30/5/02

GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2002

ADJUSTED TO THE NIS OF MARCH 2002

UNAUDITED

INDEX

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ERNST & YOUNG

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

Re: Review of unaudited interim consolidated financial statements for the three months ended March 31, 2002

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of March 31, 2002, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the 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 of the aforementioned financial statements, reading of the minutes of meetings of the shareholders and the Board of Directors and its committees, and making inquiries of certain officers responsible for financial and accounting matters.

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 94.0% as of March 31, 2002, and total revenues constituting approximately 97.9% of the related consolidated totals for the three 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 interim consolidated 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 Israeli Securities Regulations (Periodic and Immediate Statements), 1970.

Tel-Aviv, Israel
May 28, 2002

KOST FORER & GABBAY
A Member of Ernst & Young Global

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of March 2002

	March 31,		December 31,
	2002	2001	2001
	Unaudited		Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	177,921	165,127	219,062
Short-term investments	137,352	104,389	161,486
Tenants	23,916	18,383	38,446
Accounts receivable	61,422	22,639	57,292
Loans to partners and to former partners	65,450	94,965	60,028
	466,061	405,503	536,314
LONG-TERM INVESTMENTS AND LOANS:			
Investments in subsidiaries	36,102	-	-
Long-term investments	138,102	177,215	85,540
Long-term loans	72,717	52,816	68,023
	246,921	230,031	153,563
FIXED ASSETS:			
Cost	6,180,724	4,795,372	5,857,384
Less - accumulated depreciation	256,466	141,363	221,275
	5,924,258	4,654,009	5,636,109
OTHER ASSETS AND DEFERRED CHARGES, NET	132,396	126,079	126,870
	6,769,636	5,415,622	6,452,856

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of March 2002

	March 31,		December 31,
	2002	2001	2001
	Unaudited		Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	332,168	290,678	344,933
Trade payables	31,307	41,077	37,318
Other accounts payable	109,830	71,329	107,425
Dividend declared	10,007	7,534	18,888
	483,312	410,618	508,564
LONG-TERM LIABILITIES:			
Debentures	337,085	267,683	250,397
Liabilities to financial institutions and others	3,446,817	2,877,938	3,572,798
Tenants' security deposits	147,022	133,452	143,563
Accrued severance pay, net	749	718	773
Deferred taxes	504	482	514
	3,932,177	3,280,273	3,968,045
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	724,282	868,725	724,466
MINORITY INTEREST	822,849	307,287	570,592
CONVERTIBLE DEBENTURES	-	1,048	-
SHAREHOLDERS' EQUITY	807,016	547,671	681,189
	6,769,636	5,415,622	6,452,856

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

May 28, 2002		
Date of approval of the financial statements	D. Segal Managing Director (via Varda Zunz - by a power of attorney from May 28, 2002)	G. Kotler Chief Financial Officer

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

Adjusted to the NIS of March 2002

	Three months ended March 31,		Year ended December 31,
	2002	2001	2001
	Unaudited		Audited
	Adjusted NIS in thousands (except per share amounts)		
Revenues:			
Rental income	214,407	162,454	693,716
Other income	34,023	16,646	90,556
	248,430	179,100	784,272
Costs and expenses:			
Operating properties for rent	76,178	57,154	236,548
Depreciation of properties for rent	26,785	22,976	97,051
General and administrative	23,315	12,845	57,692
Financial, net	20,231	38,342	229,708
Other expenses	680	4,345	16,022
	147,189	135,662	637,021
Income before taxes on income	101,241	43,438	147,251
Taxes on income	9,446	5,787	18,032
Income after taxes on income	91,795	37,651	129,219
Equity in earnings of affiliates	1,923	-	-
Minority interest in earnings of subsidiaries	(41,839)	(15,150)	(46,207)
Net income for the period	51,879	22,501	83,012
Earning per NIS 1 par value of Common shares (in adjusted NIS):			
Basic earnings	0.81	0.45	1.55

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

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

Adjusted to the NIS of March 2002
Unaudited

	Three months ended March 31, 2002							
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less shares held by the Company	Less loans for acquisition of shares	Total
	Adjusted NIS in thousands							
Balance at the beginning of the period	109,462	487,159	1,668	54,912	31,622	(3,634)	-	681,189
Issuance of share capital (net of issuance expenses)	3,463	47,176	-	-	-	-	-	50,639
Foreign currency translation adjustments for foreign autonomous units	-	-	-	22,147	-	-	-	22,147
Net income for the period	-	-	-	-	51,879	-	-	51,879
Sale of shares held by the Company	-	173	-	-	-	2,369	(1,380)	1,162
Balance at the end of the period	112,925	534,508	1,668	77,059	83,501	(1,265)	(1,380)	807,016

	Three months ended March 31, 2001						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	99,087	370,047	1,668	11,586	(9,038)	(647)	472,703
Issuance of share capital (net of issuance expenses)	3,413	44,553	-	-	-	(18,258)	29,708
Exercise of stock options into shares	381	3,062	-	-	-	-	3,443
Foreign currency translation adjustments for foreign autonomous units	-	-	-	26,850	-	-	26,850
Net income for the period	-	-	-	-	22,501	-	22,501
Dividend declared	-	-	-	-	(7,534)	-	(7,534)
Balance at the end of the period	102,881	417,662	1,668	38,436	5,929	(18,905)	547,671

