GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

ADJUSTED TO THE NIS OF JUNE 2000

UNAUDITED

INDEX

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ERNST & YOUNG

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

Re: Review report of unaudited interim consolidated financial statements for the six and three months periods ended June 30, 2000

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of June 30, 2000, and the related interim consolidated statements of income, statements of changes in shareholders' equity and the consolidated statements of 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 interim consolidated 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 80.8% as of June 30, 2000, 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, and are limited in scope. Therefore, we do not express an opinion on the aforementioned 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 and in accordance with the Israeli Securities Regulations (Periodic and Immediate Statements), 1970.

Tel-Aviv, Israel
August 14, 2000

KOST FORER & GABBAY
A Member of Ernst & Young International

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2000

	June 30, 2000	June 30, 1999	December 31, 1999
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	32,114	67,147	24,814
Short-term investments	27,796	45,778	26,898
Tenants	6,293	4,188	10,545
Property for rent designated for sale	-	19,755	-
Other accounts receivable	7,444	6,729	8,768
	73,647	143,597	71,025
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	296,278	-	164,417
Long-term loans	8,980	10,561	9,168
	305,258	10,561	173,585
PROPERTY AND EQUIPMENT:			
Cost	1,146,443	888,394	1,124,423
Less - accumulated depreciation	73,080	53,285	63,034
	1,073,363	835,109	1,061,389
OTHER ASSETS AND DEFERRED CHARGES, NET	12,268	8,535	11,023
	1,464,536	997,802	1,317,022

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of June 2000

	June 30, 2000	June 30, 1999	December 31, 1999
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	40,251	*) 23,938	*) 22,116
Trade payables	4,069	1,949	3,204
Other accounts payable	17,300	21,460	12,269
Dividend declared	-	2,900	-
	61,620	50,247	37,589
LONG-TERM LIABILITIES:			
Debentures	111,391	106,186	106,559
Convertible debentures	27,345	16,336	16,276
Liabilities to financial institutions and others	767,101	*) 428,713	*) 739,299
Tenants' security deposits	5,902	4,203	5,453
Accrued severance pay	99	76	69
Deferred taxes	454	305	-
	912,292	555,819	867,656
MINORITY INTEREST	145,825	158,679	158,003
SHAREHOLDERS' EQUITY	344,799	233,057	253,774
	1,464,536	997,802	1,317,022

*) Reclassified.

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

August 14, 2000		
Date of approval of the financial statements	D. Segal Managing Director	G. Kotler Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of June 2000

	Six months ended June 30, 2000	Six months ended June 30, 1999	Three months ended June 30, 2000	Three months ended June 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	75,065	57,683	37,259	30,350	130,215
Management fees from related party	101	101	53	49	201
Gain on sale of real estate	-	-	-	-	12,619
Exploring for oil and gas, net	-	-	-	-	45
Dividend income	23,513	*) 797	3,682	*) 797	*) 4,444
Other income	26	-	-	-	-
	98,705	58,581	40,994	31,196	147,524
Costs and expenses:					
Operating properties for rent	21,294	15,986	10,461	8,557	37,066
Depreciation of properties for rent	10,302	8,499	5,236	4,369	18,492
Loss on issuance to third party and related party	451	72	271	72	98
General and administrative	12,626	6,994	5,894	4,119	15,787
Financial, net	8,346	*) 9,315	1,815	*) 4,232	*) 27,734
Other expenses	1,014	-	890	-	-
	54,033	40,866	24,567	21,349	99,177
Income before taxes on income	44,672	17,715	16,427	9,847	48,347
Taxes on income	2,916	2,058	2,023	1,217	3,683
Income after taxes on income	41,756	15,657	14,404	8,630	44,664
Minority interest in earnings of subsidiaries	(11,386)	(9,519)	(4,950)	(5,000)	(23,373)
Net income for the period	30,370	6,138	9,454	3,630	21,291
Earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	1.05	0.34	0.31	0.19	1.03
Diluted earnings	0.78		0.20		0.96

*) Reclassified.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2000
Unaudited

	Six months ended June 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less Company's shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	81,584	172,870	13,775	10,079	(24,534)	-	253,774
Capital issuances, net	6,832	72,106	-	-	-	-	78,938
Buy back of Company's shares by the Company	-	-	-	-	-	(9,796)	(9,796)
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(452)	-	-	(452)
Net income for the period	-	-	-	-	30,370	-	30,370
Dividend paid	-	-	-	-	(8,035)	-	(8,035)
Balance at the end of the period	88,416	244,976	13,775	9,627	(2,199)	(9,796)	344,799

	Six months ended June 30, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the period	73,831	104,185	13,775	9,327	(34,477)	166,641
Capital issuances, net	6,711	58,797	-	-	-	65,508
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(167)	-	(167)
Net income for the period	-	-	-	-	6,138	6,138
Dividend paid	-	-	-	-	(2,163)	(2,163)
Dividend declared	-	-	-	-	(2,900)	(2,900)
Balance at the end of the period	80,542	162,982	13,775	9,160	(33,402)	233,057

