GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

ADJUSTED TO THE NIS OF JUNE 2001

UNAUDITED

INDEX

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

Re: Review of unaudited interim consolidated financial statements for the six months and three months ended June 30, 2001

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of June 30, 2001, and the related consolidated statements of income, statements of changes in shareholders' equity and the consolidated statements of cash flows for the six months and three months then ended.

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

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 98.2% as of June 31, 2001, and total revenues constituting approximately 99.5% of the related consolidated totals for the six months then ended. These statements were reviewed by other auditors whose reports have been furnished to us.

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

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

Tel-Aviv, Israel
August 21, 2001

KOST FORER & GABBAY
A Member of Ernst & Young International

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2001

	June 30,		December 31,
	2001	**2000**	**2000**
	Unaudited		**Audited**
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	129,633	32,354	103,575
Short-term investments	59,707	28,004	171,006
Tenants	23,788	6,340	36,154
Accounts receivable	48,924	7,500	35,788
Loans to a partner in proportionately consolidated subsidiaries	65,296	-	88,294
	327,348	74,198	434,817
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	173,730	298,493	154,267
Long-term loans	72,990	9,047	50,590
	246,720	307,540	204,857
FIXED ASSETS:			
Cost	4,756,091	1,155,015	4,377,377
Less - accumulated depreciation	160,521	73,627	111,936
	4,595,570	1,081,388	4,265,441
OTHER ASSETS AND DEFERRED CHARGES, NET	125,305	12,360	108,178
	5,294,943	1,475,486	5,013,293

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2001

	June 30, 2001	June 30, 2000	December 31, 2000
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	315,762	40,552	298,805
Trade payables	13,912	4,099	29,437 *)
Other accounts payable	103,767	17,430	93,566 *)
Dividend declared	7,669	-	6,912
	441,110	62,081	428,720
LONG-TERM LIABILITIES:			
Debentures	258,187	112,224	157,231
Convertible debentures	-	27,549	-
Liabilities to financial institutions and others	2,804,350	772,837	2,656,300
Tenants' security deposits	131,773	5,946	124,127
Accrued severance pay	771	100	610
Deferred taxes	471	457	469
	3,195,552	919,113	2,938,737
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	749,086	-	909,996
MINORITY INTEREST	307,168	146,915	274,501
CONVERTIBLE DEBENTURES	-	-	1,020
SHAREHOLDERS' EQUITY	602,027	347,377	460,319
	5,294,943	1,475,486	5,013,293

*) Reclassified.

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

August 21, 2001		
Date of approval of the financial statements	D. Segal CEO and Director	G. Kotler Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of June 2001

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	310,341	75,626	152,143	37,538	361,958
Other income	36,046	29,823 *)	19,836	8,688 *)	71,368
	346,387	105,449	171,979	46,226	433,326
Costs and expenses:					
Operating properties for rent	106,146	21,453	50,388	10,539	121,252
Depreciation of properties for rent	43,918	10,380	21,544	5,276	48,570
General and administrative	27,898	12,721	15,491	5,938	35,434
Financial, net	40,227	14,407 *)	2,889	6,750 *)	104,767
Other expenses	7,092	1,481 *)	2,861	1,173 *)	8,383
	225,281	60,442	93,173	29,676	318,406
Income before taxes on income	121,106	45,007	78,806	16,550	114,920
Taxes on income	8,487	2,938	2,851	2,038	12,315
Income after taxes on income	112,619	42,069	75,955	14,512	102,605
Minority interest in earnings of subsidiaries	(38,345)	(11,472)	(23,592)	(4,987)	(26,239)
Equity of previous shareholders in earnings of newly consolidated subsidiary	-	-	-	-	(8,444)
Net income for the period	74,274	30,597	52,363	9,525	67,922
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	1.59	0.95	1.10	0.28	1.69
Diluted earnings		0.70		0.18	

*) Reclassified.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2001
Unaudited

	Six months ended June 30, 2001						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	96,491	315,695	13,877	11,282	23,604	(630)	460,319
Issuance of share capital (net of issuance expenses)	4,073	51,969	-	-	-	(17,844)	38,198
Sale of shares held by the Company and subsidiary	-	(128)	-	-	-	7,755	7,627
Exercise of stock options into shares	1,835	14,733	-	-	-	-	16,568
Conversion of debentures into Company shares	87	925	-	-	-	-	1,012
Foreign currency translation adjustments for foreign autonomous units	-	-	-	19,035	-	-	19,035
Net income for the period	-	-	-	-	74,274	-	74,274
Dividend paid	-	-	-	-	(7,337)	-	(7,337)
Dividend declared	-	-	-	-	(7,669)	-	(7,669)
Balance at the end of the period	102,486	383,194	13,877	30,317	82,872	(10,719)	602,027