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

Adjusted to the NIS of March 2002
Audited

	Year ended December 31, 2001						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the year	99,087	370,047	1,668	11,586	(9,038)	(647)	472,703
Issuance of share capital, net	7,655	95,626	-	-	-	(18,324)	84,957
Conversion of debentures into shares	88	950	-	-	-	-	1,038
Exercise of stock options into shares	2,632	21,252	-	-	-	-	23,884
Sale of shares by a subsidiary	-	(716)	-	-	-	15,337	14,621
Foreign currency translation adjustments for foreign autonomous units	-	-	-	43,326	-	-	43,326
Net income for the year	-	-	-	-	83,012	-	83,012
Dividend paid	-	-	-	-	(23,464)	-	(23,464)
Dividend declared	-	-	-	-	(18,888)	-	(18,888)
Balance at the end of the period	109,462	487,159	1,668	54,912	31,622	(3,634)	681,189

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of March 2002

	Three months ended March 31,		Year ended December 31,
	2002	2001	2001
	Unaudited		Audited
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the period	51,879	22,501	83,012
Adjustments to reconcile net income to net cash provided by operating activities (a)	(15,715)	876	1,657
Net cash provided by operating activities	36,164	23,377	84,669
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	-	-	(162,656)
Investment in subsidiary and in jointly controlled entity	-	(17,259)	(20,123)
Investments in fixed assets	(243,039)	(161,806)	(474,018)
Loans granted to partners and to former partners	(3,691)	(1,082)	(9,442)
Proceeds on sale of fixed assets	48,531	-	146,161
Long-term loans granted	(4,532)	-	(11,119)
Repayment of long-term loans granted	2,800	-	19,455
Short-term investments, net	(16,276)	81,503	89,344
Purchase of marketable securities and long-term investments	(35,187)	(21,757)	(112,329)
Proceeds from realization of long-term investments	36,558	14,264	178,192
Net cash used in investing activities	(214,836)	(106,137)	(356,535)
Cash flows from financing activities:			
Issuance of share capital, net	50,939	29,708	84,957
Exercise of stock options into shares	-	3,443	23,884
Sale of shares by the Company and a subsidiary	1,162	-	14,621
Issuance to minorities in subsidiary, net	211,780	-	95,468
Deferred charges in respect of raising loans and debentures	(8,052)	(9,041)	(11,619)
Dividend paid	(8,881)	(7,098)	(30,562)
Dividend paid to minorities in subsidiaries	(17,525)	(8,560)	(28,290)
Receipt of long-term loans	133,365	194,729	1,321,921
Repayment of long-term loans	(197,635)	(104,187)	(985,065)
Redemption of debentures	-	-	(27,766)
Early redemption of debentures and convertible debentures of a subsidiary	(22,943)	(55,777)	(194,544)
Short-term credit from banks and others, net	(92,275)	(2,409)	9,906
Issuance of debentures	77,538	99,212	99,212
Increase in tenants' security deposits	1,495	-	6,199
Net cash provided by financing activities	128,968	140,020	378,322
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	8,563	1,506	6,245
Increase (decrease) in cash and cash equivalents	(41,141)	58,766	112,701
Cash and cash equivalents at the beginning of the period	219,062	106,361	106,361
Cash and cash equivalents at the end of the period	177,921	165,127	219,062

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of March 2002

	Three months ended March 31, 2002	Three months ended March 31, 2001	Year ended December 31, 2001
	Unaudited	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	(6,895)	(14,605)	(70,873)
Minority interest in earnings of subsidiaries	41,839	15,150	46,207
Equity in earnings of affiliates net of dividend received	(1,664)	-	-
Depreciation	26,844	23,096	97,373
Deferred taxes, net	4,066	(8,506)	(3,927)
Gain from early redemption of debentures and convertible debentures of a subsidiary	-	(17,033)	(37,483)
Adjustment differences on monetary assets and long-term liabilities, net	(65,126)	(36,672)	(54,836)
Write-down of long-term investments	-	-	1,872
Amortization of other assets and deferred charges	2,655	1,871	11,932
Gain from sale of fixed assets	(20,660)	-	(230)
Accrued severance pay, net	(24)	92	132
Loss (gain) from issuance to third party and related party	(3,663)	278	(4,741)
Changes in asset and liability items:			
Decrease in tenants and other accounts receivable	12,581	35,694	6,624
Increase (decrease) in trade payables and other accounts payable	(5,090)	(6,330)	13,427
Increase (decrease) in tenants' security deposits	(578)	7,841	(3,820)
	(15,715)	876	1,657

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

Adjusted to the NIS of March 2002

	Year ended December 31, 2001
	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	(27,333)
Current liabilities	20,262
	(7,071)
Fixed assets, long-term loans and investments (mainly real estate)	(641,048)
Other assets	(55)
Long-term liabilities	350,150
	(290,953)
Minority interest	114,012
Outstanding investment in newly consolidated subsidiary	21,356
	(162,656)

