GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

ADJUSTED TO THE NIS OF JUNE 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 six and three months periods ended June 30, 2002

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of June 30, 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six and three months periods then ended.

Our review was made in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter-alia, reading of the aforementioned 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 94.6% as of June 30, 2002, and total revenues constituting approximately 98% 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 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
August 21, 2002

KOST FORER & GABBAY
A Member of Ernst & Young Global

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

	June 30,		December 31,
	2002	2001	2001
	Unaudited		Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	221,672	123,593	227,373
Short-term investments	136,229	78,218	167,613
Tenants	25,373	25,354	39,905
Accounts receivable	62,401	45,815	59,466
Loans to partners and to former partners	69,669	69,597	62,306
Properties held for sale	50,642	-	-
	565,986	342,577	556,663
LONG-TERM INVESTMENTS AND LOANS:			
Investments in affiliates	36,569	-	-
Long-term investments	180,980	191,503	88,785
Long-term loans	78,690	77,798	70,604
	296,239	269,301	159,389
FIXED ASSETS:			
Cost	6,768,372	5,069,340	6,079,615
Less - accumulated depreciation	325,181	171,093	229,671
	6,443,191	4,898,247	5,849,944
OTHER ASSETS AND DEFERRED CHARGES, NET	152,530	133,557	131,684
	7,457,946	5,643,682	6,697,680

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

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

	June 30, 2002	June 30, 2001	December 31, 2001
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	338,980	336,559	358,020
Trade payables	43,382	14,829	38,734
Other accounts payable	124,026	110,601	111,501
Dividend declared	10,301	8,174	19,604
	516,689	470,163	527,859
LONG-TERM LIABILITIES:			
Debentures	393,395	275,192	259,898
Liabilities to financial institutions and others	3,861,798	2,989,052	3,708,351
Tenants' security deposits	141,721	140,451	149,010
Accrued severance pay, net	739	822	801
Deferred taxes	514	502	534
	4,398,167	3,406,019	4,118,594
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	778,724	798,423	751,952
MINORITY INTEREST	881,859	327,399	592,241
SHAREHOLDERS' EQUITY	882,507	641,678	707,034
	7,457,946	5,643,682	6,697,680

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

August 21, 2002		
Date of approval of the financial statements	D. Segal Managing Director	G. Kotler Chief Financial Officer

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF INCOME
Adjusted to the NIS of June 2002

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	444,012	330,781	221,447	162,164	720,036
Other income	54,568	38,420	13,104	21,142	93,992
	498,580	369,201	234,551	183,306	814,028
Costs and expenses:					
Operating properties for rent	155,089	113,138	76,013	53,707	245,523
Depreciation of properties for rent	57,193	46,811	29,389	22,963	100,733
General and administrative	45,925	29,735	21,723	16,512	59,881
Financial, net	57,841	42,877	36,838	3,079	238,423
Other expenses	23,664	7,558	16,812	3,049	16,630
	339,712	240,119	180,775	99,310	661,190
Income before taxes on income	158,868	129,082	53,776	83,996	152,838
Taxes on income	6,036	9,046	(3,769)	3,039	18,716
Income after taxes on income	152,832	120,036	57,545	80,957	134,122
Equity in earnings of affiliates	3,087	-	1,091	-	-
Minority interest in earnings of subsidiaries	(74,283)	(40,871)	(30,853)	(25,146)	(47,960)
Net income for the period	81,636	79,165	27,783	55,811	86,162
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic net earnings	1.16	1.69	0.34	1.06	1.60

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 June 2002
Unaudited

	Six months ended June 30, 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	113,616	505,642	1,731	56,995	32,822	(3,772)	-	707,034
Issuance of share capital (net of issuance expenses)	5,716	74,225	-	-	-	-	-	79,941
Sale of shares held by the Company	-	179	-	-	-	2,501	(1,433)	1,247
Foreign currency translation adjustments for foreign autonomous units	-	-	-	22,950	-	-	-	22,950
Net income for the period	-	-	-	-	81,636	-	-	81,636
Dividend declared	-	-	-	-	(10,301)	-	-	(10,301)
Balance at the end of the period	119,332	580,046	1,731	79,945	104,157	(1,271)	(1,433)	882,507