	Six months ended June 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	82,194	174,162	13,877	10,156	(24,718)	-	255,671
Issuance of share capital, net	6,883	72,645	-	-	-	-	79,528
Treasury shares	-	-	-	-	-	(9,869)	(9,869)
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(455)	-	-	(455)
Net income for the period	-	-	-	-	30,597	-	30,597
Dividend paid	-	-	-	-	(8,095)	-	(8,095)
Balance at the end of the period	89,077	246,807	13,877	9,701	(2,216)	(9,869)	347,377

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2001
Unaudited

	Three months ended June 30, 2001						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	100,185	362,063	13,877	37,430	38,178	(18,408)	533,325
Issuance of share capital (net of issuance expenses)	750	7,966	-	-	-	-	8,716
Sale of shares held by the Company and subsidiary	-	(128)	-	-	-	7,689	7,561
Exercise of stock options into shares	1,464	12,368	-	-	-	-	13,832
Conversion of debentures into Company shares	87	925	-	-	-	-	1,012
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(7,113)	-	-	(7,113)
Net income for the period	-	-	-	-	52,363	-	52,363
Dividend declared	-	-	-	-	(7,669)	-	(7,669)
Balance at the end of the period	102,486	383,194	13,877	30,317	82,872	(10,719)	602,027

	Three months ended June 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	89,077	246,807	13,877	9,657	(7,662)	(9,869)	341,887
Foreign currency translation adjustments for foreign autonomous units	-	-	-	44	-	-	44
Net income for the period	-	-	-	-	9,525	-	9,525
Dividend paid	-	-	-	-	(4,079)	-	(4,079)
Balance at the end of the period	89,077	246,807	13,877	9,701	(2,216)	(9,869)	347,377

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2001
Audited

	Year ended December 31, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the year	82,194	174,162	13,877	10,156	(24,718)	-	255,671
Issuance of share capital, net	7,005	73,755	-	-	-	(12,335)	68,425
Conversion of debentures into shares	2,469	23,990	-	-	-	-	26,459
Exercise of stock options into shares	4,823	39,777	-	-	-	(6,060)	38,540
Sale of Company's shares by subsidiary	-	3,352	-	-	-	17,765	21,117
Reimbursement of issuance expenses	-	659	-	-	-	-	659
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,126	-	-	1,126
Net income for the year	-	-	-	-	67,922	-	67,922
Dividend paid	-	-	-	-	(12,688)	-	(12,688)
Dividend declared	-	-	-	-	(6,912)	-	(6,912)
Balance at the end of the year	96,491	315,695	13,877	11,282	23,604	(630)	460,319

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2001

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	74,274	30,597	52,363	9,525	67,922
Adjustments to reconcile net income to net cash provided by operating activities (a)	(29,304)	14,944	(30,157)	5,316	12,555
Net cash provided by operating activities	44,970	45,541	22,206	14,841	80,477
Cash flows from investing activities:					
Investment in newly consolidated subsidiaries (b)	-	-	-	-	(454,707)
Investment in subsidiary and in jointly controlled entity	(18,793)	(14,303)	(1,986)	(3,520)	(22,173)
Investments in fixed assets	(198,903)	(39,899)	(41,336)	(18,572)	(220,330)
Proceeds from sale of fixed assets	243	59	243	-	-
Proceeds from sale of real estate	1,287	-	1,287	-	61,176
Granting of long-term loans	-	-	-	-	(61,007)
Repayment of long-term loans granted	1,975	-	1,975	-	56,411
Short-term investments, net	73,028	(2,642)	(6,340)	1,283	(60,004)
Purchase of marketable securities and long-term investments	(42,500)	(169,479)	(21,313)	(67,235)	(187,089)
Proceeds from sale of long-term investments	90,445	44,554	76,555	44,554	220,039
Proceeds from sale of real estate to former minority in subsidiary	-	2,382	-	10	2,574
Repayment of loan granted to a partner in jointly controlled entities	(1,377)	-	(323)	-	-
Net cash provided by (used in) investing activities	(94,595)	(179,328)	8,762	(43,480)	(665,110)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2001

