43

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

	December 31,				
	2000				1999
	In NIS linked to CPI	In unlinked NIS	In U.S. dollar	Total	In NIS linked to CPI
	Adjusted NIS in thousands				
First year - current	1,105	22,871	183	24,159	-
Second year	-	-	-	-	10,372
Third year	366	21,495	10,979	32,840	10,372
Fourth year	4,433	76,938	569	81,940	37,036
Fifth year	1,000	5,877	-	6,877	72,606
Sixth year	5,128	27,914	-	33,042	-
Repayment date undetermined yet	13,271	38,246	-	51,517	11,024
	24,198	170,470	11,548	206,216	141,410
	25,303	193,341	11,731	230,375	141,410

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

NOTE 20:- TENANTS' SECURITY DEPOSITS

	Consolidated	
	December 31,	
	2000	1999
	Adjusted NIS in thousands	
Deposits from tenants (1)	16,264	5,432
	115,697	-
Deposits and entrance fees from tenants (2)	9,216	-
Less - current maturities	106,481	-
	122,745	5,432

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

(2) Mishkanot Clal has committed to tenants under agreements to occupy residential units in existing buildings. In addition, potential tenants purchased options to occupy residential units in the future, in accordance with the conditions detailed in the agreements reached with them.

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

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

Deposit - Amounts deposited by tenants and will be refunded at the end of the period of the use of the property, where they are primarily linked to the dollar and part of theme are linked to the CPI.

Entrance fees - Amounts which were paid by tenants to purchase the right of occupancy and which, primarily, are foreclosed during 60 months and part during 36 months.

Options - Amounts received from potential tenants for periods of up to 15 years in respect to options to occupy residential units in the future, which are linked partially to the exchange rate of the U.S. dollar and bear interest at a rate of up to 9% and part are linked to the CPI and bear interest of 7.5% - 10%.

The amounts carried to the statement of income in the coming year, and the amounts available for refunds to tenants in respect to the cancellation of agreements and options, pursuant to the estimate of the management of Mishkenot Clal, in addition to amounts which will be carried to the statement of income in respect to the balance of foreclosed deposits and foreclosed entrance fees, are included under the other accounts payable item under current liabilities.

NOTE 21:- ACCRUED SEVERANCE PAY

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

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

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

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

NOTE 22:- TAXES ON INCOME

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

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:

	Depreciable fixed assets	Other	In respect to carryforward tax losses	Total
	Adjusted NIS in thousands			
Balance as of January 1, 1999(1)	(888)	-	458	(430)
Amounts carried to the statement of income	(48)	-	639	591
Balance as of December 31, 1999 (2)	(936)	-	1,097	161
Changes in respect to newly consolidated subsidiary	(91,191)	4,108	129,826	42,743
Purchase of shares in a subsidiary	(2,100)	-	-	(2,100)
Amounts carried to the statement of income	50,300	24,945	(74,420)	825
Balance as of December 31, 2000 (2)	(43,927)	29,053	56,503	41,629

(1) Presented among long-term liabilities.

(2) Presented among other assets and deferred charges, net.

The deferred taxes are calculated according to tax rates varying between 36% and 43% (the tax rates expected to apply at the time they are realized)

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

Composition:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Current taxes (1)	12,983	4,260	3,252	2,743	1,669	1,741
Deferred taxes	(825)	(591)	123	-	-	-
Taxes in respect of previous years	20	-	63	-	-	63
	12,178	3,669	3,438	2,743	1,669	1,804

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

Consolidated - also including, in addition to the aforementioned, current tax expenses in respect of the activities of the foreign subsidiaries.

e. The Company has received final tax assessments through the 1995 tax year.

f. The Company has a carryforward tax loss aggregating to about NIS 39,335 thousand (1999 - NIS 33,167 thousand). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other temporary differences.

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

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

As for commitments with related parties and interested parties, see Notes 34.

b. Guarantees:

CFE is a guarantor for loans from various parties to its subsidiaries consolidated by the proportionate consolidation method, which are engaged in developing properties, in the amount of approximately NIS 161.7 million (C$ 60.1 million).

In addition, CFE provided bank guarantees letters during the ordinary course of its business in the amount of approximately NIS 32 million (C$ 11.9 million).

To secure the renovation of one of its properties, which EQ1 has undertaken to execute, EQ1 provided a bank guarantee of $ 500 thousand. To secure the guarantee, Equity 1 pledged one of its properties.

c. Legal claims:

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

In the opinion of the management of these companies, based on the opinion of their attorneys, there is no exposure in respect of these claims and, therefore, no provisions were recorded in the financial statements.

NOTE 24:- SHAREHOLDERS' EQUITY

a. Composition of the share capital:

	December 31, 2000		December 31, 1999	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	200,000,000	42,788,634 (*	200,000,000	24,864,419

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

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

c. Issuance of shares pursuant to a prospectus:

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

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

   5 shares at NIS 11.4 per share and 1 stock option (series 3) and 2 stock options (series 4) at no consideration. The price per lot as fixed in the tender was NIS 60.

   Pursuant to its undertaking in the prospectus, a subsidiary has purchased within the framework of the prospectus 200 thousand units. (With respect to sale of these shares by the subsidiary and the Company, see paragraphs i and k.)

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

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

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

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

The total gross proceeds from the issuance amounted to some adjusted NIS60.6 million, of which adjusted NIS 12.1 million was received from a subsidiary.

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

e. In March 2000, the Company entered into two agreements whereby it issued in April 2000, 1,500 thousand Company's shares, 300 thousand stock options (series 3) and 600 thousand stock options (series 4) were issued in 300 thousand units of which 100 thousand units were issued to a controlling company. In consideration for the securities offered, the oferees paid NIS 17.6 million.

f. In September 2000, Gmul converted debentures of NIS 16 million par value into NIS 1,665 thousand par value of the Company's shares. Following the conversion, Gmul increased its holdings in the Company to 16%.

g. With respect to the conversion of convertible debentures to NIS 768 thousand par value of the Company's shares by the provident funds, see Note 18c.

