

GAZIT-GLOBE (1982) LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001

ADJUSTED TO THE NIS OF DECEMBER 2001

INDEX

	<u>Page</u>
Auditors' Report	2
Balance Sheets - Consolidated and the Company	3 - 6
Statements of Income - Consolidated and the Company	7 - 8
Statements of Changes in Shareholders' Equity	9
Statements of Cash Flows - Consolidated and the Company	10 - 16
Notes to Financial Statements	17 - 75
List of Group Companies	76

AUDITORS' REPORT

To the shareholders of

GAZIT-GLOBE (1982) LTD.

We have audited the accompanying balance sheets of Gazit-Globe (1982) Ltd. ("the Company") as of December 31, 2001 and 2000 and the consolidated balance sheets as of such dates and the related statements of income, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 96.1% and 96.5% of total consolidated assets as of December 31, 2001 and 2000, respectively, and whose revenues included in consolidation constitute approximately 99.6%, 99.5% and 91.9% of total consolidated rental income for the years ended December 31, 2001, 2000 and 1999, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2001 and 2000, and the results of operations, changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel
March 24, 2002**KOST FORER & GABBAY**
A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of December 2001

	Note	December 31,	
		2001	2000
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	213,917	103,863
Short-term investments	4	157,693	171,482
Tenants	5	37,543	36,255
Accounts receivable	6	55,946	35,888
Loans to former partners in jointly controlled entities	7	58,619	88,539
		<u>523,718</u>	<u>436,027</u>
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	9	83,531	154,697
Long-term loans	10	66,425	50,730
		<u>149,956</u>	<u>205,427</u>
FIXED ASSETS:			
Cost	11	5,719,812	4,397,048
Less - accumulated depreciation		<u>216,078</u>	<u>112,247</u>
		<u>5,503,734</u>	<u>4,284,801</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	12	<u>123,890</u>	<u>114,159</u>
		<u><u>6,301,298</u></u>	<u><u>5,040,414</u></u>

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of December 2001

	Note	December 31,	
		2001	2000
Adjusted NIS in thousands			
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	336,830	299,637
Trade payables	14	36,442	(* 29,519
Other accounts payable	15	104,902	(* 93,827
Dividend declared	16	18,444	6,931
		<u>496,618</u>	<u>429,914</u>
LONG-TERM LIABILITIES:			
Debentures	17	244,516	157,668
Liabilities to financial institutions and others	19	3,488,884	2,663,693
Tenants' security deposits	20	140,191	124,473
Accrued severance pay	21	755	610
Deferred taxes	22c	502	471
		<u>3,874,848</u>	<u>2,946,915</u>
CONVERTIBLE DEBENTURES REDEEMABLE INTO SUBSIDIARY'S SHARES	18a	<u>707,451</u>	<u>925,698 *)</u>
MINORITY INTEREST		<u>557,191</u>	<u>275,265</u>
CONTINGENT LIABILITIES AND COMMITMENTS	23		
CONVERTIBLE DEBENTURES	18c	<u>-</u>	<u>1,022</u>
SHAREHOLDERS' EQUITY	24	<u>665,190</u>	<u>461,600</u>
		<u><u>6,301,298</u></u>	<u><u>5,040,414</u></u>

*) Reclassified.

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

March 24, 2002

Date of approval of the
financial statements

C. Katzman
Chairman of the
Board of Directors

D. Segal
Managing Director
(via Varda Zuntz - by a power of
attorney from March 24, 2002)

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY
Adjusted to the NIS of December 2001

	Note	December 31,	
		2001	2000
		Adjusted NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	27,524	1,547
Short-term investments	4	3,433	29,270
Accounts receivable	6	6,283	3,546
		<u>37,240</u>	<u>34,363</u>
LONG-TERM INVESTMENTS AND LOANS:			
Investments in investees	8	979,073	715,517
Long-term investments	9	29,274	88,424
Long-term loans	10	140	150
		<u>1,008,487</u>	<u>804,091</u>
FIXED ASSETS:			
Cost	11	2,232	2,062
Less - accumulated depreciation		<u>515</u>	<u>580</u>
		<u>1,717</u>	<u>1,482</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	12	<u>3,447</u>	<u>688</u>
		<u><u>1,050,891</u></u>	<u><u>840,624</u></u>

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

GAZIT-GLOBE (1982) LTD.
BALANCE SHEETS - THE COMPANY
Adjusted to the NIS of December 2001

	Note	December 31,	
		2001	2000
		Adjusted NIS in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	13	27,604	50,140
Trade payables	14	368	274
Other accounts payable	15	10,341	20,321
Dividend declared	16	18,444	6,931
		<u>56,757</u>	<u>77,666</u>
LONG-TERM LIABILITIES:			
Debentures	17	176,898	91,168
Liabilities to financial institutions and others	19	151,972	209,117
Accrued severance pay	21	74	51
		<u>328,944</u>	<u>300,336</u>
CONVERTIBLE DEBENTURES	18c	<u>-</u>	<u>1,022</u>
CONTINGENT LIABILITIES AND COMMITMENTS	23		
SHAREHOLDERS' EQUITY	24	<u>665,190</u>	<u>461,600</u>
		<u>1,050,891</u>	<u>840,624</u>