	Six months ended June 30, 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	102,846	384,088	1,731	12,026	(9,382)	(672)	490,637
Issuance of share capital (net of issuance expenses)	4,340	55,392	-	-	-	(19,019)	40,713
Conversion of debentures into the Company's shares	93	986	-	-	-	-	1,079
Exercise of stock options into shares	1,955	15,704	-	-	-	-	17,659
Sale of shares held by the Company and subsidiary	-	(137)	-	-	-	8,266	8,129
Foreign currency translation adjustments for foreign autonomous units	-	-	-	20,290	-	-	20,290
Net income for the period	-	-	-	-	79,165	-	79,165
Dividend paid	-	-	-	-	(7,820)	-	(7,820)
Dividend declared	-	-	-	-	(8,174)	-	(8,174)
Balance at the end of the period	109,234	456,033	1,731	32,316	53,789	(11,425)	641,678

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 June 2002
Unaudited

	Three months ended June 30, 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	117,222	554,848	1,731	79,991	86,675	(1,312)	(1,433)	837,722
Issuance of share capital (net of issuance expenses)	2,110	25,198	-	-	-	-	-	27,308
Sale of shares held by the Company	-	-	-	-	-	41	-	41
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(46)	-	-	-	(46)
Net income for the period	-	-	-	-	27,783	-	-	27,783
Dividend declared	-	-	-	-	(10,301)	-	-	(10,301)
Balance at the end of the period	119,332	580,046	1,731	79,945	104,157	(1,271)	(1,433)	882,507

	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	106,782	433,510	1,731	39,897	6,152	(19,621)	568,451
Issuance of share capital (net of issuance expenses)	799	8,491	-	-	-	-	9,290
Sale of shares held by the Company and subsidiary	-	(137)	-	-	-	8,196	8,059
Exercise of stock options into shares	1,560	13,183	-	-	-	-	14,743
Conversion of debentures into the Company's shares	93	986	-	-	-	-	1,079
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(7,581)	-	-	(7,581)
Net income for the period	-	-	-	-	55,811	-	55,811
Dividend declared	-	-	-	-	(8,174)	-	(8,174)
Balance at the end of the period	109,234	456,033	1,731	32,316	53,789	(11,425)	641,678

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 June 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	102,846	384,088	1,731	12,026	(9,382)	(672)	490,637
Issuance of share capital, net	7,946	99,254	-	-	-	(19,019)	88,181
Conversion of debentures into shares	91	986	-	-	-	-	1,077
Exercise of stock options into shares	2,733	22,058	-	-	-	-	24,791
Sale of shares by subsidiary	-	(744)	-	-	-	15,919	15,175
Foreign currency translation adjustments for foreign autonomous units	-	-	-	44,969	-	-	44,969
Net income for the year	-	-	-	-	86,162	-	86,162
Dividend paid	-	-	-	-	(24,354)	-	(24,354)
Dividend declared	-	-	-	-	(19,604)	-	(19,604)
Balance at the end of the year	113,616	505,642	1,731	56,995	32,822	(3,772)	707,034

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 June 2002

	Six months ended June 30, 2002	Six months ended June 30, 2001	Three months ended June 30, 2002	Three months ended June 30, 2001	Year ended December 31, 2001
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	81,636	79,165	27,783	55,811	86,162
Adjustments to reconcile net income to net cash provided by operating activities (a)	21,476	(31,234)	37,793	(32,144)	1,720
Net cash provided by operating activities	103,112	47,931	65,576	23,667	87,882
Cash flows from investing activities:					
Investment in newly consolidated subsidiaries (b)	-	-	-	-	(168,827)
Investment in subsidiary and in jointly controlled entity	(436)	(20,031)	(436)	(2,116)	(20,887)
Investment in fixed assets	(556,882)	(212,003)	(304,033)	(44,059)	(492,002)
Loans granted to partners and to former partners	(4,983)	(1,468)	(1,152)	(344)	(9,800)
Proceeds on sale of fixed assets	60,833	1,631	10,461	1,631	151,707
Long-term loans granted	(7,816)	-	(3,112)	-	(11,541)
Repayment of long-term loans granted	3,057	2,105	151	2,105	20,193
Short-term investments, net	743	63,260	17,047	(21,335)	92,733
Purchase of marketable securities and long-term investments	(148,110)	(45,299)	(111,588)	(22,717)	(116,590)
Proceeds from realization of long-term investments	94,793	96,402	56,848	81,597	184,954
Net cash used in investing activities	(558,801)	(115,403)	(335,814)	(5,238)	(370,060)
Cash flows from financing activities:					
Issuance of share capital, net	79,941	40,713	27,308	9,290	88,181
Exercise of stock options into shares	-	17,659	-	14,743	24,791
Sale of shares by the Company and a subsidiary	1,247	8,129	41	8,059	15,175
Issuance of shares to minorities in subsidiary, net	241,028	-	21,213	-	99,090
Deferred charges in respect of raising loans and debentures	(11,835)	(11,574)	(3,478)	(2,190)	(12,060)
Dividend paid	(19,604)	(15,187)	(10,386)	(7,820)	(31,721)
Dividend paid to minorities in subsidiaries	(40,007)	(17,585)	(21,817)	(8,702)	(29,363)
Receipt of long-term loans	496,669	453,557	358,006	251,441	1,372,075
Repayment of long-term loans	(317,824)	(355,956)	(112,691)	(247,816)	(1,022,439)
Redemption of debentures	-	-	-	-	(28,820)
Early redemption of debentures and convertible debentures	(66,340)	(156,899)	(42,526)	(99,006)	(201,925)
Short-term credit from banks and others, net	(91,627)	10,188	4,149	12,687	10,282
Issuance of debentures and convertible debentures	157,627	103,280	77,147	304	102,976
Increase in tenants' security deposits, net	3,281	-	1,729	-	6,434
Net cash provided by (used in) financing activities	432,556	76,325	298,695	(69,010)	392,676
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	17,432	4,343	8,544	2,783	6,478
Increase (decrease) in cash and cash equivalents	(5,701)	13,196	37,001	(47,798)	116,976
Cash and cash equivalents at beginning of period	227,373	110,397	184,671	171,391	110,397
Cash and cash equivalents at end of period	221,672	123,593	221,672	123,593	227,373