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

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

j. During the reported period, some 3.5 million options (series 3) were exercised into the Company's shares, mainly by the parent company for an aggregate consideration in the amount of approximately NIS 38.2 million. In addition, in December 2000, approximately NIS 539 thousand in options which were held by the Company itself were exercised into shares

i. As of February 2000 and until the date of these financial statements, the Company and its subsidiary sold 1,132 thousand shares which it held for total proceeds in the amount of approximately NIS 14.7 million (not including the sale of shares to Aloni Hetz in the consideration, see paragraph i above).

NOTE 25:- CHARGES (ASSETS PLEDGED)

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

The balances of the secured liabilities are as follows:

	Consolidated	
	December 31,	
	2000	1999
	Adjusted NIS in thousands	
Short-term loans and credit	11,334	45,202
Long-term liabilities (including current maturities)	2,800,961	709,354
Debentures (see b. below)	177,957	106,161
	2,990,252	860,717

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

c. With respect to the charge recorded by CFE on two commercial centers which it owns to secure the liability with respect to the termination of the commitment to its previous management - see Note 19a.

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2000				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C$ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	413	59,868	40,801	1,340	102,422
Short-term investments	17	22,607	34,932	-	57,556
Tenants	-	8,628	26,757	367	35,752
Other accounts receivable	1,718	2,613	-	2,374	6,705
Loan to partner in proportionately consolidated subsidiaries	-	49,297	38,014	-	87,311
Long-term investments	5,080	-	-	-	5,080
Long-term loans	489	8,364	21,668	19,506	50,027
	7,717	151,377	162,172	23,587	344,853
Liabilities:					
Short-term credit from banks and others	-	3,127	33	8,174	11,334
Trade payables	-	15,187	21,173	1,722	38,082
Other accounts payable	18,832	13,214	39,112	-	71,158
Dividend declared	-	-	-	6,835	6,835
Debentures	-	112,855	65,102	-	177,957
Liabilities to financial institutions and others	12,512	1,401,942	1,299,345	174,601	2,888,400
Convertible debentures	1,009	-	-	-	1,009
Tenants' security deposits	7,984	111,827	10,300	1,850	131,961
Accrued severance pay	-	-	-	603	603
Convertible debentures redeemable in shares of subsidiary	-	-	899,866	-	899,866
	40,337	1,658,152	2,334,931	193,785	4,277,205

b. The Company:

	December 31, 2000				
	Linked to the Israeli CPI	In U.S. $ or linked thereto	In C$ or linked thereto	In NIS - unlinked	Total
	Adjusted NIS in thousands				
Assets:					
Cash and cash equivalents	413	555	1	556	1,525
Other accounts investees	953	-	-	2,443	3,396
Investments in subsidiaries	-	209,038	113,651	-	322,689
Long-term loans	1,586	-	-	-	1,586
Long-term investments	148	-	-	-	148
	3,100	209,593	113,652	2,999	329,344
Liabilities:					
Short-term bank credit	-	2,723	33	52	2,808
Trade payables	-	-	-	270	270
Other accounts payable	-	-	-	19,617	19,617
Dividend declared	-	-	-	6,835	6,835
Convertible debentures	-	112,379	-	-	112,379
Liabilities to financial institutions and others	1,009	-	-	-	1,009
Debentures	25,303	11,731	-	193,341	230,375
Accrued severance pay	-	-	-	50	50
	26,312	126,833	33	220,165	373,343

NOTE 27:- REVENUES FROM RENTAL OF BUILDINGS

The Group has one major tenant the revenues from whom as of December 31, 2000 totaled about NIS 18,034 thousand, which constitute approximately 5% of revenues from rental income in that year (in 1999 - about NIS 11,935 thousand representing about 9.2% of revenues from rental income in that year and in 1998 - about NIS 11,043 thousand representing about 11% of revenues from rental income in that year).

NOTE 28:- OTHER INCOME

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Gain from investments in marketable securities	35,608	227	665	14,303	488	-
Income from dividend	29,403	4,425	-	19,795	1,992	-
Gain from issuance to third party, net	2,446	-	2,245	351	-	-
Gain from sale of real estate	2,921	12,572	8,819	-	-	-
Management fees from interested parties and subsidiaries	196	200	85	1,655	1,709	735
Oil and gas explorations, net (1)	-	45	-	-	45	-
Income from management of buildings	-	-	-	-	-	93
	70,574	17,469	11,814	36,104	4,234	828

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

The Company did not make any significant investments in the oil and gas exploration sector during the four years ending December 31, 2000. At the present time, the Company does not have any specific plans for investments in this sector.

NOTE 29:- OPERATING EXPENSES FOR PROPERTIES FOR RENT

	Consolidated		
	Year ended December 31,		
	2000	1999	1998
	Adjusted NIS in thousands		
Salaries and related expenses	4,636	2,857	2,287
Fees and taxes	63,348	15,776	10,987
Maintenance and repairs	27,553	8,502	5,424
Utilities	8,839	2,994	2,336
Insurance and security expenses	5,693	2,270	2,868
Others	9,833	4,528	3,420
	119,902	36,927	27,322

NOTE 30:- GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Salaries and management fees *)	18,203	9,227	5,365	1,603	994	832
Professional fees	5,287	1,889	1,967	997	157	324
Doubtful accounts	-	608	364	-	-	-
Depreciation	441	154	67	161	100	42
Amortization of goodwill	175	-	(** 982	-	-	(** 44
Others (including office and office maintenance)	10,934	3,850	1,896	583	329	439
	35,040	15,728	10,641	3,344	1,580	1,681

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

NOTE 31:- FINANCIAL EXPENSES, NET

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Financial expenses for debentures	9,554	6,257	3,166	6,507	6,257	3,166
Financial expenses for convertible debentures	27,218	830	-	615	830	-
Financial expenses for liabilities to other financial institutions	91,272	27,932	18,467	16,941	3,959	-
Gain from early redemption of CFE debentures *)	(9,506)	-	-	-	-	-
Loss from investment in marketable securities	-	-	-	-	-	598
Other (income) expenses **)	(1,516)	386	(1,898)	(9,454)	(11,046)	(15,033)
Less - expenses charged to the cost of fixed assets	13,421	7,550	2,669	-	-	-
	103,601	27,855	17,066	14,609	-	(11,269)

*) See Note 18b.