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

March 24, 2002

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C. Katzman
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D. Segal
Managing Director
(via Varda Zuntz - by a power of
attorney from March 24, 2002)

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

Adjusted to the NIS of December 2001

	Note	Year ended December 31,		
		2001	2000	1999
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Rental income	27	677,423	362,965	131,553
Other income	28	88,429	71,566	17,716
		<u>765,852</u>	<u>434,531</u>	<u>149,269</u>
Costs and expenses:				
Operating properties for rent	29	230,992	121,589	37,446
Depreciation of properties for rent		94,772	48,705	18,682
General and administrative	30	56,337	35,533	15,949
Financial, net	31	224,313	105,058	28,247
Other expenses	32	15,646	8,406	101
		<u>622,060</u>	<u>319,291</u>	<u>100,425</u>
Income before taxes on income		143,792	115,240	48,844
Taxes on income	22	17,608	12,349	3,720
Income after taxes on income		126,184	102,891	45,124
Minority interest in earnings of subsidiaries		(45,122)	(26,312)	(23,613)
Equity of former shareholders in earnings of newly consolidated subsidiary	1b(3)e	-	(8,468)	-
Net income for the year		<u>81,062</u>	<u>68,111</u>	<u>21,511</u>
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		<u>1.51</u>	<u>1.55</u>	<u>0.84</u>
Diluted earnings		<u>-</u>	<u>-</u>	<u>0.77</u>

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF INCOME - THE COMPANY

Adjusted to the NIS of December 2001

	Note	Year ended December 31,		
		2001	2000	1999
		Adjusted NIS in thousands (except per share amounts)		
Revenues:				
Equity in earnings of subsidiaries		66,095	52,499	20,531
Other income	28	23,419	36,612	4,294
Financial, net	31	1,183	-	-
		<u>90,697</u>	<u>89,111</u>	<u>24,825</u>
Costs and expenses:				
General and administrative	30	6,040	3,392	1,602
Financial, net	31	-	14,814	-
Other expenses	32	30	12	19
		<u>6,070</u>	<u>18,218</u>	<u>1,621</u>
Income before taxes on income		84,627	70,893	23,204
Taxes on income	22	3,565	2,782	1,693
Net income for the year		<u>81,062</u>	<u>68,111</u>	<u>21,511</u>
Earning per NIS 1 par value of Common shares (in adjusted NIS):	33			
Basic earnings		<u>1.51</u>	<u>1.55</u>	<u>0.84</u>
Diluted earnings		<u>-</u>	<u>-</u>	<u>0.77</u>

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

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

Adjusted to the NIS of December 2001

	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at January 1, 1999	74,589	150,038	1,629	9,426	(67,327)	-	168,355
Issuance of share capital, net	7,833	69,391	-	-	-	-	77,224
Foreign currency translation adjustments for foreign autonomous units	-	-	-	759	-	-	759
Net income for the year	-	-	-	-	21,511	-	21,511
Dividend paid	-	-	-	-	(11,466)	-	(11,466)
Balance at December 31, 1999	82,422	219,429	1,629	10,185	(57,282)	-	256,383
Issuance of share capital, net	7,025	73,960	-	-	-	(12,369)	68,616
Conversion of debentures into shares	2,475	24,057	-	-	-	-	26,532
Exercise of stock options into shares	4,837	39,888	-	-	-	(6,078)	38,647
Sale of shares by a subsidiary	-	3,361	-	-	-	17,815	21,176
Reimbursement of issuance expenses	-	661	-	-	-	-	661
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,129	-	-	1,129
Net income for the year	-	-	-	-	68,111	-	68,111
Dividend paid	-	-	-	-	(12,724)	-	(12,724)
Dividend declared	-	-	-	-	(6,931)	-	(6,931)
Balance as of December 31, 2000	96,759	361,356	1,629	11,314	(8,826)	(632)	461,600
Issuance of share capital, net	7,476	93,380	-	-	-	(17,894)	82,962
Conversion of debentures into shares	86	928	-	-	-	-	1,014
Exercise of stock options into shares	2,570	20,753	-	-	-	-	23,323
Sale of shares by a subsidiary	-	(699)	-	-	-	14,977	14,278
Foreign currency translation adjustments for foreign autonomous units	-	-	-	42,308	-	-	42,308
Net income for the year	-	-	-	-	81,062	-	81,062
Dividend paid	-	-	-	-	(22,913)	-	(22,913)
Dividend declared	-	-	-	-	(18,444)	-	(18,444)
Balance as of December 31, 2001	106,891	475,718	1,629	53,622	30,879	(3,549)	665,190

