

GAZIT-GLOBE (1982) LTD.

Directors' Report to Shareholders **For the period ended March 31, 2001**

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – “the Company”) is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2001:

1. A. General

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

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

As of the date of the financial statements, the Company owns – directly and indirectly – 114 properties with Gross Leasable Area (G.L.A.) of close to 14 million square feet, with a book value of NIS 4.4 billion, generating annual rental income of NIS 575 million (based on gross annual rent for the properties owned), as well as 50% in a senior citizens' residences company.

In the USA, the Company operates via Equity One Inc. (hereinafter – “EQ1”), a self-administered, self-managed REIT (real estate investment trust) traded on the NYSE. As of the date of the financial statements, the Company owns some 63.8% of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of primarily supermarket anchored shopping centers, owning 33 properties with G.L.A. of some 3.2 million square feet. The company also owns 9.8% of a public REIT based in Houston, Texas.

The operations in Canada are carried out via Centrefund Realty Corporation (hereinafter – “CFE”), a public company traded on the TSE. As of the approval date of the financial statements, the company owns some 68% of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in Florida and Texas (regarding properties in Florida and Texas, see Par. 6.A below). CFE holds interest in 72 properties with total G.L.A. of approx. 10.7 million square feet, as well as additional properties under development. In addition, the Company owns 100% of the shares of First Capital Inc. (a Canadian company) (hereinafter – “F.C.I.”), which, as of the date of the financial statements, owns 8 shopping centers with G.L.A. of more than 850,000 square feet.

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

B. Operating Results in the Period

In the three-month period ended March 31, 2001, net income was NIS 21.6 million, compared with NIS 20.7 million in the first quarter last year and NIS 66.9 million in the full year 2000.

Earnings per share in the reported period were NIS 0.48 compared with NIS 0.69 last year.

In addition, depreciation on assets (net of the minority interest) for the reported year totaled NIS 15.5 million, which is NIS 0.34 depreciation per share, compared with NIS 3.5 million, which is NIS 0.12 depreciation per share, last year. Total earnings, including gains from the Supersol transaction, and dividends and gains from investments in public real estate companies in the USA and Canada, and excluding non-recurring income and expenses, plus depreciation per share (F.F.O.) amounted to NIS 0.82 per share, compared with NIS 0.81 per share in the same period last year. This represents growth of 1%, and excluding the effect of the Supersol transaction, the increase in F.F.O. per share is 107%.

As of March 31, 2001, shareholders' equity per share was NIS 11.63, compared with NIS 9.81 per share in the same quarter last year, an increase of 18.5%.

Regarding the results of operations see Item 3 below.

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

General

In the reported period, the Company invested— directly and through subsidiaries – the sum of NIS 162.3 million, net, in the acquisition, development, and improvement of properties and long-term investments. Their effect on the results of operations will be expressed in full in the coming quarters.

A. Acquisition of shopping center

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

B. Additional investments

As of March 31, 2001, the Company's investments in the shares of public real estate companies (REIT's) and shares of other companies in the USA and Canada (excluding subsidiaries) total NIS 141,819 thousand.

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

C. Acquisition of shares in EQ1

In the reported period, the Company acquired some 47,000 shares in EQ1 on the New York Stock Exchange, at prices ranging between US\$ 9.4-9.9 per share.

In total, the Company invested NIS 1.9 million in the acquisition of EQ1 shares during the reported period.

D. Investment in the shares of Supersol

In the reported period, and up until the approval date of the financial statements, the Company sold 1.8 million shares of Supersol Ltd., for total proceeds of NIS 26 million, and a gross gain of NIS 4 million.

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

During 2001, the Company acquired – through a wholly-owned Canadian subsidiary – on the Toronto Stock Exchange (TSE) and as part of a tender offer it made, \$C 26,677 thousand convertible debentures of CFE, at a cost of NIS 53.3 million.

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

The financing expenses in the income statement, includes a gain from the early redemption of debentures, as described above, of NIS 16.3 million. The Company's share in the gain, after a provision for taxes, deduction of the discount on the debentures and the minority interest in the gain, is NIS 7.1 million.

F. Private placement of shares

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

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

The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.4 million. In addition, the Company issued another 250,000 units to a subsidiary it controls, which were later sold to the Company.

The total net capital raised was NIS 28.5 million. Assuming full exercise of the warrants, the offering is expected to total NIS 50.4 million.

G. Private placement of debentures

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

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

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

In the reported period, the Company continued to invest US\$ 0.5 million in MSC, and wrote down its entire investment in MSC of US\$ 1 million (NIS 4 million). The Company is evaluating the developments and trends in the markets relating to such companies (which are currently negative), and, accordingly, will decide on the continuation of its investments in MSC.

I. Exercise of warrants (Series 3) of the Company

During the reported period and until the approval date of the financial statements, 0.4 million of the Company's warrants (Series 3) were exercised, for total proceeds of NIS 3.3 million.

J. Dividend policy

Pursuant to the Company's annual dividend policy, in which the Company announces at the end of each year the dividend for the subsequent year, the Company announced that the dividend in 2001 would be at least NIS 0.64 per share, representing, as of the date of the resolution, a dividend yield of about 5%. In the year 2000, the Company distributed a dividend of NIS 0.53 per share.