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2000
Unaudited

	Three months ended June 30, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less Company's shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	88,416	244,976	13,775	9,583	(7,604)	(9,796)	339,350
Foreign currency translation adjustments for foreign autonomous units	-	-	-	44	-	-	44
Net income for the period	-	-	-	-	9,454	-	9,454
Dividend paid	-	-	-	-	(4,049)	-	(4,049)
Balance at the end of the period	88,416	244,976	13,775	9,627	(2,199)	(9,796)	344,799

	Three months ended June 30, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the period	74,109	106,037	13,775	7,750	(34,132)	167,539
Capital issuances, net	6,433	56,945	-	-	-	63,378
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,410	-	1,410
Net income for the period	-	-	-	-	3,630	3,630
Dividend declared	-	-	-	-	(2,900)	(2,900)
Balance at the end of the period	80,542	162,982	13,775	9,160	(33,402)	233,057

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of June 2000
Audited

	Year ended December 31, 1999					
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Total
	Adjusted NIS in thousands					
Balance at the beginning of the year	73,831	104,185	13,775	9,327	(34,477)	166,641
Capital issuances, net	7,753	68,685	-	-	-	76,438
Foreign currency translation adjustments for foreign autonomous units	-	-	-	752	-	752
Net income for the year	-	-	-	-	21,291	21,291
Dividend paid	-	-	-	-	(11,348)	(11,348)
Balance at the end of the year	81,584	172,870	13,775	10,079	(24,534)	253,774

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2000

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2000	1999	2000	1999	1999
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	30,370	6,138	9,454	3,630	21,291
Adjustments to reconcile net income to net cash provided by operating activities (a)	14,833	22,781	5,277	9,664	32,951
Net cash provided by operating activities	45,203	28,919	14,731	13,294	54,242
Cash flows from investing activities:					
Investment in subsidiary	(14,197)	(37,454)	(3,494)	(9,621)	(48,017)
Investments in property and equipment	(39,603)	(153,404)	(18,434)	(48,086)	(380,902)
Proceeds on sale of property and equipment	58	-	-	-	32,784
Short-term investments, net	(2,623)	(5,528)	1,274	(20,626)	12,483
Proceeds from sale of real estate to former minority in subsidiary (see Note 4b)	2,364	-	10	-	-
Purchase of marketable securities and long-term investments	(168,221)	-	(66,736)	-	(166,424)
Proceeds from sale of marketable securities and long-term investments	44,223	-	44,223	-	-
Net cash used in investing activities	(177,999)	(196,386)	(43,157)	(78,333)	(550,076)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2000

	Six months ended June 30, 2000	Six months ended June 30, 1999	Three months ended June 30, 2000	Three months ended June 30, 1999	Year ended December 31, 1999
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from financing activities:					
Capital issuances, net	78,938	65,508	-	63,378	76,438
Proceeds on exercise of options by minorities and a related party in subsidiary	-	874	-	874	4,127
Buy back of subsidiary's options by that subsidiary from former related party	-	-	-	-	(8,866)
Deferred charges in respect of raising loans and debentures	(2,883)	(744)	(2,441)	(100)	(4,141)
Dividend paid	(8,035)	(7,429)	(8,035)	(2,163)	(16,615)
Dividend paid to minority in subsidiary	(8,200)	(8,952)	(4,047)	(4,401)	(17,982)
Receipt of long-term loans	112,072	135,591	64,024	62,403	416,298
Sale of Company's debentures by subsidiaries	5,885	4,610	2,416	-	5,244
Purchase of Company's debentures by subsidiary	-	-	-	-	(1,530)
Principal payment of long-term loans	(56,921)	(13,680)	(19,636)	(11,235)	(26,448)
Short-term bank credit, net	17,970	7,554	1,780	(3,092)	42,707
Debentures assigned to the Company	-	16,966	-	16,966	16,966
Buy back of Company's shares by the Company	(9,796)	-	-	-	-
Issuance of convertible debentures	11,093	16,351	-	-	16,351
Net cash provided by financing activities	140,123	216,649	34,061	122,630	502,549
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	(27)	38	(7)	89	172
Increase in cash and cash equivalents					
Cash and cash equivalents at the beginning of the period	7,300	49,220	5,628	57,680	6,887
Cash and cash equivalents at the end of the period	24,814	17,927	26,486	9,467	17,927
	32,114	67,147	32,114	67,147	24,814

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of June 2000

	Six months ended June 30, 2000	Six months ended June 30, 1999	Three months ended June 30, 2000	Three months ended June 30, 1999	Year ended December 31, 1999
	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) on realization and decrease (increase) in value of marketable securities, net	(5,990)	(189)	(6,213)	(23)	1,262
Minority interest in earnings of subsidiaries	11,386	9,519	4,950	5,000	23,373
Depreciation	10,265	8,571	5,160	4,441	18,646
Deferred taxes, net	(213)	-	(49)	-	(601)
Adjustment differences on monetary assets and long-term liabilities, net	(13,178)	(5,215)	(3,934)	(3,300)	(5,211)
Write-down of long-term investments	-	-	-	-	1,816
Amortization of other assets and deferred charges	892	506	500	227	1,658
Gain on sale of fixed assets	(26)	-	-	-	(12,619)
Loss on issuance to third party and related party	451	72	271	72	98
Changes in asset and liability items:					
Decrease (increase) in tenants and other accounts receivable	4,650	1,710	(969)	(1,475)	(4,974)
Increase in trade payables and other accounts payable	6,160	7,375	5,303	4,558	7,876
Increase in tenants' security deposits	436	432	258	164	1,627
	14,833	22,781	5,277	9,664	32,951
(b) Significant non-cash operations:					
Dividend declared	-	2,900	-	2,900	-
Capital issuance in subsidiary for minority and related party against long-term loans	-	2,269	-	2,269	2,301
Purchase of fixed assets against long-term liabilities	-	4,062	-	-	4,225
Sale of real estate to former minority in subsidiary (see Note 4b)	17,514	-	-	-	-