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

NOTE 32:- OTHER EXPENSES

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Activities and provision for decline in value for Internet entrepreneurs in the real estate sector	8,278	-	-	-	-	-
Loss from issuance to third party, net	-	97	-	-	19	288
Oil and gas explorations, net *)	12	-	15	12	-	15
	8,290	97	15	12	19	303

*) See Note 28(1).

NOTE 33:- EARNINGS PER SHARE

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

	Year ended December 31,					
	2000		1999		1998	
	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	41,327	70,405	23,048	21,212	15,742	13,636
Number of shares and income used in the computation of diluted earnings per share (1)			27,461	23,425		

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

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2000	1999	1998	2000	1999	1998
	Adjusted NIS in thousands					
Financial income in respect of loans to related parties (1)	410	409	349	-	-	-
Management fees from the parent company (2)	196	200	85	196	200	-
Management fees from subsidiaries	-	-	-	1,470	1,489	735
Financial income in respect of balances with subsidiaries, net	-	-	-	18,805	11,270	13,775

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

(2) $ 4 thousand a month commencing July 1998, see Note 1b(3).

b. Other payments and expenses:

	Consolidated					
	Year ended December 31,					
	2000		1999		1998	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' salaries	5	292	8	229	11	190
Salaries and related expenses (1)	3	10,192	3	5,406	3	2,411
Management fees to a corporation which is an interested party	-	-	-	-	1	93
Management fees to directors	-	-	-	-	2	128

	The Company					
	Year ended December 31,					
	2000		1999		1998	
	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands
Directors' salaries	5	292	8	229	11	190
Salaries and related expenses	1	474	1	345	1	152
Management fees to a corporation which is an interested party	-	-	-	-	1	93
Management fees to directors	-	-	-	-	1	84

(1) Equity 1 has entered into an employment contract with the Company's Chairman of the Board, who is also the chairman of EQ1 Board for a period of seven years beginning in June 1996 with an option to extend for additional 7 years. The related party or a company controlled by him will be entitled to a salary of $ 240 thousand per year.

Beginning in 1999, the Company's Chairman of the Board is entitled to a monetary bonus up to a maximum rate of 75% of his base salary. The bonus is calculated based on a formula which equates the increase in the annual income of Equity 1 (neutralizing depreciation and financial expenses) compared to the preceding year against such increase in Group companies which operate in that segment.

Further, commencing February 2000, the Company's Chairman of the Board is entitled to an annual salary in the amount of $ 209 thousand. In addition, the Company's Chairman of the Board, as of July 1998, is also entitled to a bonus at the rate of 5% of the Company's pre-tax income deriving from that date (see Note 1b(4)).

Commencing February 2000, the Company's Managing Director is entitled to an annual salary at a cost of $ 235 thousand. In addition, the Managing Director of the Company is entitled to a bonus at a rate of 2% of the Company's pre-tax income.

c. Balances:

As for balances with related parties, see Notes 6, 10 and 16.

d. Equity 1 convertible securities and shares:

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

In September 1999, the authorized authorities of Equity 1 resolved to allocate to the Company's Chairman of the Board 45,000 Equity 1 shares without consideration. The shares will confer upon the Company's Chairman of the Board the full rights deriving therefrom from their date of allocation, however, they will be at his disposal and he will be entitled to sell up to one-third of the shares allocated to him at the end of each of the three years, beginning in 2000.

e. In respect to a private placement of shares to interested parties, see Note 24.

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In January 2001, the Company issued debentures in the amount of NIS 95 million to two provident funds. The debentures are linked to the CPI and bear annual interest at a rate of 8.25%. The debentures will be paid over a period of 15 years.

Simultaneously to the aforesaid, in a transaction with the Bank of Israel, the Company changed its linkage basis for the debenture to the U.S. dollar at an additional cost of 0.2% per annum.

b. In February 2001, the Company issued to institutional bodies and the parent company about 2 million Common shares and about 1.6 million stock options (series 4) which are exercisable into Common shares. (Regarding the terms of the option - see Note 24c.) The securities were offered in 403,260 units including five Common shares and four stock options (series 4) at a price of NIS 70.25 per unit.

The parent company purchased in the issuance, 120,000 units comprising an immediate investment of about NIS 8.4 million. In addition, the Company allocated a further 250,000 units to a subsidiary (100%). The securities which the subsidiary will hold will be dormant until their sale to third parties.

The total immediate capital raising amounted to approximately NIS 28.4 million, net. Assuming the options are fully exercised, the aggregate capital raising is expected to amount to approximately NIS 50.4 million.

c. In February 2001, the Company published a tender for two series of convertible debentures of CFE.

Approximately C$ 12 million called the tender of the convertible debentures (which bear interest at a rate of 7.875%) in consideration of 80% of their par value and approximately C$ 7.5 million par value in convertible debentures (bearing interest at a rate of 7%) in consideration of 72% of their par value.

By virtue of the agreement with Aloni Hetz (see Note 18b), approximately 22% of the debentures which were called in the tender were purchased by Aloni Hetz.

In addition to the aforesaid, the subsidiary purchased subsequent to the balance sheet date, additional debentures of CFE during trade on the Stock Exchange.

As of the date on which these financial statements were signed, the subsidiary holds approximately C$ 35,822 thousand par value of convertible debentures of CFE (10% of the amount issued).