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the year	81,062	68,111	21,511
Adjustments to reconcile net income to net cash provided by operating activities (a)	1,618	12,590	33,289
Net cash provided by operating activities	<u>82,680</u>	<u>80,701</u>	<u>54,800</u>
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated subsidiaries (b)	(158,836)	(455,972)	-
Investment in subsidiary and in jointly controlled entity	(19,650)	(22,235)	(48,511)
Investments in fixed assets	(462,885)	(220,943)	(384,818)
Loans granted to partners in jointly controlled entities	(9,220)	-	-
Proceeds on sale of real estate	142,728	61,346	33,121
Long-term loans granted	(10,858)	(61,176)	-
Repayment of long-term loans	18,998	56,568	-
Short-term investments, net	87,246	(60,171)	12,611
Purchase of marketable securities and long-term investments	(109,691)	(187,610)	(168,134)
Proceeds from sale of long-term investments	174,007	220,651	-
Proceeds from sale of real estate to former minority in subsidiary	-	2,581	-
Net cash used in investing activities	<u>(348,161)</u>	<u>(666,961)</u>	<u>(555,731)</u>

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
<u>Cash flows from financing activities:</u>			
Issuance of share capital, net	82,962	68,616	77,224
Exercise of stock options into shares	23,323	38,647	-
Sale of shares by the Company and a subsidiary	14,278	21,176	-
Reimbursement of issuance expenses	-	661	-
Issuance to minorities in subsidiary, net	93,226	44,575	-
Proceeds on exercise of options by minorities and related party in subsidiary	-	-	4,168
Purchase of options of a subsidiary by that subsidiary from a former related party	-	-	(8,957)
Deferred charges in respect of raising loans and debentures	(11,346)	(18,548)	(4,183)
Dividend paid	(29,844)	(12,724)	(16,786)
Dividend paid to minorities in subsidiary	(27,626)	(20,511)	(18,166)
Receipt of long-term loans	1,290,873	732,352	420,580
Repayment of long-term loans	(961,929)	(156,420)	(26,720)
Redemption of debentures	(27,114)	-	-
Early redemption of debentures and convertible debentures	(189,975)	(46,606)	-
Sale of Company's debentures by subsidiaries	-	7,326	5,298
Purchase of Company's debentures by subsidiary	-	-	(1,547)
Short-term bank credit, net	9,673	(3,158)	43,144
Debentures assigned to the Company	-	-	17,140
Issuance of convertible debentures	-	11,255	16,520
Issuance of debentures	96,882	-	-
Increase in tenants' security deposits	6,053	-	-
Net cash provided by financing activities	<u>369,436</u>	<u>666,641</u>	<u>507,715</u>
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	<u>6,099</u>	<u>(1,587)</u>	<u>172</u>
Increase in cash and cash equivalents	110,054	78,794	6,956
Cash and cash equivalents at the beginning of the year	<u>103,863</u>	<u>25,069</u>	<u>18,113</u>
Cash and cash equivalents at the end of the year	<u><u>213,917</u></u>	<u><u>103,863</u></u>	<u><u>25,069</u></u>

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Income and expenses not involving cash flows:			
Loss (gain) from realization and revaluation of marketable securities, net	(69,208)	(36,110)	1,275
Minority interest in earnings of subsidiaries	45,122	26,312	23,613
Depreciation	95,086	48,705	18,838
Deferred taxes, net	(3,835)	(837)	(607)
Gain from early redemption of debentures and convertible debentures of a subsidiary	(36,603)	(9,639)	-
Adjustment differences on monetary assets and long-term liabilities, net	(53,548)	(53,182)	(5,264)
Write-down of long-term investments	1,828	-	1,834
Amortization of other assets and deferred charges	11,652	22,862	1,676
Gain from sale of fixed assets	(225)	(2,973)	(12,749)
Increase in accrued severance pay	129	28	12
Loss (gain) from issuance to third party and related party	(4,630)	(2,481)	98
Changes in asset and liability items:			
Decrease (increase) in tenants and other accounts receivable	6,468	16,190	(5,025)
Increase in trade payables and other accounts payable	13,112	3,421	7,945
Increase (decrease) in tenants' security deposits	(3,730)	294	1,643
	<u>1,618</u>	<u>12,590</u>	<u>33,289</u>

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
(b) <u>Investment in newly consolidated subsidiaries:</u> <u>(Note 1b2, 1b3 and 1b4)</u>			
Subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents):			
Current assets	(26,691)	(55,007)	-
Current liabilities	19,786	136,163	-
	<u>(6,905)</u>	<u>81,156</u>	<u>-</u>
Fixed assets, long-term loans and investments (mainly real estate)	(625,992)	(3,293,437)	-
Other assets	(53)	(132,585)	-
Long-term liabilities	341,926	2,794,522	-
	<u>(284,119)</u>	<u>(631,500)</u>	<u>-</u>
Minority interest in subsidiary's shareholders' equity	111,334	94,372	-
Investment in newly consolidated subsidiary	20,854	-	-
	<u>(158,836)</u>	<u>(455,972)</u>	<u>-</u>
(c) <u>Significant non-cash operations:</u>			
Dividend declared	18,444	6,931	-
Capital issuance in subsidiary for minorities and related party against long-term loans	22,048	-	2,325
Purchase of fixed assets against long-term liabilities	-	30,007	4,268
Purchase of jointly controlled entity	-	14,609	-
Sale of real estate to former minority in subsidiary	-	17,694	-
Conversion of convertible debentures into Company shares	1,014	26,532	-