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 June 30, 2000 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, 1999 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 1999 are applied consistently in these financial statements.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS based on the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of June 2000.

The following are details of the Israeli CPI and the exchanges rate of the U.S. dollar:

The increase in the general purchasing power of the NIS during the reported period is reflected by the increase in the Israeli CPI by 0.4% (comparative period previous year - decreased by 0.4%) and by the decrease in the exchange rate of the U.S. dollar by 1.7% (comparative period previous year - decreased by 2.0%).

NOTE 4:- ADDITIONAL INFORMATION

a. In January 2000, the Company and 11 provident funds entered into agreements for the allocation of convertible debentures in the aggregate par value of NIS 11,000 thousand in consideration for their par value. The debentures are linked to the Israeli CPI, bear annual interest of 5.75% and are redeemable in 4 equal annual payments on October 20 of each of the years 2004 - 2007.

The debentures are convertible, in whole or in part, on each business day at the following dates: in the period from 1 - 14 of April and October of each of the years 2000 - 2004; in the period from 1 - 14 of July and October of each of the years 2000 - 2003; and in the period from May 1- October 14 in 2004.

The debentures are convertible at the conversion ratio of NIS 13.25 par value of convertible debentures per one NIS 1 par value of Common share (subject to adjustments). During the conversion period, every each six months, the conversion ratio will increase by 1%.

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

b. In January 2000, an agreement was signed between a foreign subsidiary which owns 75% of First Capital Inc. shares ("First Capital") and the minority of First Capital for the acquisition of all their interest (25%) by First Capital itself, so that after the transaction, the Company's holdings in First Capital is 100%. In consideration for the said shares, First Capital transferred to the minority two real estate properties and long-term loans which financed the acquisition of these real estate properties. These shareholders have also repaid the loan which the Company had granted to them.

As for the memorandum of understanding for the allocation of First Capital shares which was signed subsequent to the balance sheet date, see Note 5a.

c. Issuance of shares under a prospectus:

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

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

   5 shares at NIS 11.4 per share and 1 stock option (series 3) and 2 stock options (series 4) without consideration.

   The price per lot as fixed in the tender was NIS 60. Pursuant to its undertaking in the prospectus, a subsidiary has purchased within the framework of the prospectus 200 thousand units (in March 2000, the subsidiary sold 160 thousand units to the Company and 40 thousand units were sold to minorities).

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

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

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

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

The issuance total gross proceeds amounted some adjusted NIS 61,452 thousand, of which adjusted NIS 12,159 thousand was received from a subsidiary.

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

e. In March 2000, the Company entered into two agreements whereby it issued in April 2000, 1,500 thousand Company's shares, 300 thousand stock options (series 3) and 600 thousand stock options (series 4) were issued in 300 thousand units of which 100 thousand units were issued to a controlling company. In consideration for the securities offered, the oferees paid NIS 17,788 thousand.

f. In June 2000, a Canadian company which is wholly owned by the Company published a tender offer for the shares of the real estate company, Center Fund Realty Corp. ("CFE") which is traded on the Stock Exchange in Toronto. During July 2000, the tender offer was revised and, as of the date of the approval of the financial statements, it offers up to 10.8 million of CFE's shares (approximately 72% of CFE's share capital) at CD$ 13.25 per share (some CD$ 143 million) until August 15, 2000. If this tender offer is accepted, it will have a material impact on the Company.

The accounts include the investment in CFE shares which were acquired in the course of trading on the Stock Exchange in Toronto at NIS 40 million (including expenses in connection with the tender offer of NIS 2 million). Subsequent to the balance sheet date, the subsidiary acquired over the Stock Exchange additional shares of CFE at NIS 21 million, so that the Company's holdings in CFE is 14.5%.

NOTE 5:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. In July 2000, First Capital and a Dutch company which is wholly owned by Electra ("the Buyer") signed a memorandum of understanding whereby First Capital will allocate to the Buyer some 30% of its shares at CD$ 3.25 million and, in addition, the Buyer will extend First Capital a shareholders' loan of CD$ 4 million.

Further, pursuant to the memorandum of understanding, First Capital will allocate to the Buyer and to a subsidiary which, at present, holds in 100% of First Capital, stock options that are exercisable into First Capital shares over five years from the date of grant and, should they be exercised, the Buyer's holdings in First Capital will be 24.4%.