NOTE 36:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL NIS

a. Balance sheets - the Company:

	December 31,	
	1999	1998
	NIS in thousands	
ASSETS		
Current assets	33,885	22,081
Long-term investments and loans	683,973 *)	(* 455,831
Fixed assets, net	1,347	288
Other assets and deferred charges, net	342	526
	719,547	478,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	76,430	10,720
Long-term liabilities	297,178	270,828
Shareholders' equity	345,939	197,178
	719,547	478,726

*) Commencing in 1999, the investment in investee companies is presented in the financial statements in nominal values pursuant to the cost method. Therefore, the earnings of the investees are not included in these financial statements.

b. Statements of income - the Company:

	Year ended December 31,		
	2000	1999	1998
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	(* -	- *)	739
Gain on issuance to third party	36,006	6,180	3,114
Other income	-	1,789	4,325
Financial, net	36,006	7,969	8,178
Costs and expenses:			
General and administrative	3,337	1,523	1,495
Other expenses	-	-	73
Financial, net	15,187	-	-
	18,524	1,523	1,568
Income before taxes on income	17,482	6,446	6,610
Taxes on income	2,738	1,647	1,693
Net income for the year	14,744*)	4,799*)	4,917

*) Commencing in 1999, the investment in investee companies is presented in the financial statements in nominal values pursuant to the cost method. Therefore, the earnings of the investees are not included in these financial statements.

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (accumulated deficit)	Less - shares held by the Company	Total
	NIS in thousands					
Balance at January 1, 1998	11,083	64,352	5,735	(1,935)		79,235
Capital contribution from subsidiary's liability to a former related party	-	-	-	(1,243)		(1,243)
Assignment of assets, net from the parent company against capital issuance, net	6,169	-	6,945	12,830		25,944
Foreign currency translation adjustments for foreign autonomous units	-	-	23,492	-		23,492
Capital reserves from realization of option for the purchase of land	-	-	-	1,297		1,297
Net income for the year	-	-	-	4,917		4,917
Dividend declared	-	-	-	(5,176)		(5,176)
Balance at December 31, 1998	17,252	64,352	36,172	10,690		128,466
Capital issuance, net	7,612	67,505	-	-		75,117
Net income for the year	-	-	-	4,799		4,799
Dividend paid	-	-	-	(11,204)		(11,204)
Balance at December 31, 1999	24,864	131,857	36,172	4,285		197,178
Capital issuances, net	6,904	72,912	-	-	(12,157)	67,659
Conversion of debentures to shares	2,434	23,645	-	-	-	26,079
Exercise of options to shares	4,775	39,383	-	-	(6,000)	38,158
Issuance of bonus shares	3,811	-	-	(3,811)	-	-
Sale of shared by a subsidiary	-	3,310	-	-	17,543	20,853
Reimbursement of issuance expenses	-	650	-	-	-	650
Net income for the year	-	-	-	14,744	-	14,744
Dividend paid	-	-	-	(12,547)	-	(12,547)
Dividend declared	-	-	-	(6,835)	-	(6,835)
Balance at December 31, 2000	42,788	271,757	36,172	(4,164)	(614)	345,939

List of companies of the Group as of December 31, 2000 (1)

	Percentage of holdings and control as of December 31, 2000		Country of registration
Subsidiaries (1):			
Equity One. Inc.	64.3%	***) (2)	U.S.
Centerfund Realty Corporation	68%	**) (3)	Canada
First Capital Inc.	75%	**) (4)	Canada
Mishkanot Clal (1982) Ltd.	49%	**)	Israel
Golden Equity	92.36%	***)	U.S.
Hashalom Boulevard House Ltd.	100%	**)	Israel
Financial Engineering (founded by Gazit Inc. Panama) Ltd.	100%(4)	*)	Israel
M.G.N. USA Inc.	100%	*)	U.S.
Gazit (1995) Inc.	100%	***)	U.S.
Gazit (1997) Inc.	100%	***)	Canada
Golden Oak Inc.	100%	*)	Cayman Islands
Hollywood Properties Ltd.	100%	*)	Cayman Islands
Dinerib 53 Ltd.	100%	**)	Israel
Dinerib 51 Ltd.	100%	**)	Israel
Gazit Globe Israel Ltd.	100%	*)	Israel
Dinerib 52 Ltd.	100%	**)	Israel
Automart (founded by Gazit Financing Group) Ltd. (previously: Gazit B.C. Ltd.)	100%	**)	Israel

*) Held directly by the Company.
**) Held through subsidiaries.
***) Held directly and through subsidiaries.

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

(2) See Notes 1b(4) 2 and 8(b).

(3) See Note 1b(4) and 8c.

(4) See Note 1b(5).

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended December 31, 2000

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the year ended December 31, 2000:

1. **A. General**

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

As of the approval date of the financial statements, the Company owns – directly and indirectly – 112 properties with Gross Leasable Area (G.L.A.) of close to 14 million square feet, with a book value of NIS 4.4 billion, generating annual rental income of NIS 550 million (based on gross annual rent for the properties owned), as well as 50% in a company engaged in the assisted/independent living residences industry.

In the USA, the Company operates via Equity One Inc. (hereinafter – "EQ1"), a self-administered, self-managed REIT (real estate investment trust) traded on the NYSE. As of the approval date of the financial statements, the Company owns some 64.5% of the share capital of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of income-producing properties (primarily supermarket anchored shopping centers), owning 31 properties with G.L.A. of close to 3.2 million square feet. The company also owns 9.8% of a public REIT based in Houston, Texas.

The operations in Canada are carried out via Centrefund Realty Corp. (hereinafter – "CFE"), a public company traded on the TSE. As of the approval date of the financial statements, the company owns some 68% of the share capital of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in Florida and Texas. CFE holds interest in 72 properties with total G.L.A. of approx. 10 million square feet, as well as additional properties under development.

In addition, the Company owns 100% of the shares of First Capital Inc. (a Canadian company) (hereinafter – "F.C.I."), which, as of the approval date of the financial statements, owns 8 shopping centers with G.L.A. of 850,000 square feet.