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from financing activities:					
Issuance of share capital, net	38,198	79,528	8,716	-	68,425
Exercise of stock options into shares	16,568	-	13,832	-	38,540
Sale of Company's shares by the Company and subsidiary	7,627	-	7,561	-	21,117
Reimbursement of issuance expenses	-	-	-	-	659
Issuance to minorities in subsidiary, net	-	-	-	-	44,452
Deferred charges in respect of raising loans and debentures	(10,859)	(2,904)	(2,055)	(2,459)	(18,497)
Dividend paid	(14,249)	(8,095)	(7,337)	(8,095)	(12,688)
Dividend paid to minorities in subsidiary	(16,499)	(8,261)	(8,164)	(4,077)	(20,454)
Receipt of long-term loans	425,530	112,909	235,903	64,503	730,319
Early redemption of debentures and convertible debentures	(147,204)	-	(92,888)	-	(46,477)
Sale of Company's debentures by subsidiaries	-	5,929	-	2,434	7,305
Repayment of long-term loans	(333,961)	(57,346)	(232,503)	(19,783)	(155,986)
Short-term bank credit, net	9,559	18,104	11,906	1,794	(3,150)
Treasury shares	-	(9,869)	-	-	-
Issuance of convertible debentures	-	11,176	-	-	11,224
Issuance of debentures	96,898	-	285	-	-
Net cash provided by (used in) financing activities	71,608	141,171	(64,744)	34,317	664,789
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	4,075	(29)	2,610	(8)	(1,580)
Increase (decrease) in cash and cash equivalents	26,058	7,355	(31,166)	5,670	78,576
Cash and cash equivalents at the beginning of the period	103,575	24,999	160,799	26,684	24,999
Cash and cash equivalents at the end of the period	129,633	32,354	129,633	32,354	103,575

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2001

	Six months ended June 30, 2001	Six months ended June 30, 2000	Three months ended June 30, 2001	Three months ended June 30, 2000	Year ended December 31, 2000
	Unaudited				Audited
	Adjusted NIS in thousands				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Gain from realization and revaluation of marketable securities, net	(23,645)	(6,035)	(9,423)	(6,260)	(36,009)
Minority interest in earnings of subsidiaries	38,345	11,472	23,592	4,987	26,239
Depreciation	44,113	10,343	21,622	5,199	48,570
Deferred taxes, net	(2,928)	(214)	5,356	(50)	(834)
Gain from early redemption of debentures and convertible debentures of subsidiary	(33,965)	-	(17,378)	-	(9,613)
Adjustment differences on monetary assets and long-term liabilities, net	(78,558)	(13,277)	(42,847)	(3,963)	(53,035)
Amortization of other assets and deferred charges	4,986	899	3,164	504	22,798
Gain from sale of fixed assets	(474)	(26)	(474)	-	(2,964)
Increase in accrued severance pay	147	-	58	-	28
Loss (gain) from issuance to third party and related party	538	454	268	273	(2,474)
Changes in asset and liability items:					
Decrease (increase) in tenants and other accounts receivable	14,005	4,685	(20,754)	(976)	16,145
Increase in trade payables and other accounts payable	2,975	6,204	9,139	5,342	3,412
Increase (decrease) in tenants' security deposits	5,157	439	(2,480)	260	292
	(29,304)	14,944	(30,157)	5,316	12,555

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2001

	Year ended December 31, 2000
	Audited
	Adjusted NIS in thousands
(b) Investment in newly consolidated subsidiaries:	
Subsidiaries' assets and liabilities at date of acquisition:	
Working capital (excluding cash and cash equivalents):	
Current assets	(54,854)
Current liabilities	135,785
	80,931
Fixed assets, long-term loans and investments (mainly real estate)	(3,284,297)
Other assets	(132,218)
Long-term liabilities	2,786,767
	(629,748)
Minority interest in subsidiary's shareholders' equity	94,110
	(454,707)

	Six months ended June 30, 2001	Six months ended June 30, 2000	Three months ended June 30, 2001	Three months ended June 30, 2000	Year ended December 31, 2000
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands				
(c) Significant non-cash operations:					
Dividend declared	7,669	-	7,669	-	6,912
Purchase of fixed assets	43,956	-	43,956	-	29,924
Acquisition of jointly controlled entity	-	-	-	-	14,568
Sale of real estate	15,411	17,645	15,411	-	17,645
Conversion of convertible debentures into Company shares	1,012	-	1,012	-	26,459
Long-term investment	8,713	-	8,713	-	-

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

NOTE 1:- GENERAL

These financial statements have been prepared as of June 30, 2001 and for the six months and three months then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 2000 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 2000 are applied consistently in these financial statements.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS based on the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of June 2001.

The following are details in respect of the changes in the CPI of Israel, U.S. and Canada and the exchanges rate of the U.S. dollar and the Canadian dollar:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2001	**2000**	**2001**	**2000**	**2000**
	Unaudited				**Audited**
	Adjusted NIS in thousands				
Consumer Price Index - Israel	1.1	0.4	1.6	1.6	-
Consumer Price Index - U.S.	2.3	2.4	1	0.7	3.4
Consumer Price Index - Canada	2.1	2	1.6	0.8	3.2
Exchange rate of $ 1 of U.S.	3.1	(1.7)	(0.6)	1.4	(2.7)
Exchange rate of $ 1 of Canada	1.6	(3.6)	2.7	(0.5)	(5.8)

NOTE 4:- ADDITIONAL INFORMATION

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 Israeli CPI and bear interest which reflects a gross annual yield of 8.25%. The debentures are redeemable in the years 2006 - 2015.