A final agreement was not yet signed and the transaction was not yet approved by the companies' Board.

b. In July 2000, Equity One Inc. (a subsidiary in which the holdings, directly and indirectly, are some 68%, "EQ1") and Alonei Hetz Properties and Investments Ltd. ("Alonei Hetz") signed a memorandum of understanding whereby EQ1 will allocate to Alonei Hetz some 14% of its shares at $ 21 million and, in addition, EQ1 will allocate stock options which are partly exercisable until the end of 2001 and partly until the end of 2002 at the inclusive amount of
$ 11 million and, should they be exercised, the Alonei Hetz's holdings in EQ1 will be 20%.

As a result of the said allocation of shares, the Company's holdings in EQ1 will decrease to some 58% subsequent to which the Company is expected to record a gain of NIS 6.8 million from decrease in holding rate.

A final agreement was not yet signed and the transaction was not yet approved by the companies' Board.

c. As for a revision of the tender offer for CFE's shares subsequent to the balance sheet date, see Note 4f.

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GAZIT-GLOBE (1982) LTD.

<u>Directors' Report to Shareholders</u>
<u>For the period ended June 30, 2000</u>

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 June 30, 2000:

1. **A. <u>General</u>**

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

As of the approval date of the financial statements, the Company owns – directly and indirectly – 37 properties with net book value of NIS 1,073 million, generating annual rentals of NIS 150 million (based on the current number of properties with rental fees on an annual gross basis).

In the USA, the Company operates via Equity One Inc. (hereinafter – "EQ1"), a self-administered, self-managed real estate investment trust traded on the NYSE. At the approval date of the financial statements, the Company owns 68% of the share capital of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of income-producing properties (primarily supermarket anchored shopping centers), owning 29 properties consisting of more than 3 million square feet of G.L.A.; 24 shopping centers, 2 mixed-use (office/retail) properties, a storage center, restaurant building, and apartment building that is intended for demolition.

The operations in Canada are carried out through First Capital Inc. (hereinafter – "F.C.I."), in which the Company holds 100% of the share capital. F.C.I. operates in the provinces of Ontario and Quebec, in the acquisition, management, and development of income-producing real estate (primarily supermarket-anchored community shopping centers). As of the approval date of the financial statements, it owns 6 shopping centers with G.L.A. of more than 538,000 square feet.

In Israel, the company owns an office and commercial building in Tel-Aviv, and additional land in Tel-Aviv for future development.

The Company also owns 6% of the shares of Supersol Ltd.

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

In the six-month and three-month period ended June 30, 2000, net income amounted to NIS 30.4 million and NIS 9.5 million, respectively, compared with NIS 6.1 million and NIS 3.6 million, respectively, in the corresponding periods last year. In the year 1999, net income amounted to NIS 21.3 million.

Primary earnings per share in the periods ended June 30, 2000 amount to NIS 1.05 and NIS 0.31 per share, respectively, compared with NIS 0.34 and NIS 0.19 per share, respectively, in the corresponding periods last year, and NIS 1.03 for the year ended December 31, 1999.

In addition, depreciation on assets (net of the minority interest) for the six-month and three-month periods ended June 30, 2000 totalled NIS 7.5 million and NIS 3.9 million, respectively, which is NIS 0.26 and NIS 0.13 depreciation per share, respectively, compared with NIS 5.5 million and NIS 2.8 million, respectively, which is NIS 0.31 and NIS 0.15 depreciation per share, respectively, in the corresponding periods last year. Total earnings, excluding non-recurring income and expenses, plus depreciation per share in the reported period, amounts to NIS 1.32 and NIS 0.45 per share, respectively compared with NIS 0.65 and NIS 0.34 per share in the corresponding periods last year, growth of 103% and 32%, respectively.

As of June 30, 2000, shareholders' equity per share (NIS 1 par value) amounts to NIS 11.18. Regarding the results of operations see Item 3 below.

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

General

In the reported period, the Company invested – directly and through subsidiaries – a total of NIS 222 million in the acquisition, development, and improvement of properties and in long-term investments. Their effect on the results of operations will be expressed in full during the year.

A. Tender Offer for Centrefund Realty Corp. (hereinafter – "CFE")

On June 13, 2000, Gazit 1997, a Canadian company wholly-owned by the Company, published a tender offer for the shares of CFE, a real estate company traded on the Toronto Stock Exchange. The tender offer was for up to 8.7 million shares of CFE (some 58% of share capital) at a price of 10.5 Canadian dollars per share.

CFE is a publicly held income-producing real estate company included among the real estate companies traded in the TSE-300. The company, traded at a market value of some US$ 115 million (some 172 million Canadian dollars), specializes in supermarket-anchored neighborhood and community shopping centers in Canada (about 60% of its properties) and the U.S. (about 40% of its properties).

CFE owns 65 properties at a total value of approx. one billion Canadian dollars, with total G.L.A. in these properties of more than 10 million square feet. CFE enjoys occupancy rates of 97% in its Canadian properties and 92% in its U.S. properties. CFE has additional properties under development, as well as land reserves for future development, which together represent G.L.A. of more than 1,600,000 square feet for rent.