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 June 2002

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2002	2001	2002	2001	2001
	Unaudited				Audited
	Adjusted NIS in thousands				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Loss (gain) from realization and revaluation of marketable securities, net	1,261	(25,203)	8,418	(10,044)	(73,562)
Minority interest in earnings of subsidiaries	74,283	40,871	30,853	25,146	47,960
Equity in earnings of affiliates net of dividend received	(1,884)	-	(157)	-	-
Depreciation	57,333	47,020	29,471	23,046	101,067
Deferred taxes, net	(1,476)	(3,121)	(5,696)	5,709	(4,076)
Loss (gain) from early redemption of debentures and convertible debentures	642	(36,202)	642	(18,522)	(38,905)
Adjustment differences on monetary assets and long-term liabilities, net	(110,090)	(83,732)	(42,485)	(45,669)	(56,916)
Write-down of long-term investments	-	-	-	-	1,943
Amortization of other assets and deferred charges	7,314	5,315	4,558	3,372	12,385
Gain from sale of fixed assets	(25,203)	(505)	(3,759)	(505)	(239)
Accrued severance pay, net	(53)	157	(28)	62	137
Loss (gain) from issuance to third party and related party	(2,478)	574	1,324	286	(4,921)
Changes in asset and liability items:					
Decrease (increase) in tenants and other accounts receivable	8,570	14,926	(4,488)	(22,121)	6,876
Increase in trade payables and other accounts payable	12,234	3,170	17,517	9,740	13,937
Increase (decrease) in tenants' security deposits	1,023	5,496	1,623	(2,644)	(3,966)
	21,476	(31,234)	37,793	(32,144)	1,720

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 June 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	(28,370)
Current liabilities	21,030
	(7,340)
Fixed assets, long-term loans and investments (mainly real estate)	(665,370)
Other assets	(57)
Long-term liabilities	363,435
	(301,992)
Minority interest	118,338
Outstanding investment in newly consolidated subsidiary	22,167
	(168,827)

	Six months ended June 30, 2002	Six months ended June 30, 2001	Three months ended June 30, 2002	Three months ended June 30, 2001	Year ended December 31, 2001
	Unaudited				Audited
	Adjusted NIS in thousands				
(c) Significant non-cash operations:					
Dividend declared	10,301	8,174	10,301	8,174	19,604
Issuance of shares to minorities and related parties in subsidiary against long-term loans	-	-	-	-	23,434
Purchase of fixed assets against long-term liabilities	-	46,851	-	46,851	-
Sale of real estate to former minority in subsidiary	-	16,426	-	16,426	-
Conversion of convertible debentures into Company shares	-	1,079	-	1,079	1,077
Long-term investment	-	9,287	-	9,287	-

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, 2002 and for the six and three months periods then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 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 only when the debentures are either converted to shares or redeemed.

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.

Management is of the opinion that the discontinuance of adjusting financial statements to the Israeli 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 June 2002.