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

3. Results of Operations

Net Income for the reported period was NIS 21.6 million, compared with NIS 20.7 million last year and NIS 66.8 million in the full year 2000.

In the reported period, revenues totaled NIS 171,657 thousand, compared with NIS 58,055 thousand last year and NIS 426,493 thousand in the full year 2000.

The revenues item includes revenues from rent, investments in securities, dividend income, and other revenues, as follows:

The Company's rental income in the above periods totaled NIS 155,703 thousand, compared with NIS 37,488 thousand last year and NIS 356,250 thousand in the full year 2000.

Income from dividends and investments in marketable securities totaled NIS 15,880 thousand in the reported period, compared with NIS 20,541 thousand in the same period last year and NIS 64,706 thousand in the full year 2000. In the reported

period, this income stems mainly from investments in real estate companies and some NIS 2,700 thousand from the shares of other companies. In the same period last year and in the full year 2000, this income stemmed mainly from dividends from Supersol and from the gain on the sale of Supersol shares and other securities totaling NIS 13,180 thousand.

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

The operations of EQ1 were characterized by growth in revenues as a result of the increase in the number of properties and moderate growth in the revenues from existing properties. Net income in the reported period was US\$ 3.1 million, compared with

US\$ 2.6 million in the same period last year, growth of 17.2%.

The operations of CFE were characterized by growth in revenues, as a result of the increase in the number of owned properties, completion of the development of new properties and of the expansion of existing properties on one hand, while contrasted by the increase in financing expenses, due to the additional mortgages assumed on the other hand. This comparison is with the fourth quarter of 2000.

In the reported period, rental income totaled C\$ 39.1 million and operating income of the properties totaled C\$ 24.4 million.

The operations of F.C.I. were characterized by growth in rental income on buildings, attributable to the acquisition of 2 new properties during 2000, of which the full effect is reflected in the reported period, and to an increase in the occupancy rates of the properties.

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

In the reported year, the Company wrote off its investments in technology ventures, as discussed previously, in the amount of NIS 3,981 thousand.

4. Liquidity and Financing Sources

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

- A. The Company's shareholders' equity, together with minority interest and convertible debentures in CFE, which may be redeemed by CFE issuance of NIS 1,653 million, financed 31.8% of total assets, compared with NIS 483 million, that financed 34.5% of total assets last year.

- B. The current ratio of current assets to current liabilities reached 0.99, compared with 1.05 last year.
- C. Cash flows from operating activities for the reported period totaled NIS 22.4 million, compared with NIS 30.2 million in the previous quarter last year (which included a special dividend of NIS 18 million, gross, from Supersol Ltd.).

5. Financial Status

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

As of March 31, 2001, the total liquidity assets available to the Company and its subsidiaries, including cash and short-term investments, was NIS 258.3 million, compared with NIS 270.9 million as of December 31, 2000, and NIS 47.7 million as of March 31, 2000. The change is mainly from the receipts from the Company's equity and debt offerings to the public and other parties, plus the increase in the Company's working capital, less the amounts used by CFE to acquire a property and by the Company to acquire shares of EQ1 and to acquire long-term investments.

The increase of NIS 453.1 million in shareholders' equity to NIS 524.9 million stems from the net offering of shares amounting to NIS 28.5 million and from the exercise of options into shares in the amount of NIS 3.3 million. It is also attributable to the NIS 25.7 million increase in the item "translation adjustments deriving from translation of financial statements of CFE, EQ1 and F.C.I. (due to the real devaluation of the U.S. dollar compounded by the inflation in the USA during the reported period which together amounted to 5.5%), plus the Company's net earnings for the reported period of NIS 21.6 million, less a dividend declared by the Company of NIS 7.2 million.

6. Additional Information and Subsequent Events

A. Sales of CEFUS properties to EQ1

On May 18, 2001, EQ1 and CFE announced that they had entered into a definitive stock exchange agreement whereby EQ1 would acquire Centrefund Realty (U.S.) Corporation ("CEFUS"), a wholly owned subsidiary of CFE, a publicly traded Canadian real estate company (TSE:CFE). CEFUS owns 28 properties and 9 joint venture interests in Florida and Texas.

Under the terms of the transaction, EQ1 is acquiring CEFUS for 10.5 million of its shares.

The transaction is subject to the approval of the shareholders of EQ1 and of the minority shareholders of CFE, as well as other customary conditions.

The transaction is expected to close in the third quarter of the year. Following the closing of the transaction, the Company expects to effectively hold – directly and indirectly – 64.8% of the share capital of EQ1.

B. Conversion of debentures to shares

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

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

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

D. Expected changes in accounting standards

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

7. Reporting of Exposures to Market Risks and their Management

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

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

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

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

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

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

rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity, while a decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.

3. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.
4. Occasional foreign currency exposure of the U.S. dollar against the Canadian dollar due to CFE's activities in Canada and the USA.

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

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

D. Means of implementing and monitoring policies:

1. The Company's management, supervised by the board of directors, regularly monitors the management of risks and ways in which to minimize the Company's exposure to these risks.

2. The Chairman of the board of directors, Mr. Chaim Katzman, who is also the Chairman of the board of directors of EQ1 and CFE, and the Company's President, Mr. Dori Segal, who is also the President of CFE and F.C.I., reside permanently in the countries in which the Company's subsidiaries operate.

Dori Segal
President

Varda Zuntz
Director