	Three months ended March 31, 2002	Three months ended March 31, 2001	Year ended December 31, 2001
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
(c) Significant non-cash operations:			
Dividend declared	-	7,534	18,888
Capital issuance in the Company and in subsidiary for minorities and related party against long-term loans	1,380	-	22,578
Conversion of convertible debentures into Company shares	-	-	1,038

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

NOTE 1:- GENERAL

These interim consolidated financial statements have been prepared as of March 31, 2002 and for the 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, 2001 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies applied in the annual financial statements as of December 31, 2001 are applied consistently in these financial statements.

b. Acquisition of debentures convertible into subsidiary's shares by the Company:
The difference created between the cost of the acquisition of the debentures by the Company and their carrying value in the books of the subsidiary that issued in the past these debentures, was previously carried to the statement of income or to a balance sheet item 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) of the debentures into shares at the time when they were acquired by the Company.
When the probability of conversion is low, the difference was carried in the past as gain or loss on early redemption and was included in the consolidated statement of income among financing. When the probability of conversion is high, the difference was carried as surplus acquisition cost.
From 2002, the Company acts according to the Securities Authority's staff position whereby if the Company acquires additional convertible debentures of the subsidiary, the above difference shall be deferred and recognized as gain or loss only when the debentures are converted into the subsidiary's shares or when the debentures are redeemed by the subsidiary, whichever is earlier.

c. Adoption of recently issued accounting standards and their impact on the financial statements:
In October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 which deals with the discontinuance of adjusting financial statements and Accounting Standard No. 13 regarding the effects of changes in foreign exchange rates.
According to Accounting Standard No. 12, beginning January 1, 2003, financial statements will discontinue to be adjusted for inflation in Israel. Until December 31, 2002, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2002, will serve as the starting point for nominal financial reporting beginning January 1, 2003.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounting Standard No. 13 prescribes provisions with respect to the effects of changes in foreign exchange rates. This Standard replaces Interpretation No. 8 and Interpretation No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which are eliminated at the time of discontinuance of the adjustment of the financial statements. The Standard deals with translation of foreign transactions and translation of financial statements of foreign operations for the purpose of their inclusion in the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those applied until now. Accounting Standard No. 13 will apply to financial statements for periods beginning after December 31, 2002.

The management of the company is of the opinion that the discontinuance of adjusting financial statements to the CPI and the application of the provisions regarding the translation of financial statements of investees that are prepared in foreign currency in environment of positive inflation, without regulating additional Standards that influence the results of income producing real estate companies, will have a significant effect on the reported accounting results of the Company beginning with the year of change.

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 March 2002.

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**
As of:	Points *)			NIS	
March 31, 2002	110.7	178.8	117.7	4.668	2.9271
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
March 31, 2001	106.1	176.2	115.6	4.192	2.6623
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
Change for the period			%		
March 31, 2002	2.4	1.2	1.6	5.7	5.4
December 31, 2001	1.4	1.6	0.7	9.3	3.2
March 31, 2001	(0.5)	1.3	0.4	3.7	(1.1)

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

Israel - 1998 = 100
U.S. - 1984 = 100
Canada - 1992 = 100

NOTE 4:- ADDITIONAL INFORMATION

a. During the reported period, EQ1 raised in private placements and public issuance approximately $ 56.9 million, of which $ 11.5 million were received from FCR, from the Company and from its wholly owned companies. In connection with these issuances, the Company recorded a gain from the decrease in the holding rate in the amount of approximately NIS 3.7 million.

b. In January 2002, FCR issued at no consideration about 775 thousand options to officers and employees at FCR which are exercisable until January 2012 at an exercise price of CD 12.85 per share. In the context of the issuance, the Company's CEO and the Company's chairman of the Board received 200 and 100 thousand options, respectively.

c. In March 2002, the Company issued shares to its shareholders so that each shareholder who held at the record date in 9 shares of the Company received, at no consideration, share of the Company as stock dividend. The Company issued a total of about 6.3 million shares as stock dividend.

d. In February 2002, the Company issued through a private placement 3,442,720 shares of the Company, of which 200,000 shares were issued to Gmul Investment Ltd. and 1,721,360 shares were issued to Gazit Israel Ltd., the Company's parent company. In the aggregate, the Company raised in this issuance approximately NIS 50.6 million, net.

e. In February 2002, the Company issued to institutional investors NIS 77.5 million non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest of 5.65%. The redemption period of the debentures is in 8 equal annual payments beginning in 2005.

f. During the reported period, EQ1 sold 2 income producing properties and land for future development to third parties in consideration for the total of approximately NIS 48.4 million. As a result of these sales, the Company recorded a gross gain in the amount of approximately NIS 20.7 million, which is included among the caption "Other income" in the Company's statement of income. The Company's net share in the above gain is approximately NIS 9.8 million.

g Pursuant to the dividend distribution policy, during March 2002, the Company declared on the distribution of interim dividend for 2002 in the amount of approximately NIS 10 million which was paid at the beginning of April 2002. In the financial statements for 2001, the dividend was deducted from the Company shareholders' equity.

h. Pursuant to a stock option award plan to the Company Board's members who do not hold in other positions in the Company, which was approved by the shareholders' meeting in March 2002, 125 thousand options were issued at that month to said five Board's members, at no consideration.