In Israel, the company owns 50% of the controlling interest in Mishkenot Clal (1982) Ltd., a leading senior citizens' residences company in Israel. In addition, the Company owns an office building in Tel-Aviv.

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

In the year ended December 31, 2000, net income was NIS 67.2 million, compared with NIS 21.2 million, last year.

Earnings per share grew by 85% to NIS 1.7 from NIS 0.92 in 1999.

In addition, depreciation on assets (net of the minority interest) for the reported year totaled NIS 30.9 million, which is NIS 0.75 depreciation per share, compared with NIS 11.9 million, which is NIS 0.51 depreciation per share, in 1999. Total earnings, including dividends and gains from the Supersol transaction, and from investments in public real estate companies in the USA and Canada, and excluding non-recurring income and expenses, plus depreciation per share (F.F.O.) grew by 113% to NIS 2.32 per share, compared with NIS 1.09 per share last year.

As of December 31, 2000, shareholders' equity per share was NIS 10.65, compared with NIS 9.15 per share last year, an increase of 16.4%.

(all per share data is after adjustment to the distribution of a stock dividend of 11.11%.)

Regarding the results of operations see Item 3 below.

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

<u>General</u>

In the reported period, the Company invested NIS 472 million in the acquisition of Centrefund, Mishkenot Clal and shares of EQ1. The Company also invested – directly and through subsidiaries – the sum of NIS 184 million, net, in the acquisition, development, and improvement of properties and long-term investments. Their effect on the results of operations will be expressed in full during 2001.

A. <u>Acquisition of Centrefund Realty Corp.</u>

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

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

CFE is a public real estate company traded on the TSE. The company specializes in supermarket-anchored neighborhood and community shopping centers in Canada (about 60% of its properties) and the USA (about 40% of its properties).

CFE holds interest in 72 properties with a book value of approx. one billion Canadian dollars, with total G.L.A. of 10 million square feet. CFE has occupancy rates of 97% in its Canadian properties and 92% in its U.S. properties. CFE has additional properties under development, as well as land reserves for future development representing a G.L.A of some 535,000 square feet.

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

The management of the Company sees the acquisition of CFE as a business opportunity with enormous potential, that enhances the Company's strategy of becoming a key player in the North American shopping center industry – an industry with clear advantages for size. The company intends to keep CFE as an independent public real estate company, managed locally in Canada. Furthermore, the Company will evaluate ways to improve the management of the existing property portfolio, and to accelerate it's growth.

During October 2000, CFE and EQ1 announced that they had entered into preliminary discussions to investigate the possibility of a business combination between Centrefund Realty (US) Corporation ("CEFUS"), a wholly-owned subsidiary of Centrefund, which owns 32 properties in Florida and Texas and Equity One. CFE also announced that it had entered into preliminary discussions with First Capital Inc. to investigate the possibility of a business combination with First Capital.

In the second half of 2000, CFE's rental income totaled C$ 72 million. In the full year 2000, CFE's rental income totaled C$ 148 million.

The total book value of CFE's properties (net of depreciation) as of December 31, 2000 is C$ 1 billion (including properties under development), compared with C$ 958 million (including properties under development) in 1999.

The Company investment in the acquisition of CFE shares in the reported period, offset by the sale of shares to Alony Hetz, totaled NIS 365.7 million.

B. Purchases and sales of real estate

1. In the reported year, EQ1 acquired 2 shopping centers with total G.L.A. of more than 170,000 square feet.
2. In the reported year, EQ1 completed the first stage of development of a property in Tallahassee, Florida, the second stage of a property in Miami, Florida, and the development of 3 additional buildings – 2 adjacent to its properties and 1 facing a supermarket owned by an unrelated party, with total G.L.A. of more than 160,000 square feet.
3. In the reported year, F.C.I. acquired 2 shopping centers with total G.L.A. of more than 300,000 square feet, and also acquired for future development approx. 0.9 acre of land adjacent to its existing property.
   Regarding the acquisition of the shares of FCI against a transfer of assets, see Item E.
4. During the reported year, CFE and F.C.I. completed the development of additional areas on existing properties, with G.L.A. of more than 320,000 square feet.
5. In December 2000, CFE sold two shopping centers in Canada and USA, with G.L.A. of more than 260,000 square feet, in consideration for C$ 20 million.

C. Additional investments

In the reported year, the Company invested NIS 244 million in shares of public real estate companies (REIT's) and shares of other companies in the USA and Canada (excluding the shares of CFE and EQ1), and sold a part of these investments in consideration for NIS 218 million.

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

One investment was made in United Investment Realty Trust (hereinafter – "UIRT"), a public REIT traded on the Nasdaq. As of the approval date of the financial statements, the Company holds 9.8% of UIRT's shares. UIRT, headquartered in Houston, Texas, owns 25 neighborhood shopping centers, of which 16 are in Texas and 5 in Florida. The total G.L.A. of the centers is close to 3 million square feet (approx. 2.2 million square feet are wholly-owned by UIRT).

Subsequent to the date of the financial statements, UIRT announced that its financial advisor, has completed its initial evaluation of alternatives available to the Company to increase shareholder value. As a result of the initial evaluation, UIRT's Board has instructed it's financial adviser to immediately begin exploring a possible sale of the Company or substantially all of its assets.

D. **Acquisition of EQ1 shares and issuance of shares of EQ1**

Acquisition of EQ1 shares

In the reported period- Some 569,000 shares at the stock market, at prices ranging from US$ 9.20-10.00 per share.

Some 364,000 shares pursuant to a dividend reinvestment plan in EQ1, at a price of US$ 9.50 per share.

Subsequent to reported period- Some 47,000 shares at the stock market, at prices ranging from US$ 9.40-10.00 per share.

During the reported year, the Company invested a total of NIS 38 million in acquiring shares of EQ1.

Issuance of shares by EQ1

In October 2000, further to an agreement in principle from July 2000, EQ1 signed an agreement with "Alony Hetz" for a private placement of up to 20% of its shares, at a price of US$ 10.875, net, per share.