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

b. In February 2001, the Company issued to institutional entities and the parent company about 2 million Common shares and about 1.6 million stock options (series 4). Each stock option (series 4) is exercisable into one Common share in exchange for 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 securities were issued in 403,260 units which contain 5 Common shares and 4 sock options (series 4) at NIS 70.25 per unit.

The parent company acquired at the issuance 120,000 units, representing an immediate investment of NIS 8.5 million. In addition, the Company offered additional 250,000 units to a wholly owned subsidiary. The securities to be held by the subsidiary will be dormant until sold to third parties.

The total net immediate capital raising amounts to NIS 29 million. Assuming that the options are fully exercised, the total capital raising is expected to amount to approximately NIS 51.2 million.

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

d. During the reported period, a subsidiary published two tender offers for three series of CFE convertible debentures. In the tender offers, about CD $ 12 million of convertible debentures (which bear interest of 7.875%) were acquired at 80% of their par value, about CD $ 22.4 million of convertible debentures (which bear interest of 7%) were acquired at the average of 77% of their par value and about CD $ 28.5 million of convertible debentures (which bear interest of 7.25%) were acquired at 80% of their par value.
By virtue of the agreement with Alony- Hetz Properties and Investments Ltd. ("Alony-Hetz"), about 22% of the debentures which were acquired through the tender offers were sold to Alony- Hetz at their purchase prices.

Further to the above, during the reported period, a subsidiary acquired additional convertible debentures of CFE during trade on the stock exchange. In respect of the acquisition of said debentures, during the reported period, the Company derived a net gain from early redemption of approximately NIS 16 million.

As of the date of the financial statements, the subsidiary holds in CD $ 77 million par value of CFE convertible debentures (21.7% of the issued amount) and in CD $ 13.4 million par value of CFE debentures (35% of the issued amount). The debentures and the convertible debentures which are held by the subsidiary are pledged as a security for the credit received in connection with their acquisition from a bank in Israel.

Subsequent to the balance sheet date, a subsidiary acquired, during trade on the stock exchange, additional CD $ 5.7 million par value of CFE convertible debentures.

e. During the reported period, 1,605 thousand stock options (series 3) were exercised into 1,835 thousand shares for the total consideration of NIS 16.6 million. In addition, convertible debentures in the amount of NIS 1 million were converted into shares.

f. On May 18, 2001, Globe's subsidiaries, EQ1 and CFE, announced that they entered into an agreement, according to which EQ1 will acquire CFE wholly owned subsidiary, which is the owner of properties in the U.S., in exchange for the issuance of 10.5 million of EQ1 shares. The transaction closing is pending the approval of the authorized bodies.

g. During May 2001, the Company acquired additional 1% of the shares of Mishkanot Clal in consideration of NIS 2 million, thereby increasing its holdings rate in Mishkanot Clal to 50%.

h. In June 2001, EQ1 signed an agreement for the acquisition of United Investors Trust ("UIRT"), (an income producing real estate company type REIT which is listed for trade on the New York stock exchange) in shares and cash transaction. The net value of the transaction is estimated at $ 66 million, of which half is payable in cash and the remaining half by EQ1 shares. The transaction closing is pending the approval of the authorized bodies.

NOTE 5:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In August 2001, EQ1 issued 1,300 thousand shares to Alony- Hetz in consideration of $ 14 million, pursuant to an agreement which was signed in October 2000. Following the above issuance, the Company's holdings in EQ1 decreased from 63.8% to 58% in respect of which the Company will record a gain of NIS 3.5 million in the third quarter of the year.

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended June 30, 2001

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the periods ended June 30, 2001:

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. In addition, the Company pursues business opportunities in the acquisition of companies engaged in its areas of activity and/or in synergetic businesses.

As of the date of the financial statements, the Company owns – directly and indirectly – 114 properties with Gross Leasable Area (G.L.A.) of close to 14 million square feet, with a book value of NIS 4.6 billion, generating annual rental income of NIS 600 million (based on gross annual rent for the properties owned), as well as 50% in a senior citizens' residences company.

If the acquisition of United Investors Realty Trust ("UIRT") will be completed (with regard to the commitment of EQ1 to acquire UIRT, see Par. 2.B), the Company will own 137 properties with G.L.A. of more than 16 million square feet with projected annual rental income exceeding NIS 675 million.

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 date of the financial statements, the Company owns some 58% 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 33 properties with G.L.A. of some 3.2 million square feet.

The operations in Canada are carried out via Centrefund Realty Corporation (hereinafter – "CFE"), a public company traded on the TSE. As of the date of the financial statements, the company owns some 68% of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in

Florida and Texas (regarding properties in Florida and Texas, see Par. 2.A below). CFE holds interest in 72 properties with total G.L.A. of approx. 10.7 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 more than 850,000 square feet.