The following are details of the index in Israel, U.S. and Canada and the exchange rates 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	
June 30, 2002	114.9	179.9	119	4.769	3.1596
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
June 30, 2001	107.8	178.0	117.5	4.165	2.7348
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
Change for the period	%				
June 30, 2002	6.3	1.8	2.7	8.0	13.8
December 31, 2001	1.4	1.6	0.7	9.3	3.2
June 30, 2001	1.1	2.3	2.1	3.1	1.6

*) 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 $ 65 million, of which $ 16.4 million were received from the Company and its subsidiaries (including FCR). In connection with these issuances, the Company recorded a gain from the decrease in the holding rate in the amount of approximately NIS 3.2 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 12.42 at fee adjustment 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 sold stock options 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 52.8 million, net.

e. In February 2002, the Company issued to institutional investors NIS 80.9 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 3 income producing properties and land for future development to third parties in consideration for the total of approximately NIS 61 million. As a result of these sales, the Company recorded a gross gain in the amount of approximately NIS 25.2 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 12 million.

g. 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.

   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 4:- ADDITIONAL INFORMATION (cont.)

h. 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 136.2 million, of which approximately NIS 74.9 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 NIS 0.2 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 27.4 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).

i. In May 2002, Gazit 97 (100% owned) entered into an agreement with FCR, whereby FCR acquired all the issued and outstanding common shares 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 agreement, just after the closing, the Company's shareholdings in FCR increased to 69.3%.

j. In June 2002, FCR issued some 413 thousand shares in return for the payment of semi-annual interest on convertible debentures (series D) in the amount of approximately CD 4.9 million (some NIS 15.3 million), and this in accordance with the right stipulated to it under the terms of the debentures. Gazit 97, which holds convertible debentures of FCR has received about 191 thousand shares in return for receipt of interest in the amount of approximately CD 2.2 million (some NIS 7.1 million). Following this acquisition, the Company's shareholdings in FCR decreased to 68.8% and the Company derived a loss of about NIS 0.7 million.

NOTE 4:- ADDITIONAL INFORMATION (cont.)

k. As of the reported period, 50% of the investments in affiliates represent EQ1 investments in three companies each of which is the owner of an income producing property. Additionally, this item includes the 33% holdings of Mishkanot Clal Ltd. in a independent living facility for the elderly in Nordia, Natania.

The Company's share in the investment in the fixed assets of those companies amounts to approximately NIS 167 million. The Company's share in the liabilities of these companies amounts to approximately NIS 130 million.

NOTE 5:- SUBSEQUENT EVENTS TO THE BALANCE SHEET DATE

In July 2002, the Company's general meeting approved an issuance of shares to the Company's CEO and to the Company's secretary (who acts also as a director in the Company).

The Company's CEO will be issued 425,000 par value of shares in consideration for the total amount of approximately NIS 5.9 million (NIS 14 per share) and the Company's secretary will be issued 180,000 par value of shares in consideration for the total amount of approximately NIS 2.4 million (NIS 13.5 per share).

For financing the acquisition, a subsidiary of the Company and/or a banking institution will make available to the executives a loan linked to the Israeli CPI or to the U.S. dollar, at the executives choice, plus annual interest of 2% for a period of up to 5 years. The Company's subsidiary will provide adequate collaterals to the banking institution that extends the loan to the executives and the executives will place a first lien on the issued shares in favor of the subsidiary.

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GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders
For the period ended June 30, 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 six-month and three-month periods ended June 30, 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.