The agreement includes the issuance of 1.9 million shares to Alony Hetz, representing 14% of the share capital of EQ1, in consideration for US$ 21 million. In addition, option warrants will be issued to Alony Hetz, to be exercised on two dates. Thus, on a fully diluted basis, Alony Hetz will have a 20% holding in EQ1.

The closing date of the agreement was set as November 17, 2000. On this date, EQ1 issued one million shares to Alony Hetz, in consideration for US$ 10.9 million. The balance of the shares, as above, will be issued to Alony Hetz at the demand of EQ1, during the next 9 months (as of the approval date of the financial statements, the additional shares had not been issued as yet to Alony Hetz).

Upon completion of the acquisitions and the issuance of the shares by EQ1, as above, the Company's holdings in EQ1 – direct and indirect – are 64.5% of the issued share capital of EQ1. The Company recorded a gain consequently to the decrease in its stake in EQ1 of NIS 3.3 million.

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

On January 31, 2000, an agreement was signed between Gazit 1997 (a wholly-owned Canadian subsidiary of the Company), F.C.I., and the minority shareholders in F.C.I., for F.C.I. to acquire all of their shares (25%) in F.C.I. in the form of an exchange in which commercial center and land for future development of F.C.I. were transfered to the minority shareholders for their shares in F.C.I. After completion of the transaction, Gazit 1997 owns 100% of F.C.I. In July 2000, F.C.I. signed a memorandum of understanding with a wholly-owned Dutch subsidiary of the Electra Group for a private placement of approx. 30% of the shares in F.C.I. In October, the parties announced that the memorandum of understanding did not result in a binding agreement between the parties.

F. Investments in Supersol

In the reported period, the Company purchased 2.6 million shares in Supersol Ltd. at a total cost of NIS 36 million. At its peak the Company's stake of Supersol shares totaled 14.1 million shares. In the reported period and until just before the approval date of the financial statements, the Company sold some 7.2 million shares of Supersol Ltd., for total proceeds of NIS 105.2 million, and a gain of NIS 15 million. Furthermore, on March 30, 2000, the Company received a dividend of NIS 18 million from Supersol Ltd. and in December 2000 received another dividend of NIS 2.2 million. The financing expenses in respect of the holdings in Supersol were expensed in full.

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

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

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

1. Investment in MSC

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

MSC is working toward connecting and networking neighborhood and community shopping centers to broadband, mainly using wireless technology. The broadband platform is offered to the property owners, business owners in the shopping centers, and to companies with suitable applications to retail centers and the wide range of services offered in the commercial center, that need the broadband technology so that the different applications will operate optimally.

MSC also owns an advanced Internet site that it developed and maintains, which provides information on the shopping centers and the various businesses linked to the site.

The objective of the venture is to increase and strengthen customer loyalty to the shopping centers, to enable business owners in the shopping centers to benefit from the advantages of broadband Internet opposite their customers (B2C) and to make their businesses more efficient (using B2B and ASP applications).

In the reported year, the Company invested US$ 2.1 million in MSC. The Company expects to invest another US$ 1 million in MSC. In the reported year, the Company wrote down US$ 1.7 million (NIS 7.1 million) of its investment in MSC. During 2001, the Company will continue to evaluate the developments and trends in the markets relating to such companies (which are currently negative), and, accordingly, will decide on the continuation of its investments in MSC.

2. Investment in Vuetopia Inc. (Vuetopia.com)
   In June 2000, the Company invested US$ 290 thousand, net, in the form of convertible loans, in Vuetopia Inc., a company developing an Internet-based technology to transmit high resolution video content to large screens in public areas, mainly in large shopping centers.
   In the reported year, the Company wrote off the entire balance of the loans.

H. Acquisition of Mishkenot Clal (1982) Ltd.

On September 11, 2000, the Company signed an agreement for the acquisition of 50% of the controlling interest in Mishkenot Clal (1982) Ltd. (hereinafter – "Mishkenot Clal") from Azorim Properties Ltd.

The acquisition was done in way of issuance of shares by Mishkenot Clal and by acquisition of some of Mishkenot Clal shares held by Azorim Properties Ltd., based on a company value for Mishkenot Clal of NIS 135 million, before the issuance of the new shares.

The Company acquired its share in a cash transaction, in which the final balance was paid on January 2, 2001.

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

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

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

Pursuant to the terms of the agreement, the transaction was closed on October 4, 2000. Beginning from the fourth quarter of the year, the Company consolidated the financial statements of Mishkenot Clal by the proportionate consolidation method (49%). In the fourth quarter of the year, the revenues of Mishkenot Clal totalled NIS 7.2 million.

I. Public Offering

On February 13, 2000, the Company published a prospectus that included a public offering by means of a tender of 5,000,000 shares, 1,000,000 option warrants (Series 3) and 2,360,000 option warrants (Series 4). The total proceeds to the Company, net of the wholly-owned subsidiary's purchase of 1,000,000 shares, 200,000 option warrants (Series 3), and 400,000 options warrants (Series 4) (hereinafter – "treasury shares and options), were NIS 48.5 million, gross (NIS 46.5 million, net).

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

From the date of the offering until the date of the financial statements, the Company's subsidiary and the Company sold most of the treasury shares and options to third parties, in consideration for NIS 20.9 million.

J. <u>Private Placement of Securities</u>

1. In March 2000, the Company entered into two agreements for the private placement of a total of 1,500,000 ordinary shares of the Company, NIS 1 par value, 300,000 options warrants (Series 3) of the Company and 600,000 option warrants (Series 4) of the Company, that were issued in the form of 300,000 units (100,000 units were purchased by the parent company). In consideration for the securities offered in the private placement, the offerees paid a total of NIS 17.6 million. The offering was completed in April of this year.

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

3. On June 19, 2000, the Company's board of directors resolved to approved the private placement of 120,000 ordinary shares of the Company, NIS 1 par value, to two employees and to the Company's Secretary, in consideration for NIS 1.3 million.