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the year	81,062	68,111	21,511
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	<u>(82,119)</u>	<u>(47,856)</u>	<u>(11,267)</u>
Net cash provided by (used in) operating activities	<u>(1,057)</u>	<u>20,255</u>	<u>10,244</u>
<u>Cash flows from investing activities:</u>			
Investment in newly consolidated company by the proportionate consolidation method	-	(85,700)	-
Investment in subsidiaries and jointly controlled entity	(14,784)	(44,672)	-
Loans granted to subsidiaries, net	(145,632)	(142,366)	(92,880)
Investments in fixed assets	(668)	(1,377)	(108)
Long-term loans granted	(7)	-	-
Sale (purchase) of marketable securities and short-term deposits, net	28,305	(14,520)	1,146
Purchase of marketable securities and long-term investments	(48,350)	(37,186)	(128,040)
Proceeds from sale of long-term marketable securities	125,326	76,803	-
Repayment of long-term loans granted	(8,177)	56	-
Proceeds from the sale of fixed assets	<u>116</u>	<u>106</u>	<u>-</u>
Net cash used in investing activities	<u>(63,871)</u>	<u>(248,856)</u>	<u>(219,882)</u>

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
<u>Cash flows from financing activities:</u>			
Issuance of share capital, net	82,962	68,616	77,224
Exercise of stock options into shares	23,323	38,647	-
Sale of shares by the Company and subsidiary, net	14,278	21,176	-
Reimbursement of issuance expenses	-	661	-
Deferred charges in respect of raising loans and debentures	(3,406)	(184)	(312)
Dividend paid	(29,844)	(12,724)	(16,786)
Receipt of long-term loans	148,444	123,217	113,901
Receipt of loan from jointly controlled entity	1,280	38,784	-
Repayment of long-term loans	(216,853)	(73,900)	(1,235)
Short-term bank credit, net	124	(4,848)	6,871
Issuance of convertible debentures	-	11,255	16,520
Issuance of debentures	96,882	-	-
Redemption of debentures	(26,285)	-	-
Debentures assigned to the Company	-	-	23,641
	<u>90,905</u>	<u>210,700</u>	<u>219,824</u>
Net cash provided by financing activities			
Increase (decrease) in cash and cash equivalents	25,977	(17,901)	10,186
Cash and cash equivalents at the beginning of the year	<u>1,547</u>	<u>19,448</u>	<u>9,262</u>
Cash and cash equivalents at the end of the year	<u><u>27,524</u></u>	<u><u>1,547</u></u>	<u><u>19,448</u></u>

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CASH FLOWS - THE COMPANY
Adjusted to the NIS of December 2001

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Gain from marketable securities, net	(20,717)	(14,505)	(569)
Equity in earnings of subsidiaries net of dividend received therefrom	(60,793)	(47,358)	(15,940)
Depreciation	292	163	100
Adjustment differences on monetary assets and long-term liabilities, net	1,975	12,326	(57)
Amortization of other assets and deferred charges	342	66	129
Increase (decrease) in accrued severance pay	23	3	(5)
Loss (gain) from issuance to third party	30	(356)	19
Loss from sale of fixed assets	25	-	-
Changes in asset and liability items:			
Decrease (increase) in other accounts receivable	(2,737)	(847)	2,860
Increase (decrease) in trade payables and other accounts payable	(559)	2,652	2,196
	<u>(82,119)</u>	<u>(47,856)</u>	<u>(11,267)</u>
(b) <u>Significant non-cash operations:</u>			
Dividend declared	<u>18,444</u>	<u>6,931</u>	<u>-</u>
Conversion of convertible debentures into Company shares	<u>1,014</u>	<u>26,532</u>	<u>-</u>
Purchase of jointly controlled entity	<u>-</u>	<u>14,609</u>	<u>-</u>

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

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Definitions:

- Gazit-Globe (1982) Ltd.
- Gazit Inc. ("Gazit") through its subsidiary.
- companies over which the Company exercises control (as defined in Statement No. 57) and whose accounts are consolidated with those of the Company.
- a company owned by various entities that have a contractual consent for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
- subsidiaries and the jointly controlled entity, as detailed in the Appendix.
- the Company and its investees.
- as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel and as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993.

b. The Company and its activity:

1. The Company is engaged, through its subsidiaries, in acquiring, developing and managing income producing properties in North America. Since October 2000, the Company is also engaged, through a jointly controlled entity, in establishing and managing senior citizen residence in Israel.
2. Investment in Equity One Inc. ("EQ1"):
 - a) Since the end of 1994, the Company commenced to invest, directly and indirectly, in EQ1, an American company which specializes in the acquisition and management of income producing properties in the U.S.(type REIT), whose shares are listed for trade on the New York Stock Exchange from 1998. As of balance sheet date, the Company holds in some 55.4% of the share capital of EQ1.
 - b) In October 2000, EQ1 signed an agreement with Alony-Hetz Properties and Investments Ltd. ("Alony-Hetz") for a private placement in stages of 2,950 thousand shares of EQ1 (some 20% of EQ1 shares at the date of closing) at a price of \$ 10.875 per share.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

In November 2000, according to this agreement, EQ1 allocated to Alony-Hetz one million shares in consideration for approximately \$ 10.9 million.