In Israel, the company owns 50% of the share capital of 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>Main Developments:</u>

* Net income in the second quarter was NIS 52.4 million, compared with NIS 9.5 in the same quarter last year, growth of 451%.

* The increase in net income stems from the growth in the volume of activity following the acquisition of CFE, as well as from the NIS 8.8 million gain on the acquisition of CFE debentures and from the sale of Supersol shares, which generated a net gain of NIS 14.6 million.

* F.F.O. (see Par. 3) was NIS 67.1 million in the second quarter (NIS 1.41 per share), compared with NIS 13.7 million in the same quarter last year (NIS 0.41 per share). Ignoring the effect of the Supersol transaction, the F.F.O. per share was NIS 1.1, compared with NIS 0.32 in the second quarter of 2000.

* **As of June 30, 2001, shareholders' equity per share (NIS 1 par value) was NIS 12.55, compared with NIS 10.14 per share in the same quarter last year, an increase of 24%. Taking into account the dividend of NIS 0.62 per share distributed during the period, there was growth of 31.8%.**

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

<u>General</u>

In the six-month period ended June 30, 2001, the Company invested– directly and through subsidiaries – the sum of NIS 151 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 in the coming quarters.

A. <u>Sale of CEFUS properties to EQ1</u>

On May 18, 2001, EQ1 and CFE announced that they had entered into a definitive agreement whereby EQ1 will acquire Centrefund Realty (U.S.) Corporation ("CEFUS"), a wholly owned subsidiary of CFE.

CEFUS owns 30 properties and 4 joint venture interests in Florida and Texas, predominantly all of which are supermarket or other retail anchored shopping centers.

Under the agreement, EQ1 is acquiring assets valued at $280 million in exchange for the issuance of approximately 10.5 million new EQ1 common shares and the assumption of $157 million in debt and transaction costs. The market value of the shares issued by EQ1 is $125 million.

Upon the closing of the transaction, EQ1 will own and operate 63 properties totaling over 6.4 million square feet and partial interests in 4 partnerships which own or are developing supermarket or other retail anchored shopping centers in Florida and Texas. The transaction will more than double EQ1's size to $523 million of total assets, and increases its market value by $280 million.

The transaction was signed following approval by special committees of independent directors appointed by EQ1 and CFE, which included only the independent directors representing the public. These committees retained investment banks to consider and evaluate the terms of the transaction (CIBC World Markets for CFE and UBS Warburg LLC for EQ1).

The transaction is subject to the approval of EQ1 shareholders, to be discussed at the general meeting scheduled for September 6, 2001, and the approval of the minority shareholders of CFE, to be discussed at a general meeting scheduled for September 7, 2001. The transaction is also subject to other customary closing conditions.

The closing of the transactions is expected in the third quarter of the year. After the closing, the Company is expected to hold – directly and indirectly – 62.2% of the shares of EQ1. The transaction is not expected to have immediate tax consequences or to have a material effect on the Company's financial statements.

B. <u>Acquisition of UIRT by EQ1</u>

On May 31, 2001, EQ1 announced it had agreed to acquire United Investors Realty Trust ("UIRT") for stock and cash.

UIRT is a publicly traded Real Estate Investment Trust (REIT), which owns 23 properties throughout Florida and Texas, predominantly all of which are supermarket or other retail anchored shopping centers, with G.L.A. of more than 2.2 million square feet. The Company acquired 9.8% of the capital stock of UIRT in the open market during the last year, at a lower price than today's transaction.

According to the agreement, EQ1 will acquire all of UIRT stock in exchange for cash, in the aggregate amount of approximately $33 million, and EQ1 common stock valued for the purposes of the acquisition at approximately $33 million. The actual number of shares of common stock to be issued by EQ1 will depend on the 20-day average trading price of EQ1 common stock as of the closing of the acquisition, not to exceed $12.50 or, except at EQ1's election, be less than $11.30 per share. In addition, Equity One may elect to pay a greater percentage of the total consideration under certain circumstances in its common stock rather than cash.

The UIRT transaction is valued at approximately $155 million, which includes transaction costs, the assumption of approximately $82 million in debt, and the payment of the consideration to UIRT shareholders.
Following the closing of the UIRT and CEFUS transactions, EQ1 will own and operate 86 rental properties and will own partial interests in 5 partnerships which own or develop supermarket or other retail anchored shopping centers in Florida and Texas, totaling more than 8.7 million square feet with a total value of $678 million. The projected market value of EQ1, based on its current stock price, is $320 million.

The transaction is subject to approval by the shareholders of UIRT, to be discussed at the general meeting scheduled for September 21, 2001, as well as other customary conditions, and is expected to close in the third quarter of 2001. After the transaction closes, the Company will hold – directly and indirectly – 56.9% of the capital stock of EQ1.