NOTE 4:- ADDITIONAL INFORMATION (cont.)

Each option is exercisable into 1.1177 shares of the Company and from the first to the fifth anniversaries of the grant date for an exercise increment of NIS 15.45, linked to the Israeli CPI.

NOTE 5:- SUBSEQUENT EVENTS

a. In May 2002, the Company issued to the public 140 million par value of debentures (series A), 700 thousand stock options (series A) and 7 million stock options (series 5) in consideration for NIS 134.4 million, of which approximately NIS 73.9 million were received from the Company's wholly owned subsidiary. Additionally, this subsidiary acquired, pursuant to its commitment, some 2.3 million stock options (series 5) in the course of the first two trading days at 20 agora per option. Further to the aforementioned, under the prospectus, the Company effected a rights issue to its shareholders of 2,081,707 shares and 3,122,561 stock options (series 6) in consideration for approximately NIS 27 million.

The debentures are linked to the exchange rate of the U.S. dollar (base rate - NIS 4.84 per dollar, redeemable in 11 equal annual payments from June 2007 and bear interest of 6.5%.

Each stock option (series A) is exercisable into NIS 100 par value of debentures (series A) until November 20, 2002, at NIS 98.5, linked to the dollar (base rate - NIS 4.84 per dollar).

Each stock option (series 5) is exercisable into one share of the Company until November 30, 2002, at NIS 16.5, linked to the dollar (base rate - NIS 4.904 per dollar). In any event, the exercise price will not be below NIS 16.5.

Each stock option (series 6) is exercisable into one share of the Company until December 20, 2002, at NIS 13, linked to the dollar (base rate - NIS 4.904 per dollar).

b. In May 2002, Gazit 97 (100% owned) entered into a transaction with FCR, whereby FCR acquired all the issued capital of a wholly owned subsidiary of Gazit 97, which owns eight income producing properties in Quebec, Canada, in consideration for CD 31.6 million. Said consideration was paid through CD 28,156 thousand par value of convertible debentures (series D) of FCR valued at CD 24.2 million (CD 84.34 per CD 100 par value of debentures, including accrued interest) and 601,630 shares valued at CD 7.4 million (CD 12.30 per share).

Following the acquisition, the Company's shareholdings in FCR increased to 69.3% (about 54% fully diluted).

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended March 31, 2002

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2002:

1. A. General

The Company is an investment company engaged – directly and through its subsidiaries – in the acquisition, development, and management of 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.

The Company also invests in securities, mainly of other publicly traded real estate companies in the USA, Canada and Israel.

The Company's business strategy is characterized mainly by:

- Investment in economically and politically stable countries.
- Investment in properties, mainly anchored by supermarkets, which are considered "recession proof", compared to other real estate.
- Operation in areas with high barriers to entry.
- Experienced local management teams.
- Growth through the acquisition and development of commercial properties while pursuing acquisition and merger opportunities with real estate companies engaged in the Company's area of activity.

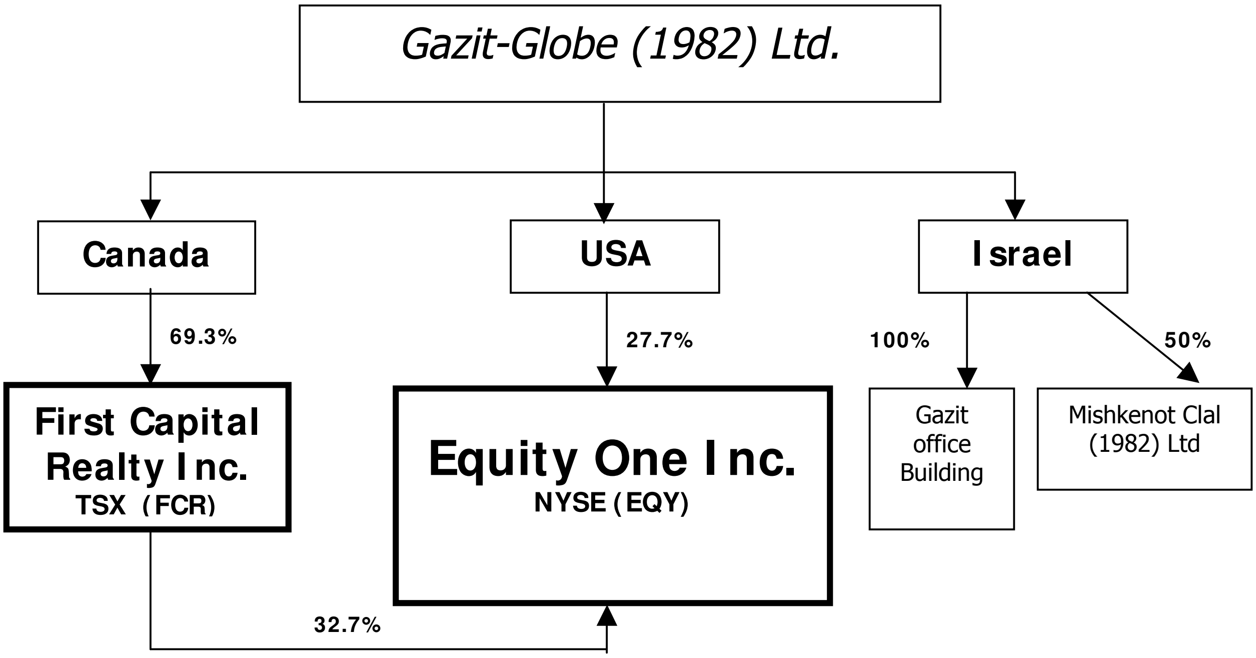
As of the date of the financial statements, the Company owns – directly and indirectly – 150 properties with a Gross Leasable Area (G.L.A.) of more than 16 million square feet, as well as 5 additional properties under development. These properties have a book value of NIS 6.2 billion and generate annual rental income of NIS 850 million (gross annual rent calculated for the properties currently owned, at the exchange rate on the date of publishing these financial statements). The Company also owns 50% of a senior living company.