In August and September 2001, the remaining shares according to this agreement were allocated in consideration for approximately \$ 21 million.

As a result of these allocations, the Company recorded gain from decrease in holding rate of approximately NIS 6.5 million and NIS 3.3 million in 2001 and 2000, respectively.

- c) On May 18, 2001, The Company's subsidiaries, EQ1 and First Capital Reality Inc. ("FCR") (see 3 below), announced that they signed on a binding agreement whereby EQ1 will acquire FCR wholly owned subsidiary which is the owner of income producing properties in the United States ("CEFUS") in return for the allocation of 10.5 million of EQ1 shares. In September 2001, the transaction was closed after all the permits from the authorized entities were received.
 - d) In June 2001, EQ1 signed on an agreement from the acquisition of United Investors Reality Trust ("UIRT") (an income producing real estate company type REIT which is listed for trade on NASDAQ) in share and cash transaction. The net value of the transaction was estimated at approximately \$ 66 million, whereby half was paid in cash and the remaining half in EQ1 shares. In September 2001, the transaction was closed after all the permits from the authorized entities were received.
 - e) In January 2002, in a private placement, EQ1 issued to the Company, Alony-Hetz and to other shareholders some 688 thousand shares at a price of \$ 12.8 - \$ 13.05 per share.
 - f) In January 2002, EQ1 effected "off-the-shelf" issue of up to \$ 250 million, to be consummated from time to time in the future.
 - g) In March 2002, in a public issuance, EQ1 issued 3 million shares in consideration for the aggregate sum of approximately \$ 40 million, of which some 200 thousand shares and 125 thousand shares were issued to the Company and to FCR, respectively.
3. Investment in First Capital Reality Inc. (formerly: Cetrefund Realty Corp.) ("FCR"):
- a) In August 2000, the Company completed a procedure of a tender offer in which it acquired via a wholly-owned Canadian company ("Gazit 97"), 72% of FCR shares. Together with additional shares, which were acquired during trade on the stock exchange prior to completing this process, Gazit 97's shareholding reached some 84% of the share capital of FCR.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

FCR is a Canadian income producing real estate company which is listed for trade on the Toronto Stock Exchange.

- b) In October 2000, an agreement was signed between Gazit 97 and a company owned by Alony-Hetz, whereby Gazit 97 sold approximately 16% of FCR shares to Alony-Hetz at terms identical to those of the tender offer. Following this transaction, Gazit 97's shareholding in FCR declined to some 68%.
 - c) In the context of financing the acquisition transaction of FCR shares, an agreement was signed with an Israeli bank, whereby the bank was granted the option to acquire from Gazit 97 some 1.5 million shares of FCR (which constituted approximately 10% of FCR shares), at like terms, through the acquisition of shares and/or cash payment of the amount of the difference between the market price and the acquisition price and this is at the Company's sole discretion until September 30, 2002.
 - d) The aggregate acquisition cost (without the portion sold to Alony-Hetz) amounted to approximately NIS 388.8 million.
 - e) FCR's financial statements were consolidated with the financial statements of the Company commencing July 1, 2000. Gains amounting to approximately NIS 8,468 thousand which were accumulated from the date of consolidation until the effective date of the acquisition (gains attributed to former shareholders) were presented under a separate item in the statements of income for 2000, "Equity of former shareholders in earnings of newly consolidated subsidiary".
4. Investment in Mishkenot Clal (1982) Ltd. ("Mishkenot Clal"):

In October 2000, the Company acquired from Azorim Properties Ltd. ("Azorim") through the acquisition of shares and a private placement, 49% of the share capital of Mishkenot Clal (1982) Ltd. ("Mishkenot Clal") in return for the net consideration of approximately NIS 66 million. During May 2001, the Company acquired additional 1% of the shares of Mishkenot Clal in consideration of approximately NIS 2 million, thereby increasing its shareholdings in Mishkenot Clal to 50%.

Mishkenot Clal is engaged in the construction and management of senior citizen residence in Israel.

Mishkenot Clal's financial statements were consolidated by the proportionate consolidation method commencing October 1, 2000 upon the closing of the acquisition transaction.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (cont.)

5. Dividend distribution policy:

In November 1998, the Company's Board of Directors decided that it will publish during the fourth quarter of each year, the amount of the minimal dividend to be paid in each of the four quarters following the quarter in which the aforesaid notice was made.

The aforesaid is subject to sufficient amounts appropriate for distribution at the relevant dates and subject to the provisions of any law relevant to the distribution of a dividend and to the decisions which the Company is entitled to make, including with respect to another designation of its income and the changing of this policy.

In December 2001, the Company's Board of Directors decided to distribute a dividend of at least 64 agorot per share (16 agorot per share per quarter) for 2002, similar to the amount determined for 2001. Upon the issuance of stock split of 11 to 10, in March 2002, the Company announced that despite the increase in the number of shares, the above policy shall not be modified and the Company will distribute dividend of 64 agorot per share.