The properties owned by CFE are anchored, for the most part, by anchor tenants that are leading national and international supermarket, commercial, and service chains. These chains specialize in providing basic daily products and services, considered recession-proof, to a population within a radius of some 1.5 – 3 miles. Among CFE's anchor tenants in Canada are the chains Canadian Tire, Zeller's, Loblaw's, Safeway, and A&P, and in the U.S. – Eckerd, Albertson's, Publix.

The company hired the services of the investment bank, U.B.S. to facilitate the offer.

The management of Gazit-Globe sees the takeover of CFE as a business opportunity with enormous potential, fitting in well with the Company's strategy of becoming a key player in the North American shopping center industry – an industry in which the advantages of size are clear. Gazit-Globe intends to keep CFE as an independent property company, managed locally in Canada, and to evaluate ways to improve and streamline the management of the existing property portfolio, in order to accelerate growth. As a result of the takeover, Gazit-Globe will have presence in three markets: the U.S., Canada, and Israel, with direct and indirect ownership of some 100 income-producing properties spanning G.L.A. for rental of approx. 13.8 million square feet, most of which are anchored by national and international supermarket chains.

In the first quarter of 2000, CFE's rental income totalled some 38.6 million Canadian dollars, an increase of 11.7% over the results of the first quarter of 2000. For all of 1999, CFE's rental income totalled some 137 million Canadian dollars.

The total book value of CFE's properties (net of depreciation) in 1999 is some 958 million Canadian dollars (includes properties under development). In 1999, CFE distributed a dividend of 0.89 Canadian dollar per share, representing a dividend yield of 10.65% on an annual basis.

To the best of the Company's knowledge, more than 60% of the share capital of CFE is held by institutional investors: pension funds, insurance companies, and brokerage houses, with the balance of the shares held by the public and related party shareholders.

Immediately preceding the tender offer, Gazit 1997 held 9.6% of the share capital of CFE, at an investment of 14 million Canadian dollars (some NIS 38 million).

On July 2, 2000, the Company increased its tender offer to 9 million shares of CFE, at a price of 12 Canadian dollars per share.

During the month of July, until July 15, 2000, Gazit 2000 acquired additional shares of CFE in trading on the Toronto Stock Exchange, reaching a stake of 14.5% in CFE. It also acquired 0.5 million Canadian dollars in convertible bonds of CFE.

On July 21, 2000, the Company increased its tender offer to 10.8 million shares of CFE, at a price of 13.25 Canadian dollars per share.

On July 26, 2000, the board of directors of CFE announced that it recommends to the shareholders of CFE that they accept the tender offer of Gazit 1997, under certain conditions.

On July 27, 2000, Gazit 1997 filed a motion in the Supreme Trade Court in Toronto for issuance of a restraining order that will prevent controlling shareholders and members of the board of directors of CFE from taking actions that will impair the value of CFE.

Gazit 1997 extended the date for accepting the tender offer to August 15, 2000.

If the tender offer is accepted, the acquisition will have a material effect on the Company.

B. <u>Investments in real estate</u>

1. In April 2000, F.C.I. acquired approx. 1 acre of land opposite a property owned by the Company in Montreal, in consideration for 425 thousand Canadian dollars.
   The Company intends to expand the supermarket situated in the existing property, from more than 21,000 square feet to close to 40,000 square feet, and to relocate some of the tenants from the existing property to the property to be built on the opposite property, on which the Company plants to build some 10,000 square feet.

2. In April 2000, EQ1 completed the development and occupancy of the first stage of the Forest Village property in Tallahassee, Florida.
   The property contains G.L.A. of approx. 70,000 square feet, of which 37,675 square feet are rented to the Publix supermarket chain, and 20,000 square feet are rented to other tenants.
3. In June 2000, EQ1 completed development of the second stage of the Sky Lake property, in Miami, Florida, adding G.L.A. of approx. 56,000 square feet. After completion of the second stage, the property has total G.L.A. of approx. 150,000 square feet. As of June 30, 2000, more than 50,000 square feet of the second stage's space has been rented.

C. Additional investments

In the reported period, the Company invested NIS 77.7 million in the purchase of marketable shares of real estate companies (REIT's) in the USA and Canada (excluding the shares of CFE, as described in Par. A. above).
Most of the investment in these shares is in companies whose principal activity is similar in nature to the properties of EQ1 and F.C.I., and operate in the countries in which the Company operates.
Most of the investments are concentrated in 3 companies, in which the holding of shares, beside the favorable current yield they generate, could develop into joint ventures in the future.
Subsequent to the report date and until the signature of the financial statements, the Company sold shares in stock market trading, for NIS 19 million.

D. Acquisition of EQ1 shares

In reported period - Some 363 thousand shares in stock market trading, at prices ranging from $9.20-$9.90 per share.
Some 365 thousand shares pursuant to a dividend reinvestment plan in EQ1, at a price of $9.50 per share.

Following completion of these acquisitions, the Company's direct and indirect holdings in EQ1 increased to 68% of its issued capital.
Regarding the issuance of shares to Aloni Hetz, see Par. 6.A.
In total the Company invested NIS 28 million to increase its stake in EQ1.

The carrying value of the investment in EQ1 in the books of the Company and subsidiaries as of June 30, 2000 is NIS 326.1 million. The NYSE market value of the investments in shares of EQ1 as of June 30, 2000 is NIS 314.2 million, and as of the signing date of the financial statements is NIS 320.8 million (the change stems from the change in the exchange rate of the dollar and the change in the stock market price of the shares).