In the USA, the Company operates mainly through 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 50.4% of EQ1. EQ1 operates primarily in the states of Florida and Texas, owning 90 properties (primarily supermarket-anchored shopping centers), with a G.L.A. of 8.6 million square feet, as well as 3 additional properties under development. The anchor tenants of EQ1's properties are leading national and international chains.

Operations in Canada are carried out through First Capital Realty Inc. (hereinafter – "FCR"), a public company traded on the Toronto Stock Exchange (TSX). As of the date of the financial statements, the Company owns 69.3% of FCR. FCR operates mainly in the Canadian provinces of Ontario, Quebec and Alberta, owning 59 properties (primarily supermarket-anchored shopping centers), with a total G.L.A. of approx. 8 million square feet, as well as 2 additional properties under development. The anchor tenants of FCR's properties are leading national and international chains. (This data includes 8 properties in the province of Quebec, primarily supermarket-anchored shopping centers, with a total G.L.A. of more than 800 thousand square feet, which were owned by the Company and which were transferred to FCR in May 2002. For further details, see section 6A).

In Israel, the Company owns 50% of the share capital of Mishkenot Clal (1982) Ltd. (hereinafter – "Mishkenot Clal"), which is engaged in the construction, maintenance, marketing and management of senior living facilities in Israel. In addition, the Company owns an office building in Tel-Aviv.

The Company's major holdings (ownership percentages are as of the date of the financial statements):



B. **Key Points**

- **Net income for the quarter amounted to NIS 51.9 million, NIS 0.81 per share, compared with net income of NIS 22.5 million, NIS 0.45 per share, in the same quarter last year.**

- **F.F.O. per share (see section 3) was NIS 0.88 for the quarter, compared to NIS 0.77 per share for the same quarter last year, an increase of 14.3%.**

- **As of March 31, 2002, shareholders' equity per share (of NIS 1 par value) amounted to NIS 13.02 per share, compared to NIS 11.66 and NIS 10.92 as of December 31, 2001 and March 31, 2001, respectively. Taking into account the dividend of NIS 0.59 per share that was distributed during the twelve months ended March 31, 2002, the shareholders' equity per share grew by 11.7% since December 31, 2001, and by 26% during the 12 month ended March 31, 2001.**

- **Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 1.63 billion, representing 24.1% of the total assets, compared to NIS 1.25 billion at the end of 2001, which represented 19.4% of the total assets, and compared to NIS 0.85 billion at the end of the same quarter last year, which represented 15.8% of the total assets.**

- **The first quarter of 2002 was characterized by a high inflationary environment in the USA and Canada (4.8% in the USA and 6% in Canada, in annual terms), which is reflected in the low real financing expenses, compared with the same quarter in 2001, when inflation in the USA was at the same rate but in Canada it was 2% lower, in annual terms.**

- **In the first quarter, EQ1 sold an office building located in Miami Beach, Florida and land for future development in Florida, in consideration for NIS 36.1 million. The Company's share of the net gain from the sale of these properties is NIS 9.8 million.**

- **During the first quarter of 2002, the Shekel was devalued against both the US dollar and the Canadian dollar by more than 3% in real terms.**

  The real devaluation affects the Company's balance sheet by increasing shareholders' equity by NIS 22.1 million (in respect of the increase in the value of the Company's holding in autonomous overseas units denominated in shekels); it also affects the P&L statement of operations by increasing financing expenses by NIS 3.5 million (due to revaluation of deposits of residents in Mishkenot Clal).

- **During the first quarter, EQ1 issued shares and raised a total of US$ 56.9 million, net (NIS 265.6 million), of which US$ 11.5 million (NIS 54 million) was invested by the Company and other subsidiaries. As a result of the dilution of its holding in EQ1, the Company recorded a gain of NIS 3.7 million.**

2. <u>The Company and its Business Environment – Key Events and Changes During the Reporting Period</u>

<u>General</u>

During the first quarter of the year, the Company invested – directly and through subsidiaries – the sum of NIS 242 million, in the acquisition, development, and improvement of properties and long-term investments. The effect of these acquisitions on the operating results will be reflected in full during the remainder of 2002.