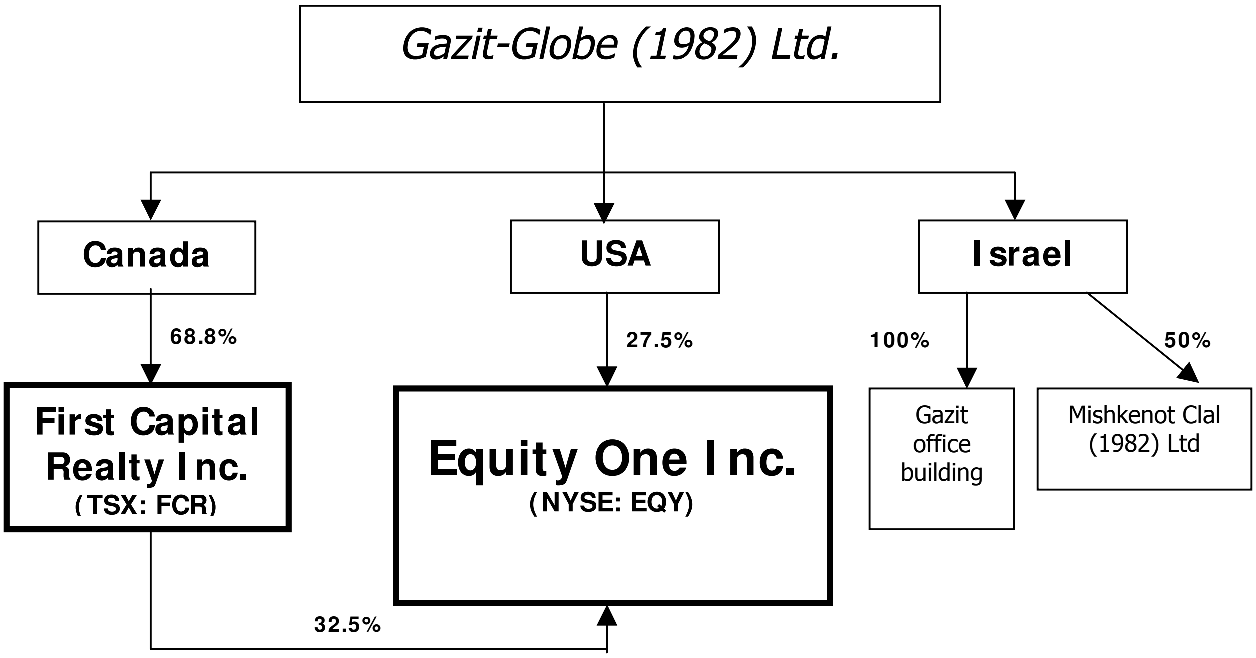
As of the date of the financial statements, the Company owns 151 properties with a Gross Leasable Area (G.L.A.) of more than 16 million square feet, as well as 5 additional properties under development. These properties have a book value of NIS 6.7 billion and generate annual rental income of NIS 850 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 – directly and indirectly through FCR - 50% of EQ1. EQ1 operates primarily in the states of Florida and Texas, owning 89 properties (primarily supermarket-anchored shopping centers), with a G.L.A. of 8.9 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 68.8% of FCR. FCR operates mainly in the Canadian provinces of Ontario, Quebec and Alberta, owning 61 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, with a total G.L.A. of more than 800 thousand square feet, which were owned by the Company and were transferred to FCR in May 2002). FCR also owns 32.5% of the share capital of EQ1.

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

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



B. **<u>Key Points</u>**

- **Net income for the second quarter of the year amounted to NIS 27.8 million, NIS 0.34 per share, compared with net income of NIS 55.8 million, NIS 1.06 per share, in the same quarter last year.**

- **F.F.O. per share (see section 3) was NIS 0.56 for the second quarter of the year, compared to NIS 1.35 per share for the same quarter last year, a decrease of 58%.**

- **Compared to the same quarter last year, rental income and operating income grew in the second quarter of the year by 37% and 34%, respectively.**

- **The falls in net income and in F.F.O. for the second quarter of the year, compared to the same quarter last year, despite the growth in operating income, can be mainly attributed to the following factors:**

  1) US and Canadian inflation subsided, resulting higher financing expenses, in real-terms, compared to the same quarter last year.

2) Last year during the second quarter of the year, the company registered a gain from acquiring debentures of FCR. This year the company didn't recognized any gain from such acquisitions.

3) The Company made adjustment to the value of the investments in marketable securities that are presented as long-term investments, in order to reflect the impairment in the value of these companies.

- **Cash flows from operating activities totalled NIS 65.6 million for the second quarter of the year, compared to NIS 23.7 million for the same quarter last year.**

- **As of June 30, 2002, shareholders' equity per share (of NIS 1 par value) amounted to NIS 13.68 per share, compared to NIS 12.1 and NIS 12.04 as of December 31, 2001 and June 30, 2001, respectively. Taking into account the dividend paid by the Company, the shareholders' equity per share grew in the periods ended June 30, 2002 by 14.6% and 19.6%, respectively.**

- **Shareholders' equity and minority interests as of the date of the financial statements amounted to NIS 1.76 billion, representing 23.7% of the total assets, compared to NIS 1.3 billion at the end of 2001, which represented 19.4% of the total assets, and compared to NIS 0.97 billion at the end of the same quarter last year, which represented 17.2% of the total assets.**

- **All "per share" data are presented after taking into account the stock dividend (split) distribution.**

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

General

During the reporting period, the Company invested – directly and through subsidiaries – the sum of NIS 610 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:

Acquisitions

1. In January 2002, FCR acquired six shopping centers for an aggregate consideration (including transaction expenses) of C$ 58 million (NIS 183 million). The properties acquired are neighborhood and community shopping centers in the GMA, Quebec. 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 29.6 million). Both properties are leased to a pharmacy chain.