E. Acquisition of the Canadian Partner's share

On 31.1.2000, an agreement was signed between Gazit 1997 (a wholly-owned Canadian subsidiary of the Company), F.C.I., and the minority shareholders in F.C.I., for F.C.I. to acquire all of their shares (25%) in F.C.I. The agreed upon principles stipulated in the agreement are that the consideration for the acquisition of their shares in F.C.I. would be the transfer to the sellers of all of the holdings of F.C.I. (100%) in a shopping center under development (the said properties were transferred to the former minority shareholders in F.C.I. "as is", with all the loans taken thereon, the collateral and commitments given to third parties). Likewise, an accounting was conducted between the parties to reflect the value of F.C.I. for the purpose of the transaction, equal to the level of shareholders' equity plus the value of some 8 million Canadian dollars. After execution of the transaction, the Company holds 100% of the share capital of F.C.I.

Regarding the issuance of shares to the Electra Group by F.C.I., see Par. 6.D.

F. Investments in Supersol

In the reported period, the Company purchased NIS 2.6 million in shares of Supersol Ltd. at a total cost of some NIS 36 million. In the reported period and until the signature date of the financial statements, the Company sold some 2.1 million shares of Supersol Ltd. in stock market trading, for total proceeds of NIS 31 million, and a gain of NIS 4.8 million. On March 30, 2000, the Company received a dividend of some NIS 18 million from Supersol Ltd.

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

The Company's management views investments in technology companies related to the shopping center industry as a complement to the income-producing real estate industry.

a. Investment in MSC

MSC, wholly-owned subsidiary of the Company, is incorporated in Delaware, USA.

The company owns the domain, "myshoppingcenter.com".

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

The objective of the venture is to increase and strengthen customer loyalty to the shopping centers, and to enable business owners in the shopping centers to benefit from the advantages of broadband Internet, opposite their customers (B2C) and to make their businesses more efficient (in the B2B and ASP fields). In order to make the use of these applications more efficient, the company will also work toward connecting the properties to broadband, and to be a provider of telecommunication services to the sites ("CLEC" – Competitive Local Exchange Carrier). The venture is also planned to include solutions for the distribution of goods to E-tailers and to provide E-commerce solutions to each of the retailers and service providers in the center.

On July 1, 2000, the Company launched a beta site and plans to approach the owners of shopping centers throughout the USA and have them join the web site. A property owner will be entitled to a specified percentage of the revenues to be generated to MSC from the various uses of the property that it owns.

MSC intends to collaborate with other real estate companies in the USA, as well as with companies engaged in the sale of goods and/or services, and with companies that specialize in laying telecommunication networks.

During July 2000, MSC signed a memorandum of understanding with EQ1, to connect all of EQ1's shopping centers to the MSC site. In consideration, EQ1 received option warrants in MSC.

During the balance sheet period, Mr. Garry Mansfield assumed the position of Chief Executive Officer (C.E.O.) and President of the company, and Mr. Ilan Zachar became the Chief Technology Officer (C.T.O.). Mr. Mansfield is an attorney by profession, with a degree in business administration from the University of Chicago. In recent years, he has held a series of senior managerial positions with start-up companies with a retail trade orientation.

Mr. Ilan Zachar served until recently as a senior consultant in I.B.M. Canada, and has vast experience in the design and development of complex computer systems, including Internet sites.

As reported in the past, the Company's board of directors authorized the Company's management to invest up to $3 million in the activities of M.S.C. (and in similar companies that are developing other Internet applications for the real estate industry). During the reported period, the Company invested $750 thousand in M.S.C. The Company expects to continue to invest some $1.5 million in M.S.C. over the next three quarters, and to invest some $500 thousand in real estate ventures.

b. <u>Investment in Vuetopia Inc. (Vuetopia.com)</u>

In June 2000, the Company invested US$ 300 thousand in Vuetopia Inc., a company developing an Internet-based technology to transmit high resolution video content to large screens in public areas, mainly in large shopping centers. The Company's investment could increase by another US$ 400 thousand, if certain conditions are met. The deal was effected at a company value of US$ 13 million, before the money.

H. <u>Public Offering</u>

On February 13, 2000, the Company published a prospectus that included a public offering by means of a tender of 5,000,000 shares, 1,000,000 option warrants (Series 3) and 2,360,000 option warrants (Series 4). The total proceeds to the Company, net of the wholly-owned subsidiary's purchase of 1,000,000 shares, 200,000 option warrants (Series 3), and 400,000 options warrants (Series 4), amounted to NIS 49.4 million, gross (NIS 46.3 million, net).

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

For details, see Note 4 to the financial statements.

I. Private Placement of Securities

1. In March, the Company entered into two agreements for the private placement of a total of 1,500,000 ordinary shares of the Company, NIS 1 par value, 300,000 options warrants (Series 3) of the Company and 600,000 option warrants (Series 4) of the Company, that were issued in the form of 300,000 units (100,000 units were purchased by the parent company). In consideration for the securities offered in the private placement, the offerees paid a total of NIS 17.8 million. The offering was completed in April of this year.