A. Acquisition and Sale of Properties:

1. In January 2002, FCR acquired six shopping centers for an aggregate consideration (including transaction expenses) of C$ 58 million (NIS 170 million). The properties acquired are neighborhood and community shopping centers in the GMA. The G.L.A. of these shopping centers totals some 810 thousand square feet.

2. In February 2002, EQ1 acquired two properties in consideration for US$ 6.2 million (NIS 29 million). Both properties are leased to a pharmacy chain.

3. In February 2002, EQ1 sold an office building located in Miami Beach, Florida in consideration for US$ 6.05 million (NIS 28.2 million). The gain recognized by the Company from the sale of this property amounted to NIS 9.2 million, net. In addition, as part of the settlement of a claim filed against the municipality of Miami Beach (the acquirer), EQ1 received a further sum of US$ 0.45 million (NIS 2.1 million).

4. In February 2002, EQI sold an undeveloped site for US$ 1.7 million (NIS 7.9 million). This sale resulted in a capital gain of NIS 0.6 million for the Company.

5. In February 2002, EQ1 sold a shopping center in Texas for US$ 2.6 million (NIS 12.1 million). No gain has been recognized by the Company from this sale.

B. Additional Investments

As of March 31, 2002, the Company's investments in the shares of public real estate companies (REITs) and shares of other companies, mainly in the USA and Canada (excluding subsidiaries) totalled NIS 187 million.

The investment in these shares, part of which is presented as short-term investments and part as long-term investments, is primarily in companies whose activity is similar in nature to that of the subsidiaries.

As of December 31, 2001, the Company's investments in traded securities totalled NIS 197.9 million.

C. Acquisition of FCR Debentures by the Company in the Reported Period

During the first quarter of 2002, the Company – through a wholly-owned Canadian subsidiary – acquired on the Toronto Stock Exchange (TSX) convertible debentures of FCR with a nominal value of some C$ 8 million, at a cost of C$ 7.5 million (NIS 22 million).

As from 2002, the Company is adopting the treatment recommended by the Securities Authority's staff whereby any difference arising on purchases of the subsidiary's convertible debentures by the Company is recognized as income only when those debentures are converted into the subsidiary's shares, or when the debentures are redeemed by the subsidiary, whichever is the earlier.

D. Private Placement of Shares

In February 2002, the Company raised NIS 52 million from the sale of 3.5 million shares to institutional investors, Gmul and the parent company. The parent company acquired half of the shares issued.

E. Placements of EQ1 Shares

In January 2002, EQ1 issued, by way of a private offering, 688,000 shares to the Public, the Company and FCR for a consideration of US$ 8.9 million. The Company and FCR acquired 150,000 and 124,000 shares, respectively, at a price of US$ 13.05 per share.

In March 2002, EQ1 issued, by way of a public offering, 3.45 million shares at a price of US$ 13.25 per share for an aggregate consideration of US$ 45.7 million, gross. The Company and FCR acquired 200,000 and 125,000 shares, respectively, from the above offering.

As a result of the above placements and the issue of additional shares according to EQ1 dividends reinvestment plan, the direct and indirect percentage of the ownership in EQ1 held by the Company has decreased from 55.4% to 50%.

F. Issue of FCR Option Warrants by Way of Rights Issue

In March 2002, FCR published a prospectus for the issue of option warrants for FCR shares, exercisable until 2008. The warrants were offered to shareholders on the following terms: for every 1.25 shares held, one warrant at the price of C$ 0.05 can be purchased.

The exercise price for each warrant has been set at C$ 11.8. The Company has purchased some 8,662 thousand warrants (being all the warrants to which its shareholding in FCR entitled it and, in addition, all the options not taken up by other shareholders).

G. Private Placement of Unlisted Debentures

In February 2002, the Company issued debentures (that have not been listed for trade) to institutional investors in consideration for NIS 77.5 million.

The debentures are linked to the consumer price index and bear interest at a fixed rate of 5.65% per annum, payable on February 1 annually. The debentures will be redeemed in 8 equal annual installments between 2005 – 2012.

Ma'a lot, the Israeli rating company, has given the Company's debentures an A+ rating.

H. Issue of Stock Dividend

In March 2002, the Company distributed a stock dividend on the basis of one share for every 9 shares held. The stock dividend comprised a total of 6.3 million shares.

I. Dividend Policy

Pursuant to the Company's annual dividend policy, whereby the Company announces at the end of each year the dividend for the subsequent year, the Company announced that the dividend in 2002 will be at least NIS 0.64 per share, after the issue of the stock dividend referred to in section H above.

The aforesaid is subject to the existence of adequate amounts of distributable income at the relevant dates, and is subject to the provisions of any law relating to dividend distributions and to decisions that the Company is permitted to take, including the appropriation of its income for other purposes and the change of this policy.

J. Changes in Accounting Standards

In October 2001, the Israeli Accounting Standards Board issued Standard No. 12 and 13 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 2003. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, 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.