The transaction significantly improves the geographic dispersal of EQ1's properties and reduces the exposure to a single property or customer (the largest tenant's pro rata share of rental income will be less than 5%, compared with 8% of total rental income prior to the transaction).

If these two transactions are closed, EQ1 will become the third largest supermarket anchored shopping center REIT in Florida, and, essentially, the leading supermarket- anchored REIT in Florida. EQ1 will also become a major player in this industry in Texas.

Management is of the opinion that the substantial growth in the market value of EQ1 will expose it to additional American institutional investors, and, consequently, will improve its ability to raise capital.

These transactions position EQ1 as a leading, high-growth REIT, and place it in an excellent starting position for further mergers of this type. At the same time, the CFE transaction makes it possible for CFE to focus on its activities in Canada, as it transfers its USA properties to EQ1, which already operates in Florida and specializes in supermarket anchored shopping centers.

CFE is expected to benefit from high cash flows from EQ1, which makes quarterly distributions of its earnings to shareholders, and to benefit from the growth of EQ1 and its improvement as a result of the merger and the business opportunities that this process will create in the future – all without additional managerial costs. Due to the merger, CFE shareholders are expected to enjoy greater transparency with regard to CFE's activities in the USA.

C. Acquisition and sale of properties

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

2. On June 15, 2001, CEFUS acquired two properties valued at $19.7 million from a property development company in the USA owned in equal shares with another party ("CDG US"). The purchase was paid by assuming the other party's debt in respect of the properties and the forgiveness of other parties' debt to CEFUS. In addition, on the said date, the other parties acquired 3 properties under development from CDG US valued at US$ 4.1 million. Payment was in cash and loans granted to them by CEFUS, secured by a mortgage on some of these properties.

D. Additional investments

As of June 30, 2001, the Company's investments in the shares of public real estate companies (REIT's) and shares of other companies in the USA and Canada (excluding subsidiaries) total NIS 168,012 thousand.

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.

E. Acquisition of shares in EQ1

In the reported period, the Company acquired some 47,000 shares in EQ1 on the new York Stock Exchange, at prices ranging between US$ 9.4-9.9 per share. In total, the Company invested NIS 1.9 million in the acquisition of EQ1 shares during the reported period.

F. Investment in the shares of Supersol

In the reported period, and up until the approval date of the financial statements, the Company sold all the shares it had held in Supersol Ltd., for total proceeds of NIS 106 million, and a gross gain of NIS 20 million.

G. Acquisition of CFE debentures by the Company in the reported period

In the reported period, the Company acquired – through a wholly-owned Canadian subsidiary –on the Toronto Stock Exchange (TSE) and as part of two tender offers it made, $C 67,830 thousand convertible debentures of CFE, at a cost of NIS 144.8 million.

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

The financing expenses in the income statement item include a gain from the early redemption of debentures, as described above, of NIS 34 million and NIS 17.3 million for the six-month and three-month period ended June 30, 2001, respectively. The Company's share in the gain, after a provision for taxes, deduction of the discount on the debentures and the minority interest in the gain, is NIS 16 million and NIS 8.8 million, respectively.

H. <u>Private placements of shares</u>

1. On February 20, 2001, the Company issued to provident funds, pension funds, insurance companies and the parent company, 2 million ordinary shares and another 1.6 million options (Series 4) that may be exercised for ordinary shares.
   The securities were offered in 403,260 units containing 5 ordinary shares and 4 options (Series 4) at a price of NIS 70.25 per unit.

   The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.5 million. In addition, the Company issued another 250,000 units to a subsidiary it controls, which were later sold to the Company.
   The total net capital raised was NIS 29 million. Assuming full exercise of the options, the capital offering is expected to total NIS 51.2 million.

2. In June 2001, the Company sold to provident funds, pension funds, insurance companies and the parent company 539 thousand ordinary shares and 358 thousand options (Series 4) for total proceeds of NIS 7.5 million.
   In this sale, the parent company acquired 125 thousand ordinary shares and 100 thousand options (Series 4) for total proceeds of NIS 1.8 million.

I. <u>Conversion of debentures to shares</u>

In April 2001, 1 million non-negotiable debentures that had been issued by the Company in February 2000 were converted into 85 thousand shares of the Company.

J. <u>Private placement of non-negotiable debentures</u>

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.

K. 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.

In the reported period, the Company continued to invest in MSC Networks Inc. (“MSC”), investing US$ 1.1 million, and wrote down its entire investment in MSC of US$ 1.6 million (NIS 6.6 million). The Company is evaluating 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.

L. Exercise of options (Series 3) of the Company

During the reported period, 1.6 million of the Company's warrants (Series 3) were exercised, for total proceeds of NIS 16.6 million.

Subsequent to the reported period and up until the approval date of the financial statements, the remaining options in circulation were exercised for additional proceeds of NIS 6.5 million.