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

J. Issuance of Convertible Bonds

On February 8, 2000, the Company issued bonds convertible into shares of the Company (that will not be listed for trading) with total principal value of NIS 11,000 thousand to 11 provident funds, in consideration for NIS 11 million. For details, see Note 33 to the financial statements as of December 31, 1999.

K. On April 1, 2000, Mrs. Sylvie Lachance assumed her position as Vice-President in F.C.I. Until her appointment, Mrs. Lachance had served as Vice-President in Provigo, a large supermarket company in Quebec that was recently acquired by and merged into the largest chain in Canada, Loblaws. Mrs. Lachance is an attorney by profession, and holds a Masters of Business Administration from McGill University. She has vast experience in the development, acquisition, and rental of commercial centers. In her previous position, Mrs. Lachance was responsible for a big part of the chain's real estate development in Quebec.

3. Results of Operations

In the six-month and three-month period ended June 30, 2000, the Company's income amounted to NIS 30,370 thousand and NIS 9,454 thousand, compared with NIS 6,138 thousand and NIS 3,630 thousand, respectively, in the corresponding periods last year and NIS 21,291 thousand in the year 1999.

In the above periods, the Company's rental income totalled NIS 75,065 thousand and NIS 37,259 thousand, respectively, compared with NIS 57,683 thousand and NIS 30,350 thousand, respectively, in the corresponding periods last year and NIS 130,215 thousand in the year 1999.

The results of operations for the reported year are affected mainly by rental income on buildings and by dividend income, principally from the long-term investment in Supersol Ltd. and other companies, amounting to NIS 23,513 thousand and NIS 3,682 thousand in the six-month and three-month periods ended June 30, 2000, respectively, compared with NIS 4,444 thousand in 1999 and NIS 797 thousand in the three months ended June 30, 1999. The increase in this income derives mainly from the NIS 18 million dividend distributed by Supersol and the dividend from investments described in Par. 2.C.

The operations of EQ1, which constitute most of the Company's rental operations, were characterized by growth in revenues as a result of the increase in the number of properties and from the moderate growth in the occupancy rates of existing properties. Net income of EQ1 in the six-month and three-month periods ended June 30, 2000 (excluding non-recurring revenues and expenses) rose by 19% and 18%, respectively, over the corresponding periods last year.
The operations of F.C.I. were characterized by growth in rental income, attributable to the acquisition of 4 new rental properties during 1999, and from the increase in the occupancy rates of the properties compared with the corresponding period last year.
The increase in general and administrative expenses in the reported period stems from the increase in the wage expenses that are a function of the Company's results of operations and from non-recurring expenses related to the evaluation of additional investments. The decrease in the net financing item stems from the gain on the sale of the shares of Supersol and other marketable shares of NIS 6 million, the inflationary influences in the U.S. and Canada, and are after deduction of the increase in interest expenses on loans, as a result of the additional investments in fixed assets and long-term investments, principally in Supersol.
The investment in Supersol is expected to continue to affect financing expenses in the coming quarters.

4. Liquidity and Financing Sources

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

A. The Company's shareholders' equity, together with minority interest, total NIS 490.6 million, financed 33.5% of the total balance sheet.

B. The current ratio reached 1.2.

C. Cash flows from operating activities for the six-month and three-month period ended June 30, 2000 totalled NIS 45.2 million and NIS 14.7 million, respectively, compared with NIS 28.9 million and NIS 13.3 million, respectively, in the corresponding periods last year.

5. Financial Position

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 EQ1 and F.C.I., except for cash and cash equivalents and short-term and long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of June 30, 2000, the liquid balances available to the Company and its subsidiaries, including short-term investments, total NIS 59.9 million, compared with NIS 51.7 million as of December 31, 1999, and NIS 112.9 as of June 30, 1999. The increase in the amount of liquid balances in the reported period stems mainly from the receipts from the capital and debt offerings to the public and others, plus the increase in the Company's working capital, less the cash used in the Company's purchase of shares of EQ1 and in the acquisition of long-term investments by the Company.

The increase of NIS 253.8 million in shareholders' equity to NIS 344.8 million stems from the net offering of shares amounting to NIS 69.1 million, from the NIS 0.5 million decrease in the item "translation adjustments deriving from translation of financial statements" in respect of EQ1 and F.C.I., plus the Company's earnings for the reported period of NIS 30.4 million, less a dividend paid by the Company of NIS 8 million.

6. Additional Information and Subsequent Events

A. In July 2000, EQ1 (68%-owned before this issuance) signed an agreement in principle with Aloni Hetz Ltd. for the private placement of 20% of the shares of EQ1 at a share price of $10.875, net.

In the first stage, 1.9 million shares will be issued to Aloni Hetz, representing 14% of the share capital of EQ1, in consideration for $21 million. In addition, option warrants will be issued to Aloni Hetz, to be exercised on two dates, so that on a fully diluted basis, Aloni Hetz will have a stake of about 20% in EQ1.

The issuance of shares to Aloni Hetz will generate a capital gain of NIS 6.8 million to the Company, and its holdings in EQ1 will fall to 58%.