3. A. Results of Operations

	For the 3 months ended March 31		For the year ended December 31
	2002	2001	2001
	Adjusted NIS in thousands (except per share amounts)		
Revenues:			
Rental income	214,407	162,454	693,716
Other income	34,023	16,646	90,556
Total	**248,430**	**179,100**	**784,272**
Costs and expenses:			
Operating rental properties	76,178	57,154	236,548
Depreciation of rental properties	26,785	22,976	97,051
General and administrative	23,315	12,845	57,692
Financial, net	20,231	38,342	229,708
Other expenses	680	4,345	16,022
Total	**147,189**	**135,662**	**637,021**
Income before taxes on income	101,241	43,438	147,251
Taxes on income	9,446	5,787	18,032
Income after taxes on income	91,795	37,651	129,219
Company's share in profits of associated companies	1,923	-	-
Minority interest in earnings of subsidiaries	(41,839)	(15,150)	(46,207)
Net income for the period	**51,879**	**22,501**	**83,012**
Net earnings per share (of NIS 1 par value)	**0.81**	**0.45**	**1.55**
*** F.F.O. for the period**	**60,594**	**39,629**	**150,137**
*** F.F.O. per share (of NIS 1 par value)**	**0.88**	**0.77**	**2.79**

* F.F.O. - Funds From Operations – net income, which includes gains and dividends from investments in securities, less non-recurring income and expenses, plus the Company's share in depreciation and amortization.

B. Analysis of Results of Operations for the First Quarter of 2002

Rental income

The increase in the first quarter of the year compared to the same quarter last year stems from the acquisition of new properties, the acquisition of the properties of UIRT at the end of the third quarter of 2001 and from the devaluation in the exchange rate of the shekel to the U.S. dollar (in real terms) compared to the same quarter last year

Other income

Other income includes income from dividends and from investments in traded securities, the gain from the dilution of the Company's holding in EQ1 and the gain from the sale of properties by EQ1. The growth in the first quarter of the year compared to the same quarter last year is due to the gain from the sale of properties by EQ1 and the gain from the dilution of the Company's holding in EQ1.

Dividend income for the first quarter of 2002 totalled NIS 2.427 million, compared to NIS 2.817 million for the same quarter of 2001.

Income from investments in traded securities for the first quarter of 2002 totalled NIS 7.193 million, compared to NIS 13.751 million for the same quarter of 2001. The income for the same quarter of 2001 includes NIS 4.2 million from the sale of Supersol shares.

In addition, during the first quarter of 2002, the Company recognized a gain of NIS 3.7 million from the dilution of its holding in EQ1, resulting from the issuance of additional shares of EQ1. The company also realized a net gain of NIS 9.8 million during the quarter from a sale of properties by EQ1.

Operating expenses

The increase in operating expenses is attributable to the same factors that caused an increase in rental income.

Operating income for the first quarter of the year amounted to 65% of revenues, similar to that for the same quarter last year.

Depreciation

The Company's share in the depreciation of assets (depreciation of assets less the minority interest therein) was NIS 16.9 million for the first quarter of the year, representing NIS 0.28 depreciation per share; this compares with NIS 16.2 million, representing NIS 0.31 depreciation per share, for the same quarter last year.

The increase in the Company's share in depreciation for the first quarter of the year compared to the same quarter in 2001 stems from the continuing acquisition of properties and the acquisition of the properties of UIRT, though the increase was partly offset by the dilution of the Company's holding in EQ1.

General and administrative expenses

The increase in general and administrative expenses for the first quarter of the year, compared to the same quarter in 2001, stems mainly from the expensing of one-time charges amounting to NIS 4.5 million, which relate to the evaluation of new investments that were expensed in full when the examination was terminated. An additional factor was the rise in salary costs that are related to the growth in the Company's profits during the reporting period, compared to the same quarter last year.

Financing

The reduction in financing expenses in the first quarter of 2002, compared to the same quarter in 2001, is due mainly to the high inflation in the USA and Canada during the first quarter of the year, compared with lower inflation during the same quarter in 2001 (particularly in Canada). Because most of the Company's loans are not linked to the change in the consumer price index, an increase in inflation rates decreases the Company's financing expenses (in real terms), while, on the other hand, a decrease in inflation rates increases its financing expenses.

In the first quarter of 2001, a gain of NIS 17 million was set off against financing expenses in respect of the early redemption of the FCR debentures acquired. In the first quarter of 2002, no gain was recorded by the Company in respect of the early redemption of FCR debentures acquired, as detailed in section 2C above..

Net income

The increase in net income for the first quarter of the year, compared to the same quarter last year, is due mainly to the reduction in financing expenses, as explained above, to the improvement in the Company's operational activities, from the gain due to the dilution of the Company's holding in EQ1 and from the gain from the sale of properties by EQ1.

4. Liquidity and Financing Sources

The Company has set a conservative policy of maintaining 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. At March 31, 2002, the Company's shareholders' equity, totalling an aggregate of NIS 1,630 million, financed 24.1% of total assets; this compares to NIS 1,252 million, which financed 19.4% of total assets, at December 31, 2001, and NIS 856 million, which financed 15.8% of total assets, at March 31, 2001 (including the convertible debentures in FCR, which may be converted into shares by FCR, the above percentages would be 34.8%, 30.6% and 30%, respectively).

B. The current ratio (current assets to current liabilities) was 0.96 at March 31, 2002, compared to 0.99 at March 31, 2001 and 1.05 at December 31, 2001.