M. Dividend policy

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, representing, as of the date of the resolution, a dividend yield of about 5%. In the year 2000, the Company distributed a dividend of NIS 0.53 per share.

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.

N. 50% interest in Mishkenot Clal (1982) Ltd.

Pursuant to a shareholders agreement between the Company and Azorim Properties Ltd., the Company acquired 1% of the share capital of Mishkenot Clal for NIS 1.3 million, net, and reached an equity interest of 50% in Mishkenot Clal.

3. Results of Operations

	Six months ended June 30, 2001	Six months ended June 30, 2000	Three months ended June 30, 2001	Three months ended June 30, 2000	Year ended December 31, 2000
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	310,341	75,626	152,143	37,538	361,958
Other income	36,046	29,823	19,836	8,688	71,368
	346,387	105,449	171,979	46,226	433,326
Costs and expenses:					
Operating properties for rent	106,146	21,453	50,388	10,539	121,252
Depreciation of properties for rent	43,918	10,380	21,544	5,276	48,570
General and administrative	27,898	12,721	15,491	5,938	35,434
Financial, net	40,227	14,407	2,889	6,750	104,767
Other expenses	7,092	1,481	2,861	1,173	8,383
	225,281	60,442	93,173	29,676	318,406
Income before taxes on income	121,106	45,007	78,806	16,550	114,920
Taxes on income	8,487	2,938	2,851	2,038	12,315
Income after taxes on income	112,619	42,069	75,955	14,512	102,605
Minority interest in earnings of subsidiaries	(38,345)	(11,472)	(23,592)	(4,987)	(26,239)
Equity of former shareholders in losses of newly consolidated subsidiary	-	-	-	-	(8,444)
Net income for the period	74,274	30,597	52,363	9,525	67,922
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	1.59	0.95	1.10	0.28	1.69
* F.F.O. for the period	105,424	38,575	67,082	13,717	97,226
* F.F.O. per share (NIS 1 par value)	2.25	1.2	1.41	0.41	2.35

* F.F.O. - Funds From Operations – net income, which includes gains from the Supersol transaction as well as dividends and gains from investments in real estate and other companies traded in the U.S. and Canada, less non-recurring income and plus non-recurring expenses, plus depreciation.

Breakdown of revenues:

	Six months ended June 30, 2001	Six months ended June 30, 2000	Three months ended June 30, 2001	Three months ended June 30, 2000
	Adjusted NIS in thousands (except per share amounts)			
CFE Revenues	211,773	-	104,926	-
EQ1 Revenues	77,920	66,421	38,230	32,931
Other revenues	56,694	39,028	28,823	13,295
Total revenues	**346,387**	**105,449**	**171,979**	**46,226**

The growth in net income stems from the growth in the volume of activity following the acquisition of CFE, the sale of Supersol shares, the acquisition of CFE debentures and the decrease in financing expenses as a result of the high inflation rates in Canada and the USA.

Depreciation of assets (net of minority interest) for the reported periods was NIS 30.7 million and NIS 15 million, respectively, representing NIS 0.66 and NIS 0.31 of depreciation per share, respectively. This compares with NIS 7.6 million and NIS 3.9 million, representing NIS 0.24 and NIS 0.12 of depreciation per share, in the corresponding periods last year, respectively.

Income from dividends and investments in marketable securities totaled NIS 35,400 thousand and NIS 19,256 thousand in the reported periods, respectively, compared with NIS 29,454 thousand and NIS 8,635 thousand in the corresponding periods last year, respectively, and NIS 65,744 thousand in the full year 2000.

In the reported periods, this income derives from dividends from investments in real estate companies and the shares of other companies in the USA and Canada of NIS 6,249 thousand and NIS 3,504 thousand, respectively. In the same periods last year and in the full year 2000, this income stemmed mainly from dividends from Supersol and from gains on the sale of Supersol shares and other securities totaling NIS 29,151 thousand and NIS 15,752 thousand, respectively.

The results of operations in the reported periods include the consolidation of the financial statements of CFE and the proportionate consolidation of Mishkenot Clal. In the same period last year, these companies had not yet been acquired. Therefore, a comparison to this period in most of the items is not relevant.

The increase in general and administrative expenses in the reported periods stems from the consolidation of CFE and from the increase in salary expenses that are related to the Company's operating results, the increase in net financing expenses, stemming from the consolidation of CFE, the increase in financing expenses on loans used to finance additional investment in fixed assets and long-term investments, and from real erosion in the value of deposits from residents of Mishkenot Clal, which are linked to the U.S. dollar. The increase was offset by inflationary effects in the USA and Canada and the gross gain from the early redemption of CFE debentures that were acquired by the Company.

In the reported periods, the Company wrote off its investments in technology ventures, as discussed previously, in the amount of NIS 6,592 thousand and NIS 2,545 thousand, respectively.