B. During July 2000, EQ1 completed the development of 3 buildings, two adjacent to its properties and one adjacent to the property of third parties, with total G.L.A. of approx. 36,000 square feet. As of the signature date of the financial statements, approx. 32,000 square feet have been rented.

On July 6, 2000, EQ1 received a US$ 16.5 million mortgage on its Sky Lake property in Miami, Florida. Approximately US$ 6.5 million of the mortgage amount was deposited in a trust account, until fulfillment of certain conditions related to the rental of space in the property. The balance was used to reduce the Company's credit line. The mortgage bears fixed interest of 7.61% per annum, using a 25-year loan amortization schedule.

C. In July 2000, F.C.I. (a 100%-owned sub-subsidiary) of the Company in Canada, signed a memorandum of understanding with a wholly-owned Holland subsidiary of the Electra Group, for the private placement of some 30% of the shares in F.C.I.

The buyer will be issued 65,000 shares in F.C.I., representing some 30% of issued capital, against the payment of 3.25 million Canadian dollars. In addition, the buyer will make a shareholder loan available to F.C.I., based on its equity interest in the company. Furthermore, the buyer will be issued option warrants for 5 years, so that on a fully diluted basis, it will old 24.4% of the shares in F.C.I.

After the issuance of the shares, the Company's stake in F.C.I. will fall to about 70%.

D. On August 14, 2000, the Company announced that it was negotiating with Mishkenot Clal (1982) Ltd. (hereinafter – "Mishkenot Clal") and with Azorim Properties Ltd., the owner of full control in Mishkenot Clal, to acquire one-half of the control in Mishkenot Clal, by means of an issuance of shares by Mishkenot Clal and by the acquisition of some of the Mishkenot Clal shares held by Azorim Properties Ltd., based on the equity value of Mishkenot Clal of NIS 137 million, subject to adjustments and changes.

Mishkenot Clal is engaged, through subsidiaries and related companies, in the construction, maintenance, marketing, and management of assisted/independent living residences throughout Israel.
If and when an agreement will be signed, the Company will issue an appropriate immediate report.

7. Effect of the Year 2000 Issue

As of the date of the financial statements, the Year 2000 issue had no effect whatsoever on the operations of the Company and its subsidiaries. However, notwithstanding the aforesaid, no assurance can be given with regard to the possible future implications of Bug Y2K on the Company and its subsidiaries and their operations.
The Company and its subsidiaries will continue to monitor the possible future implications of the Bug Y2K issue on their operations, and to the extent necessary, will evaluate what applicable measures they are to take.

8. Reporting of Exposures to Market Risks and their Management

A. Those responsible for managing the Company's market risks are Mr. Dori Segal, the Company's Managing Director, and Mr. Gil Kotler, the Company's Chief Financial Officer.

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

1. The Company's holdings in the shares of EQ1 and F.C.I. are major assets of the Company and therefore the risk factors to which EQ1 and F.C.I. are exposed are indirectly relevant to the Company.
   The key risk factors involved in the operations of EQ1 and F.C.I. are as follows:
   a. The financial stability of the tenants.
   b. Changes in consumption habits of residents.
   c. Changes in the rental policies of retail chains and major tenants.
   d. The status of EQ1 as a REIT.
   e. Activities in the renovation and development of properties.

2. The Company owns 6% of the issued share capital of Supersol Ltd.
   In the Company's opinion, its financial results could be adversely affected if there should be a decrease in the value of its holdings in Supersol, mainly if there will be significant negative changes in the businesses of Supersol, in the trading in Supersol's shares, or in the Israeli economy.

3. Changes in the exchange rate of the U.S. dollar and the Canadian dollar relative to the shekel will have an effect, mainly on the Company's adjusted shareholders' equity, whereby an increase in the exchange rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity. A decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.

4. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.

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

1. The Company's Chairman of the Board of Directors, Mr. Haim Katzman, who is the Chairman of the Board of EQ1, and the Company's Managing Director, Mr. Dori Segal, who is the President of F.C.I., permanently reside where the companies operate.
   EQ1 and F.C.I. regularly monitor developments in the markets in which operate. The companies employ local experts in rental real estate management, development, and acquisitions in the USA and Canada.

2. The Company regularly evaluates the businesses of Supersol and the level of marketability of its shares, as well as significant changes in the Israeli economy. The Company finances its investment in Supersol with its equity and with shekel-denominated credit.

3. The Company finances its investments in EQ1 and F.C.I. with its equity and with foreign currency credit, denominated in U.S. dollars and Canadian dollars, generally corresponding to the ratio of its investments in these companies. Hence, the effect of changes in the exchange rates of the U.S. and Canadian dollars on the Company's shareholders' equity is partially neutralized by the foreign currency credit.

4. The Company finances most of its foreign currency credit in U.S. dollars and Canadian dollars, at fixed interest rates under long-term arrangements (mortgages against real estate). In addition, the Company executed interest rate swaps totalling 18 million U.S. dollars against foreign currency credit at variable interest (three-month LIBOR rate). The Company finances most of its investment in shekel assets with shekel credit at fixed interest rates, and monitors, on a regular basis, developments and changes in the interest policy of the Bank of Israel.

Dori Segal Managing Director	Varda Zuntz Director