6. As for private placements by the Company during the reported year, see Note 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are as follows:

a. Adjusted financial statements:

1. The Company and its Israeli subsidiaries maintain their current accounting records in nominal NIS. In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including comparative figures) are presented in adjusted NIS, which have a stable purchasing power. The purchasing power of adjusted NIS reflects the average price level in December 2001, according to the Israeli Consumer Price Index ("CPI") published on January 15, 2002 (108.1 points on the average basis of 1998 = 100).

As for foreign subsidiaries whose financial statements are prepared in the currency of the countries in which they operate, see c. below.

2. The amounts for non-monetary assets do not necessarily represent realization value or current economic value, but only the original historical value of those assets which have been adjusted according to the changes in the general purchasing power of the currency.
3. The term "cost" in these financial statements signifies cost in adjusted NIS, unless otherwise indicated.
4. A summary of the Company's nominal data is presented in Note 37.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

b. Principles of adjustment:

1. Balance sheet:

- a) Non-monetary items (items whose amounts in the balance sheet reflect their nominal amounts upon acquisition or incurrence - see below) have been adjusted on the basis of the changes in the Israeli CPI since their acquisition or incurrence.

The following items have been treated as non-monetary items: prepaid expenses, fixed assets and the related accumulated depreciation, long-term investments, other assets and deferred charges, net and capital accounts and additional paid-in capital derived from cash received from shareholders.

- b) The book value of the investments in subsidiaries is determined on the basis of the adjusted financial statements of these companies.
- c) Monetary items (items whose amounts in the balance sheet reflect current or realizable values) are presented in the balance sheet as of December 31, 2001 in their nominal amounts (comparative data have been adjusted to the December 2001 Israeli CPI).

2. Statement of income:

- a) The components of the statement of income (except for financing), relating to transactions carried out during the year - income, expenses, etc. - have been adjusted at monthly indices at the time the related transactions were carried out or paid. The erosion of monetary balances relating to the aforesaid transactions has been included in financial income or expenses.
- b) The components of the statement of income relating to non-monetary balance sheet items (mainly depreciation, capital gain (loss), etc.) have been adjusted on the same basis used for the adjustment of the related balance sheet items.
- c) The components of the statement of income relating to provisions and accruals included in the balance sheet, such as: accrued severance pay, net, accrued vacation pay, etc., have been determined on the basis of the changes in the balances of the related balance sheet items after their relative cash flows are taken into account.
- d) Current tax expenses on income include the erosion in the value of the payments from the date of payment to the balance sheet date.
- e) The equity and the minority interest in the results of operations of subsidiaries is determined on the basis of the adjusted financial statements of these companies.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f) The financing item, reflects real financial income or expenses including the erosion of monetary items during the reported year.

3. Statement of changes in shareholders' equity:

The dividend which was declared and actually paid during the reported year was adjusted on the basis of the Israeli CPI upon actual payment date. The dividend which was declared until the date of the approval of the financial statements and is designated to be distributed out of the current year's earnings and was not paid as of the balance sheet date was included without adjustment. The erosion of the dividend which was declared in the previous year and actually paid in the reported year is included among the statement of changes in shareholders' equity.

c. Financial statements of foreign subsidiaries which are prepared in foreign currency:

1. For the presentation of the Company's investment in foreign subsidiaries, which were classified as autonomous units (as the term implies in interpretation 8 to Opinion 36 of the Institute of Certified Public Accountants in Israel), and for the inclusion of those units' data in the consolidated financial statements, the financial statements of these subsidiaries were translated according to the principles determined in that clarification. Prior to the translation, the financial statements of these subsidiaries were adjusted to the accounting principles applied by the Group and to the changes in the purchasing power of the currency of the countries in which they operate.

Following are the main principles determined in interpretation 8 which refer to autonomous units:

- All the items in the subsidiary's financial statements, including the statement of income items, were translated into Israeli currency at the exchange rate prevailing at balance sheet date.
- The Group's investments in the subsidiary were adjusted to the changes in the general purchasing power of the Israeli currency in the reported year.
- Differences resulting from this treatment are carried to a separate item within the shareholders' equity ("Foreign currency translation adjustments for foreign autonomous units").
- The erosion of loans which were received for the direct financing of the investment in the autonomous units and which are stated in or linked to the respective currency in which the financial statements of that unit were prepared with the addition of the erosion of loans in relation to the changes in the purchasing power of that currency and erosion of monetary balances which have the nature of investment in these units, are also carried to the above item within shareholders' equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

As for data pertaining to the changes in the consumer price index in those countries in which the Group has autonomous units (U.S. and Canada), see q. below.

2. For the presentation of the Company's investment in other foreign subsidiaries, which were classified as an integral part (as the term is defined in the aforesaid clarification 8), and for the inclusion of those other subsidiaries' data in the consolidated financial statements, the financial statements of these other subsidiaries were remeasured according to the principles determined in that clarification. Prior to the remeasurement, the financial statements of these other subsidiaries were adjusted to the accounting principles applied by the Group.

Following are the main principles determined in Interpretation 8, which refer to foreign subsidiaries whose activities represent an integral part.