K. <u>Issuance of Convertible Bonds</u>

1. In February 1999, the Company issued to Gmul Investment Company Ltd. (hereinafter – "Gmul"), an interested party in the Company, NIS 16 million in non-marketable debenture, which may be converted to ordinary shares.
   On September 4, 2000, the Company informed Gmul that pursuant to the terms stipulated in the debenture, they must be converted into shares of the Company. The Company issued Gmul 1,665,000 ordinary shares, par value, in consideration for NIS 16 million par value debenture.

2. On February 8, 2000, the Company issued debentures convertible into shares of the Company (that will not be listed for trading) with total principal value of NIS 11 million to 11 provident funds, in consideration for NIS 11 million. On October 10, 2000, 10 provident funds converted NIS 10 million of the convertible debentures into 768,000 ordinary shares, par value.

L. <u>Exercise of options (Series 3) of the Company</u>

During the reported period and until the approval date of the financial statements, the parent company and other parties exercised 3.7 million warrants (Series 3) of the Company. The total sum invested was some NIS 38.2 million.

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

For the year, the Company raised a total of NIS 153.5 million in share capital.

N. <u>Dividend policy</u>

Pursuant to the Company's annual dividend policy, in which the Company announces at the end of each year the dividend for the subsequent year, the Company announced that the dividend in 2001 would be at least NIS 0.64 per share, compared with NIS 0.53 per share that was paid in 2000. As of the date of the resolution, the dividend yield was 5% (the above dividend amounts have been adjusted for the distribution of a stock dividend in the reported year, as discussed in Par. K above).

The aforesaid is subject to the existence of adequate amounts of distributable income on the relevant dates, and is subject to the provision of any law relating to dividend distributions and to decisions that the Company is permitted to reach, including the appropriation of its income for another purpose and changing this policy.

O. <u>Acquisition of CFE debentures by the Company in the reported period</u>

During the fourth quarter, Gazit 1997 acquired on the Toronto Stock Exchange (TSE), NIS 38 million of CFE debentures at a cost of NIS 38 million and 11,783 convertible debentures of CFE at a cost of NIS 20.9 million.

As a result of the acquisition of these debentures, at a purchase price which was lower than CFE's liability on its books, the Company recorded a gain in its financial statements.

In the reported year, the financial statements include a gain from the early redemption of debentures, in respect of the debentures acquired during the reported period, less the share of Alony Hetz in these debentures, and the debentures covered by the option with Bank Leumi (see Par. P below) of NIS 9.5 million. The Company's share in the gain, after the provision for taxes, deduction of the discount on the debentures, and the minority interest is NIS 3.7 million.

P. <u>Option to Bank Leumi to acquire shares and debentures of CFE from the Company</u>

As part of the terms of the financing agreement signed between the Company and Bank Leumi Le'Israel, for the acquisition of CFE in the tender offer, as discussed in Par. A above, and for the acquisition of CFE debentures by the Company, the Company furnished Bank Leumi Le'Israel with an option, for two years, to acquire shares and debentures of CFE as follows:

1. Up to 1,537,000 shares of CFE, in consideration for C$ 13.25 per share.

2. Up to 10% of each series of CFE debentures to be acquired with the bank's financing, at a price of the average cost of acquiring each series of the debenture for the Company.

As of the publication date of the financial statements, the bank had not as yet exercised the option.

3. Results of Operations

Net Income for the year was NIS 67.1 million, compared with NIS 21.2 million in 1999 and NIS 13.6 million in 1998.

In the reported year, revenues totaled NIS 428,503 thousand, compared with NIS 147,197 thousand in 1999 and NIS 111,065 thousand in 1998. The revenues item includes revenues from rent, investments in securities, dividend income, gains on the sale of land, capital gains and other revenues, as follows:

The Company's rental income in the above years totaled NIS 357,929 thousand, compared with NIS 129,728 thousand and NIS 99,251 thousand in 1999 and 1998, respectively.

Beginning in the third quarter this year, the Company has consolidated the activities of C.F.E., contributing NIS 196,486 thousand to rental income.

Furthermore, beginning in the fourth quarter of the year, the Company has consolidated by the proportionate consolidation method the financial statements of Mishkenot Clal, which contributed NIS 3,625 thousand to rental income.

Income from dividends and investments in marketable securities, namely long-term investments in Supersol Ltd. and other public companies, totaled NIS 65,011 thousand in the reported period, compared with NIS 4,652 thousand in 1999 and NIS 665 thousand in 1998. The increase in this income stems from the dividends from Supersol and other dividends on the above investments, as discussed in Item. 2.F, of NIS 29,403 thousand, as well as from the gain on the sale of the shares of Supersol and other marketable shares, totaling NIS 35,608 thousand.

Gains on the sale of properties totaled NIS 2,921 thousand in the reported year, generated by the sale of 2 properties by CFE. In 1999 and 1998, the gains from the sale of properties (NIS 12,572 thousand and NIS 8,819 thousand, respectively) were generated by the sale of properties by EQ1.

The operations of EQ1 were characterized by growth in revenues as a result of the increase in the number of properties and moderate growth in the occupancy rates of existing properties. Net income of EQ1 for the year was US$ 11.3 million, compared with US$ 13.6 million in 1999 (which included a gain of US$ 3.8 million on the sale of a property), reflecting (after deducting non-recurring income and expenses) growth of 15.3%.

The operations of F.C.I. were characterized by growth in rental income on buildings, attributable to the acquisition of new properties during 1999, of which the full effect is reflected in the reported period, from the acquisition of 2 properties in the fourth quarter of the reported year, and from an increase in the occupancy rates of the properties.