3. In May 2002, EQ1 acquired 3 supermarket-anchored shopping centers in Florida and Texas, with a total G.L.A. of approx. 250 thousand square feet and a 13-acre site for future development in Florida, which is adjacent to land that has been zoned for residential development. The acquisition also included land for future development next to one of the properties, The total cost of the acquisitions was US$ 32 million (NIS 153 million).

4. In May 2002, FCR acquired a supermarket-anchored shopping center in Montreal, Quebec, with a total G.L.A. of approx. 160 thousand square feet, and with a partner land for future development, with an area of approx. 30 acres, in Calgary, Alberta. The total cost of the acquisitions was C$ 13 million (NIS 41 million).

5. In June 2002, EQ1 acquired a supermarket-anchored shopping center in Orlando, Florida, with a total G.L.A. of approx. 7 thousand square feet, for US$ 8.6 million (NIS 41 million).

Sales

6. In February 2002, EQ1 sold an office building located in Miami Beach, Florida in consideration for US$ 6.05 million (NIS 28.9 million). The gain recognized by the Company from the sale of this property amounted to NIS 9.5 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).

7. In February 2002, EQ1 sold an undeveloped site for US$ 1.7 million (NIS 8.1 million). This sale resulted in a capital gain of NIS 0.6 million for the Company.

8. In February 2002, EQ1 sold a shopping center in Texas for US$ 2.6 million (NIS 12.4 million). No gain accrued to the Company from this sale.

9. In June 2002, EQ1 sold a residential building and adjacent land in Miami Beach, Florida for US$ 2.45 million (NIS 11.7 million). The gain that accrued to the Company from the sale of this property amounted to NIS 1.6 million, net.

B. Additional Investments

As of June 30, 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 261.5 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. For the six months and three months ended June 30, 2002, the aforesaid investments yielded a net gain of NIS 1.6 million and a net loss of NIS 4.9 million, respectively (after taking into account allowances made for impairment to the value of the investments). In the corresponding periods last year, the investments yielded net gains of NIS 33.6 million and NIS 19.8 million, respectively.

As of the date of the financial statements, the market value of these investments was not less than their carrying value.
As of December 31, 2001 and June 30, 2001, the Company's investments in traded securities totalled NIS 205.4 million and NIS 211.9 million, respectively.

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

During the reporting period, the Company – through a wholly-owned Canadian subsidiary (hereinafter – "Gazit 97") – acquired on the Toronto Stock Exchange (TSX) convertible debentures of FCR with a nominal value of some C$ 14.1 million, at a cost of NIS 42.3 million. During the corresponding period last year, the Company acquired debentures of FCR with a nominal value of some C$ 67.8 million, at a cost of NIS 154 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 redeemed or converted.

In the six months and three months ended June 30, 2002, the Company recognized a gross gain of NIS 36 million and NIS 18.4 million, respectively, on the acquisition of the aforementioned debentures (the company's net share in the gain amounted to NIS 17 million and NIS 9.4 million, respectively).

D. Private Placement of Shares

In February 2002, the Company raised NIS 54 million from the sale of 3.5 million shares to institutional investors, Gmul Investment Co. Ltd. (an interested party of the Company) 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 institutional investors, 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, the issue of additional shares according to EQ1's dividend reinvestment plan in the months of March and June 2002 and the exercise of options into shares by EQ1's employees, the direct and indirect (through FCR) percentage of the ownership in EQ1 held by the Company decreased from 55.4% to 50% and the Company recorded a gain of NIS 3.2 million.

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).

With regard to the Company's exercise of options subsequent to the reporting period, see section 6.

G. Private Placement of Unlisted Debentures

In February 2002, the Company issued debentures (that have not been listed for trade) to institutional investors, with a nominal value of 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. Public Issue of Company's Debentures and Shares

In May 2002, the Company made a public offering of 700 thousand units comprising of NIS 140 million (par 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 2,081,707 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.

I. Transfer of Company's Properties in Canada to FCR

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 increased to 69.3%.

J. Issue of FCR Shares

In June 2002, FCR issued of some 413 thousand shares in consideration for the half-yearly interest on convertible debentures (Series D), in the amount of C$ 4.9 million (NIS 15.3 million), in accordance with the terms of the debenture.