- All non-monetary items of such subsidiary, including the respective statement of income items, and all other statement of income items, are remeasured into NIS according to the representative exchange rate prevailing at the date the transactions were carried out or paid by that subsidiary.
 - After such translation, the said items are adjusted on the basis of the changes in the Israeli Consumer Price Index ("CPI") from the index published in respect of the month in which each transaction was carried out or paid to the index published in respect of balance sheet date.
 - All the monetary items of that subsidiary are translated into Israeli currency according to the exchange rate prevailing at balance sheet date.
 - Differences resulting from this treatment are carried to the statement of income, among financing.
- d. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. In addition, these statements include the proportionate share in the amounts of assets, liabilities, revenues and expenses of the jointly controlled entities which are consolidated using the proportionate consolidation method based on the shareholding in these companies. Intercompany transactions and balances among the companies whose accounts have been fully or proportionally consolidated, have been eliminated in the consolidated financial statements. Company's shares which were acquired by the Company or by subsidiaries are presented using the treasury stock method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

e. Reclassification of the statement of income:

The Group's activities, the nature of its revenues and expenses and the Company's operating structure as a holding company, require classifications of the statement of income items according to the single-stage method and not according to the order prescribed in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993, which is in line with the qualification determined in these regulations.

f. Cash equivalents:

Cash equivalents include deposits in banks for immediate withdrawal and deposits in banks which include short term deposits in banks for which the period up to their redemption, at the time of investment therein, is not over three months and which are not restricted by charges.

g. Marketable securities:

1. Marketable securities invested for the short-term and available for sale in the immediate term are presented at market value as of balance sheet date in accordance with

Opinion 44 of the Institute of Certified Public Accountants in Israel. Changes in their value are carried to the statement of income among financing.

2. Marketable securities invested to maturity are presented at cost net of a provision for impairment in value if the decline in value is of a permanent nature.

h. Allowance for doubtful accounts:

The allowance is principally determined in respect of specific debts whose collection, in the opinion of the management of the companies, is doubtful.

i. Fixed assets:

1. Fixed assets are stated at cost. Provision for impairment loss is provided when the carrying amount of the asset exceeds recoverability. Financial expenses related to the financing of the acquisition or the construction of fixed assets in respect of the period prior to the operations thereof are included in the cost of the assets.

2. Improvements, renovations and material reconditioning are carried to cost whereas current maintenance and repair expenses are expensed as incurred.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

3. Depreciation is calculated using the straight-line method at annual rates which are deemed adequate to depreciate the assets over their estimated useful lives, as follows:

	<u>%</u>	
Buildings for lease	2 - 4	(mainly 2% and 2.5%)
Office furniture and equipment	14 - 33	
Motor vehicles	15	
Improvements in buildings for lease *)	2 - 20	(mainly 7%)

- *) Improvements in buildings for lease are depreciated at the shorter of the estimated useful period of those properties or the term of the respective lease agreement.

4. Capitalized leasehold rights are depreciated over the lease period.

- j. Investments in investees:

The Company's investments in subsidiaries are presented using the equity method of accounting, i.e. the investments are presented at cost plus the equity in the net operating results of those companies or other changes in their shareholders' equity since their acquisition or establishment.

Excess of investment costs over equity upon dates of acquisition ("excess value") to which the provisions of the Israeli Securities Regulations (Presentation of Activities Between a Corporation and a Controlling Interest Therein in the Financial Statements) 1996, do apply, is presented according to the principles prescribed in those regulations, meaning, as an addition to or disposal from the shareholders' equity, as is applicable.

The excess value attributed to buildings is presented under fixed assets in the consolidated financial statements, and is amortized over the remaining depreciation period of the real estate to which they are attributed, up to 50 years.

The excess value attributed to land is also presented in the consolidated financial statements under fixed assets and is not depreciated.

The excess value attributed to monetary assets and liabilities and to commitments is presented under these items and is amortized according to their realization.

The excess value which is not attributed to certain assets and to which the aforesaid regulations do not apply, is carried to goodwill which is presented in the consolidated financial statements under other assets, and is amortized over a period of 10 years in equal annual amounts.

As for deferred taxes, see l. below.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Other assets and deferred charges, net:

Deferred charges which originate from raising long-term loans and debentures are amortized using the straight-line method over the period of the loans which ranges between 5 - 30 years, taking into account the outstanding balance in each year end.

l. Deferred taxes:

1. Deferred taxes are computed in respect of temporary differences between the amounts included in the adjusted statements and the amounts to be considered for tax purposes (taking into account the provisions of Opinion 40 of the Institute of Certified Public Accountants in Israel).

2. Deferred tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to be released to the statement of income, as known on the date the financial statements were prepared.

3. Taxes that would apply in the event of the realization of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company's intention to hold these investments. Similarly, deferred taxes that may be incurred in the event of distribution of earnings by certain subsidiaries as dividends have not been taken into account in computing deferred taxes since the Company's policy is not to initiate distribution of dividend from these companies that involves an additional tax liability.

4. As it is uncertain whether there will be taxable income in the future, no deferred taxes were recorded in the Company's books.

m. Revenue recognition from rental income and management fees:

Revenues from rental income and management fees are recognized as accrued, over the contractual period or as the management services are performed.

n. Revenue recognition from entrance fees and forfeiture of deposits:

Receipts from entrance fees are carried equally to the statement of income, over a period of 10 years beginning with the date on which the tenant enters the apartment.