The increase in general and administrative expenses in the reported period stems from the increase in wage expenses that are a function of the Company's results of operations. The increase is also due to non-recurring expenses related to the evaluation of additional investments, which, as policy, are provided for in full when the evaluation is completed,

as well as to the first-time consolidation of CFE. The increase in net financing expenses stems from the first-time consolidation of CFE, from the increase in interest expenses on loans used to finance additional investment in fixed assets and long-term investments, and the acquisition of the minority interests in consolidated subsidiaries, offset by inflationary effects in the USA and Canada.
In the reported year, the Company wrote off its investments in technology ventures, as discussed previously, in the amount of NIS 8,290 thousand. In the years 1999 and 1998, the Company did not have similar investments.

An analysis of the key results of operations items for the year 2000, on a quarterly basis, are presented below (in NIS thousands of December 2000):

	Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Year 2000**
Rental income	37,664	37,120	139,202	143,943	357,929
Other revenues	20,469	9,630	12,171	28,304	70,574
Total revenues	**58,133**	**46,750**	**151,373**	**172,247**	**428,503**
Expenses and costs					
Operation of rental properties	10,793	10,422	47,273	51,414	119,902
Depreciation of rental properties	5,048	5,216	18,172	19,593	48,029
General and administrative	6,707	5,872	12,931	9,530	35,040
Financing, net	7,349	7,987	35,061	53,204	103,601
Other expenses	97	887	1,159	6,147	8,290
Total expenses	**29,994**	**30,384**	**114,596**	**139,888**	**314,862**
Income before taxes on income	28,139	16,366	36,777	32,359	113,641
Taxes on income	890	2,015	4,423	4,850	12,178
Income after taxes on income	27,249	14,351	32,354	27,509	101,463
Minority interest in earnings of consolidated company	(6,412)	(4,931)	(8,723)	(5,881)	(25,947)
Share of previous shareholders in earnings of company consolidated for the first time	-	-	(7,075)	(1,275)	(8,350)
Net income	**20,837**	**9,420**	**16,556**	**20,353**	**67,166**

4. **<u>Liquidity and Financing Sources</u>**

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

A. The Company's shareholders' equity, together with minority interest and convertible debentures in CFE, which may be redeemed by CFE issuance of shares, totaling NIS 1,628 million, financed 32.8% of total assets, compared with NIS 410 million, that financed 31.3% of total assets in 1999.

B. The current ratio of current assets to current liabilities reached 1.01, compared with 1.89 in 1999.

C. Cash flows from operating activities for the reported year totaled NIS 79.6 million, compared with NIS 54 million and NIS 38.8 million, in 1999 and 1998, respectively.

5. Financial Status

Most of the balances and transactions included in the consolidated financial statements are in U.S. dollars and Canadian dollars, deriving from the operations of CFE, EQ1 and F.C.I., except for long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of December 31, 2000, the liquidity available to the Company and its subsidiaries, including cash and short-term investments, total NIS 271.5 million, compared with NIS 51.5 million as of December 31, 1999. The increase in the reported period stems mainly from an increase of NIS 77.7 million in cash and cash equivalents and of NIS 142.3 million in short-term investments. The increase in liquid balances stems namely from the first-time consolidation of CFE, from the receipts from offerings of capital and debt to the public and other parties effected by the Company, from the sale of properties in CFE, plus the increase in the Company's working capital, less the amounts used by the Company to acquire shares in CFE and EQ1 and to acquire long-term investments.

The increase of NIS 252.8 million in shareholders' equity to NIS 455.2 million stems from the net offering of shares amounting to NIS 89.2 million, from the conversion of convertible debentures and options into shares in the amount of NIS 64.3 million, from the NIS 1.1 million increase in the item "translation adjustments deriving from translation of financial statements" in respect of CFE, EQ1 and F.C.I., plus the Company's net earnings for the reported period of NIS 67.2 million, less a dividend paid of NIS 19.4 million.

6. Additional Information and Subsequent Events

A. Private placement of debentures

On January 2, 2001, the Company raised NIS 95 million by issuing interest-bearing Index-linked debentures (that will not be listed for trading) to two provident funds. The debentures are to be repaid over a period of 15 years.

B. Private placement of shares in February 2001

On February 20, 2001, the Company issued to institutions and to the parent company, 2 million ordinary shares and another 1.6 million option warrants (Series 4) that may be exercised for ordinary shares.

The securities were offered in 403,260 units containing 5 ordinary shares and 4 option warrants (Series 4) at a price of NIS 70.25 per share.

The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.4 million. In addition, the Company issued another 250,000 units to a subsidiary it controls. The securities to be held by the subsidiary will be dormant until their sale to third parties.

The total immediate capital raised amounted to NIS 28.4 million, net. Assuming full exercise of the options warrants, the capital offering is expected to total NIS 50.4 million.

C. **<u>Acquisition of CFE debentures subsequent to the balance sheet date</u>**

Subsequent to the reported period, through the TSE and in response to the tender offer it made, the Company acquired $C20,239 thousand bonds at a net amount of NIS 41.6 million after Alony Hetz acquired its share,. The gain on these acquisitions will be recorded in the financial statements of the first quarter of 2001.

D. **<u>Acquisition of a property in CFE</u>**

On February 12, 2001, CFE announced that it has completed the acquisition of a 290,000 square foot shopping center located in Brampton, Ontario, for $40.8 million, including closing costs. This well located center is anchored by a Wal-Mart store and a Fortinos (a store of Canada's leading chain – Loblaw's) supermarket. In addition, the shopping center has expansion potential of approximately 18,000 square feet.

E. **<u>Expected changes in accounting standards</u>**

At the beginning of 2001, the Israeli Accountancy Standards Board issued Standard No. 12 dealing with discontinuation of the measurement of financial statements based on changes in purchasing power in countries in which companies' real activities are conducted. Application of this standard is expected from 2002. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, and which adjust their financial statements for changes in purchasing power in their domicile countries. **The Company's management estimates that discontinuation of such measurement, without the enactment of other accounting standards that affect the results of real estate companies, would have a material adverse effect on the Company's reported <u>accounting</u> results beginning from the year of the change.**

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

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

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

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

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

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

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

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

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

D. Means of implementing and monitoring policies:

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

Dori Segal	Varda Zuntz
President	Director