Gazit 97, which is a holder of FCR's convertible debentures, received some 191 thousand shares, instead of receiving interest in the amount of C$ 2.2 million (NIS 7.1 million).

As a result of the above issue, the Company's holding in the ownership in FCR decreased to 68.8%, and the Company recorded a loss on the dilution of its holding amounting to NIS 0.7 million.

K. 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.

L. 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.

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.

M. Changes in Accounting Standards

In October 2001, the Israeli Accounting Standards Board issued Standards 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 6 months ended June 30, 2002		For the 3 months ended June 30, 2002		For the year ended December 31
	2002	2001	2002	2001	2001
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	444,012	330,781	221,447	162,164	720,036
Other income	54,568	38,420	13,104	21,142	93,992
Total	**498,580**	**369,201**	**234,551**	**183,306**	**814,028**
Costs and expenses:					
Operating rental properties	155,089	113,138	76,013	53,707	245,523
Depreciation of rental properties	57,193	46,811	29,389	22,963	100,733
General and administrative	45,925	29,735	21,723	16,512	59,881
Financial, net	57,841	42,877	36,838	3,079	238,423
Other expenses	23,664	7,558	16,812	3,049	16,630
Total	**339,712**	**240,119**	**180,775**	**99,310**	**661,190**
Income before taxes on income	158,868	129,082	53,776	83,996	152,838
Taxes on income	6,036	9,046	(3,769)	3,039	18,716
Income after taxes on income	152,832	120,036	57,545	80,957	134,122
Company's share in profits of associated companies	3,087	-	1,091	-	-
Minority interest in earnings of subsidiaries	(74,283)	(40,871)	(30,853)	(25,146)	(47,960)
Net income for the period	**81,636**	**79,165**	**27,783**	**55,811**	**86,162**
Net earnings per share (of NIS 1 par value)	**1.16**	**1.69**	**0.34**	**1.06**	**1.60**
*** F.F.O. for the period**	**104,274**	**112,635**	**41,381**	**71,503**	**155,832**
*** F.F.O. per share (of NIS 1 par value)**	**1.46**	**2.16**	**0.56**	**1.35**	**2.9**

* 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 Second Quarter of 2002

Rental income

The increase in the second quarter of the year compared to the same quarter last year stems from the continuing acquisition of new properties and the acquisition of the properties of UIRT at the end of the third quarter of 2001.

Other income

Other income includes income from dividends and from investments in traded securities, the gain from the sale of properties by EQ1 and the loss from the dilution of the Company's holding in EQ1 and FCR. The decrease in the second quarter of the year compared to the same quarter last year is due mainly to the fall in income from investments in traded securities, as detailed above.

Dividend income for the second quarter of 2002 totalled NIS 3.054 million, compared to NIS 3.735 million for the same quarter of 2001.

Income from investments in traded securities for the second quarter of 2002 totalled NIS 7.434 million, compared to NIS 16.789 million for the same quarter of 2001. The income for the same quarter of 2001 was mainly from the sale of Supersol shares.

In addition, during the second quarter of 2002, the Company recorded a gain of NIS 3.2 million from the sale of properties by EQ1 (the Company's net share in which amounted to NIS 1.6 million). The Company also recorded a loss of NIS 1.3 million from the dilution of its holdings in subsidiaries.

Operating expenses

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

Operating income for the second quarter of the year amounted to 65.7% 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 16.8 million for the second quarter of the year, representing NIS 0.27 depreciation per share; this compares with NIS 15.9 million, representing NIS 0.30 depreciation per share, for the same quarter last year.

The increase in the Company's share in depreciation for the second 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 second quarter of the year, compared to the same quarter in 2001, stems mainly from the increase in EQ1’s administrative costs, which was caused by the growth in its properties and operations, compared to the same quarter last year.

General and administrative expenses for the second quarter of the year amounted to 9.3% of revenues, similar to that for the same quarter last year.

Financing

The sharp rise in financing expenses in the second quarter of 2002, compared to the same quarter in 2001, is due mainly to the lower inflation in the USA and Canada during the second quarter of the year (2.5% in the USA and 4.4% in Canada, on an annualized basis), compared to the high inflation during the same quarter in 2001 (4.1% in the USA and 6.5% in Canada, on an annualized basis). 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 second quarter of 2001, a gain of NIS 18.4 million was set off against financing expenses in respect of the early redemption of the FCR debentures acquired. In the second 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.