4. **Liquidity and Financing Sources**

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

A. The Company's shareholders' equity, together with minority interest and convertible debentures in CFE, which may be redeemed by CFE issuance of NIS 1,658 million in shares, financed 31.3% of total assets, compared with NIS 494 million, that financed 33.5% of total assets in the same period last year.

B. The current ratio (current assets to current liabilities) reached 0.74 (after deducting long-term loans that finance fixed assets in Canada that mature in the coming year, and which, in the Company's opinion, will be extended and/or replaced by new long-term loans, the ratio is 1.04), compared with 1.19 in the same period last year.

The above ratio also does not include long-term investments in the marketable share of REIT's (see Par. 2.D) and the loans taken out to finance them.

C. Cash flows from operating activities for the reported periods totaled NIS 45 million and NIS 22.2 million, respectively, compared with NIS 45.5 million and NIS 14.9 million, respectively, in the same periods last year (which included a dividend of NIS 18 million, gross, from Supersol Ltd.).

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 June 30, 2001, the liquidity available to the Company and its subsidiaries, including cash and short-term investments, total NIS 189.3 million, compared with NIS 274.6 million as of December 31, 2000, and NIS 60.4 million as of June 30, 2000. The change in liquid balances stems mainly from inflows from the Company's capital and debt offerings to the public and other parties, plus the increase in the Company's working capital and the sale of long-term investments, less the amounts used by CFE to acquire a property and by the Company to acquire shares and convertible debentures of EQ1 and to acquire long-term investments.

The increase of NIS 460.3 million in shareholders' equity to NIS 602 million stems from the offering and sale of shares, net, amounting to NIS 45.8 million and from the exercise of options into shares in the amount of NIS 16.6 million. It is also attributable to the NIS 19 million increase in the item "translation adjustments deriving from translation of financial statements of CFE, EQ1 and F.C.I. (due to the real devaluation of the U.S. dollar and inflation in the USA during the reported period at the cumulative rate of

4.3%), plus the Company's net earnings for the reported period of NIS 74.3 million, less a dividend declared by the Company of NIS 15 million.

6. Additional Information and Subsequent Events

A. **Issuance of EQ1 shares to Alony Hetz ("Alony Hetz")**

In August 2001, EQ1 Issued 925 thousand shares to Alony Hetz, pursuant to an agreement signed in October 2000, for total proceeds of $ 10 million. In addition, Alony Hetz exercised an option for another 375 thousand shares of EQ1 for total proceeds of $ 4.1 million.

As a result of the above issuances, the Company's direct and indirect equity interest in EQ1 fell from 63.8% to 58%. In the third quarter, the Company will post a capital gain of NIS 3.5 million in respect of the issuances.

B. **Acquisition of CFE debentures subsequent to the reported period**

Subsequent to the reported period, the Company acquired 5,680 thousand convertible debentures of CFE in the open market at a cost of NIS 13.8 million. The gain on these acquisitions will be recorded in the third quarter of the year.

C. **Acquisition of properties from CFE Development Company**

On July 13, 2001, CFE announced that it had reached agreement on the wind-up of its Canadian partnership, owned in equal shares together with another party, known as Centrefund Development Group ("CDG Canada"). In connection with the wind-up of CDG Canada, CFE acquired the other party's entire share in 5 properties and 2 development sites, for total proceeds of C$ 25.5 million. The purchase price was satisfied by CFE's assumption of third party debt secured against the properties and by a reduction of the other party's outstanding debt obligations to CFE.

At the same time, CFE and other parties formed a partnership in which development of another commercial center will continue, and it will own several sites for future development.
In the USA, CEFUS is continuing the wind-up process for CDG U.S.

D. **Agreement with former controlling shareholders in CFE**

On August 17, 2001, CFE reached agreement with former controlling shareholders regarding the settlement of debt related to the management contracts they held with CFE immediately preceding the Company's change of control.

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

Under the terms of the agreement, the former controlling shareholders waived their demand for additional payment of C$ 12.1 million. It was further agreed that the total management expenses would equal the advance already paid to them. Thus, the liability of C$ 12.1 in the books of CFE, less the tax effect and other provisions, will be written off in the third quarter of the year. The effect on the Company's financial statements is a reduction in the excess cost of investment created in the acquisition of the CFE shares in August 2000, which was allocated to fixed assets.

E. **Expected changes in accounting standards**

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. If this standard is issued, it is expected to take effect from 2003. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, and which adjust their financial statements for changes in purchasing power in their domicile countries.

The Company's management estimates that discontinuation of such measurement, without the enactment of other accounting standards that affect the results of real estate companies, would have a material adverse effect on the Company's reported accounting results beginning from the year of the change.

7. Reporting of Exposures to Market Risks and their Management

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.

Since the Company's annual report for 2000 issued on March 25, 2001, there have been no material changes in the Company's market risks or the way in which they are managed.

Dori Segal President	Varda Zuntz Director