Including the marketable securities, which are presented as long-term investments, net of the loans taken to finance them, the current ratio at March 31, 2002 is 1.18.

C. Cash flows from operating activities in the first quarter of the year totalled NIS 36.2 million, compared to NIS 23.4 million in the same quarter last year.

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 FCR and EQI, except for short-term and long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of March 31, 2002, the cash reserves available to the Company and its subsidiaries, including short-term investments, amount to NIS 315.3 million, compared to NIS 380.4 million as of December 31, 2001. The decrease in cash reserves stems mainly from the acquisition of new properties, which was partly offset by proceeds from the sale of properties and funds raised by the capital and long-term debt offerings of the Company and its subsidiaries to the public and other parties.

The increase in shareholders' equity from NIS 681.2 million at December 31, 2001 to NIS 807 million at March 31, 2002 stems from offerings and sale of shares, amounting to NIS 51.8 million, net, from an increase of NIS 22.1 million in the item "translation adjustments deriving from translation of the financial statements of FCR and EQ1", resulting from the devaluation (in real terms) of the shekel against the U.S. dollar and the Canadian dollar, and, in addition, the Company's net income for the reporting period of NIS 51.9 million.

6. Additional Information and Subsequent Events

A. In May 2002, a private Canadian company (hereinafter – "Gazit 1997"), which is wholly-owned by the Company, entered into an agreement with FCR, pursuant to which FCR acquired - for C$ 31.6 million - all the issued share capital of a wholly-owned subsidiary of Gazit 1997, which owns 8 properties in Quebec, Canada. The above consideration was settled by issuing convertible debentures (Series D) of FCR with a nominal value of C$ 28.156 million, which were valued at C$ 24.2 million (at a price of C$ 84.34 for every C$ 100 nominal value, including accrued interest) and the issue of 601,630 shares, valued at C$ 7.4 million (at a price of C$ 12.30 per share). The acquisition price paid by FCR was C$ 7.4 million higher than the carrying value of the investment in the books of Gazit 1997.

As a result of the above transaction, the Company's holding in the ownership in FCR has increased to 69.3% (54% on a fully-diluted basis), and the company's ownership of EQ1 has increased, indirectly, from 50% to 50.4%.

B. In May 2002, the Company made a public offering of 700 thousand units comprising of NIS 140 million 9par value) debentures (Series A), 700 thousand warrant options (Series A) and 7 million debenture options (Series 5). The units were issued at a price of NIS 192 per unit.

Each unit comprised debentures (Series A), having a par value of NIS 200, one debenture option (Series A) and 10 warrant options (Series 5). A wholly-owned subsidiary of the Company acquired 385 thousand units (55% of the total number of units issued). The same subsidiary also acquired, in accordance with an undertaking it had given, 2.3 million warrant options (Series 5) at a price of NIS 0.20 per warrant option, during the first two days of trade in the warrant options.

The debentures are linked to the US dollar (base rate - NIS 4.84 = US$ 1), are due in 11 equal, annual installments beginning in June 2007, and bear interest at 6.5% per annum.

Each debenture option (Series A) is exercisable, through November 20, 2002, into debentures (Series A), having a nominal value of NIS 100, at an exercise price of NIS 98.5, linked to the US dollar (base rate - NIS 4.84 = US$ 1). Each warrant option (Series 5) is exercisable, through December 30, 2002, into one share of the Company, at an exercise price of NIS 16.5, linked to the US dollar (base rate - NIS 4.904 = US$ 1). In no event will the exercise price be less than NIS 16.5.

Further to the above, the Company made a rights issue to its shareholders of 1,040,804 rights units, comprising a total of 2,081,608 shares and 3,122,412 warrant options (Series 6), at a price of NIS 26 per rights unit. Each warrant option (Series 6) is exercisable, through December 20, 2002, into one share, at an exercise price of NIS 13, linked to the US dollar (base rate - NIS 4.904 = US$ 1). The Company raised a total of NIS 27 million from this rights issue.

C. In May 2002, EQI acquired 3 supermarket-anchored properties in Florida and Texas, with a total G.L.A. of approx. 250 thousand square feet, together with land for future development next to one of the properties, for US$ 32 million (NIS 150 million).

7. Donations

The Company makes donations to charities and community welfare projects.

During the reporting period, the Company's donations amounted to NIS 52,000.

Included in the above sum is an amount of NIS 50,000 donated by the Company to the charity "Larger than Life" – a voluntary, humanitarian organization that assists children and youngsters afflicted with cancer and other chronic diseases.

Chaim Katzman, the chairman of the Company's Board of Directors, serves as the Honorary President of "Larger than Life". The Company acts as the official sponsor of this organization.

In addition to the amounts referred to above, from time to time EQ1 and FCR make donations, of amounts that are not material, to local causes in the countries in which they operate.

8. Reporting of Exposures to Market Risks and their Management

The individuals responsible for managing and reporting 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 presentation of the Company's annual report on March 24, 2002, there have been no significant changes in the market risks or the way in which they are managed

Chaim Katzman	**Dori Segal**
Chairman of the Board of Directors	President and Director