Other expenses

The increase in other expenses is due to allowances amounting to NIS 16.2 million made for the impairment to the value of long-term investments, as described in section 2C. As of the date of the financial statements, the market value of these investments was not less than their carrying value in the Company's books. The Company also made a further write-down of NIS 0.5 million against its investments in technology enterprises, which are synergetic with its other operations (As of the date of the financial statements, all the company's investments in technology enterprises have been written down). In the same quarter last year, all the other expenses in the financial statement were in respect of write-downs against the aforementioned technology enterprises.

Net income

The reduction in net income for the second quarter of the year, compared to the same quarter last year, is due mainly to the increase in financing expenses and other expenses, as explained above. These were partly offset by the improvement in the Company's operational activities and by 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 June 30, 2002, the Company's shareholders' equity, totalling an aggregate of NIS 1.76 billion, financed 23.7% of total assets; this compares to NIS 1.3 billion, which financed 19.4% of total assets, at December 31, 2001, and NIS 0.97 billion, which financed 17.2% of total assets, at June 30, 2001 (including the convertible debentures in FCR, which may be converted into shares by FCR, the above percentages would be 34.1%, 30.8% and 31.3%, respectively).

B. The current ratio (current assets to current liabilities) was 1.095 at June 30, 2002, compared to 0.74 at June 30, 2001 and 1.05 at December 31, 2001.

C. Cash flows from operating activities in the second quarter of the year totalled NIS 65.6 million, compared to NIS 23.7 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 June 30, 2002, the cash reserves available to the Company and its subsidiaries, including short-term investments, amount to NIS 357.9 million, compared to NIS 394.9 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 707 million at December 31, 2001 to NIS 882.5 million at June 30, 2002 stems from offerings and sale of shares, amounting to NIS 81.2 million, net, from an increase of NIS 23 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 81.6 million. These were partly offset by the NIS 10.3 million dividend declared by the Company and distributed in July 2002.

6. Additional Information and Subsequent Events

A. During July 2002, EQ1 acquired a supermarket-anchored shopping center in Palm Beach, Florida for US$ 9.25 million. The shopping center has a G.L.A. of some 80 thousand square feet. In order to finance the acquisition, EQ1 took a US$ 6.1 million mortgage on this property, which bears interest at 6.73% per annum.

B. During July 2002, EQ1 sold a shopping center, with no anchor tenants, located in Miami, Florida for US$ 5.2 million. The shopping center had a G.L.A. of some 33 thousand square feet. The Company will not record any gain on the sale of this property.

C. In August 2002, EQ1 sold a supermarket-anchored shopping center, located in Orlando, Florida for US$ 3.5 million. The shopping center had a G.L.A. of some 70 thousand square feet. Approx US$ 1 million of the consideration was paid in cash, while the balance was financed by a one-year loan to the purchaser that bears interest at 8% per annum. The Company will not record any gain on the sale of this property.

D. In August 2002, FCR acquired a shopping center, with a G.L.A. of some 150 thousand square feet, in the city of Ajax, Ontario for C$ 21 million. The anchor tenants of the center will be a supermarket and a pharmacy.

E. In June 2002, FCR announced that it intended to issue shares in FCR to the holders of its convertible debentures (Series C), instead of paying the interest due to them at the end of August in cash, this being in accordance with terms of the debenture. As of the date of the financial statements, the Company, through its holding in Gazit 97, owns some 35% of the convertible debentures (Series C).

F. In July and August 2002, Gazit 97 exercised some 362 thousand option warrants into FCR shares for a total consideration of C$ 4.3 million..

G. In July 2002, the Company approved in a general meeting the issue of shares to its CEO and the Company Secretary (who also serves as a director of the Company).

The Company's CEO will be allotted 425,000 shares for a consideration of NIS 5.9 million (NIS 14 per share) and the Company Secretary will be allotted 180,000 shares for a consideration of NIS 2.4 million (NIS 13.5 per share)

The acquisition of the above shares will be financed by one of the Company's subsidiaries and/ or a bank granting the allottees a loan, which will be linked to either the consumer price index or the US dollar, at the discretion of the allottees. The loan will bear interest at 2% per annum and will have a term of up to 5 years. The subsidiary will place appropriate collateral with the bank in connection with the grant of the loan to the allottees, and the allottees will register a first lien on shares allotted to them.

7. <u>Donations</u>

The Company makes donations to charities and community welfare projects.

During the six-month and three-month periods ended June 30, 2002, the Company's donations amounted to NIS 241,000 and NIS 182,000 respectively. Included in the above sum is an amount of NIS 210,000 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