Revenues from the forfeiture of deposits which were received from tenants are carried to the statement of income as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Debentures and convertible debentures:

Convertible debentures are included 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. In the event that the conversion is not foreseeable, the debentures are included as a liability at their liability value; in the event that conversion is likely, the debentures are stated among long-term liabilities and shareholders' equity at the greater of their liability value or capital value.

Discount created upon the issuance of convertible debentures is amortized using the straight-line method over the term of the debentures.

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, is included in the statement of income or in 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 is carried as gain or loss on early redemption and is included in the consolidated statement of income among financing. When the probability of conversion is high, the difference is carried as surplus acquisition cost.

The Company will act from 2002 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 only when the debentures be converted into the subsidiary's shares or when the debentures be redeemed by the subsidiary, whichever is earlier.

p. Derivative financial instruments:

The results of forward transactions for hedging liabilities the Company undertook to repay in foreign currency in connection with additional investments in subsidiaries, are deferred until such investments are made and constitute part of the cost of the investments made.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

- q. Exchange rates and linkage basis:
1. Assets and liabilities in or linked to foreign currency are included in the financial statements according to the representative exchange rates published by the Bank of Israel on December 31, 2001.
 2. Assets and liabilities linked to the Israeli CPI are included according to the relevant index for each asset or liability.
 3. Exchange rate and linkage differences are carried to the statement of income as incurred.
 4. The following are details of the index in Israel, U.S. and Canada and the exchanges rates of the U.S. dollar and the Canadian dollar:

	Consumer Price Index			Exchange rate of \$ 1 of	
	Israel	U.S. Points *)	Canada	U.S.	Canada
				NIS	
<u>As of:</u>					
December 31, 2001	108.1	176.7	115.9	4.416	2.7763
December 31, 2000	106.6	174.0	115.1	4.041	2.6913
December 31, 1999	106.6	168.3	111.5	4.153	2.8568
December 31, 1998	105.2	163.9	108.7	4.160	2.6868
<u>Increase (decrease) in:</u>					
			%		
2001	1.4	1.6	0.7	9.3	3.2
2000	-	3.4	3.2	(2.7)	(5.8)
1999	1.3	2.7	2.6	(0.2)	6.3

- *) 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.

- r. Earnings per share:

Earnings per share are computed in accordance with Opinion 55 of the Institute of Certified Public Accountants in Israel.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

s. Fair value of financial instruments:

The Group's financial instruments include mainly non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, deposits in banks, marketable securities, tenants, other accounts receivable and long-term loans provided; non-derivative liabilities include short-term and long-term credit from banks and others, trade payables and other accounts payable). The fair value of these financial instruments is generally equivalent to or approximates the value in which they are presented in the financial statements.

As for derivative financial instruments, see p. above.

t. Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

u. Adoption of recently issued accounting standards and their impact on the financial statements:

1. In May 2001, the Israel Accounting Standards Board published Accounting Standard No. 7 regarding post balance sheet events, and Accounting Standard No. 8 regarding discontinuing operations and in July 2001, Accounting Standard No. 11 regarding segment reporting.

Accounting Standard No. 7 contains the conditions for post balance sheet events that require adjustments and post balance sheet events that are non-adjusting events, including rules such as accounting for dividend that are different from those applied until now. Accounting Standard No. 7 will apply to financial statements for periods ending on or after December 31, 2001. Since section 31 to the Securities Regulations (Preparation of Annual Financial Statements), 1993 was not eliminated, the treatment of dividend that was declared after the balance sheet date will be in accordance with these regulations, i.e., it will be disclosed as short-term liability and netted from shareholders' equity.

Accounting Standard No. 8 prescribes provisions for presentation and disclosure with regard to the treatment of discontinued operations, among them provisions regarding presentation which are different from those applied until now. Accounting Standard No. 8 will apply to financial statements for periods beginning on or after January 1, 2002.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounting Standard No. 11 prescribes provisions with respect to segment reporting. Accounting Standard No. 11 is based on International Accounting Standard No. 14, pursuant to which the Company prepared its financial statements, since International Standard No. 14 constituted the accepted practice in Israel. Accounting Standard No. 11 will apply to financial statements for periods beginning January 1, 2002.

The management of the Company does not anticipate that the adoption of the new Standards, as discussed above, will have a significant effect on its results of operations, financial position and cash flows.

2. Discontinuance of adjusting 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.

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

The management of the Company is of the opinion that the discontinuance of adjusting financial statements to the 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.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 3:- CASH AND CASH EQUIVALENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Cash and deposits for immediate withdrawal	102,889	103,444	1,173	1,128
Short-term deposits	111,028	419	26,351	419
	<u>213,917</u>	<u>103,863</u>	<u>27,524</u>	<u>1,547</u>

NOTE 4:- SHORT-TERM INVESTMENTS

Marketable securities presented at market value (1)	127,267	113,116	3,433	29,270
Debentures and convertible debentures of FCR (2)	-	13,145	-	-
	<u>127,267</u>	<u>126,261</u>	<u>3,433</u>	<u>29,270</u>
Deposits in dollars (3)	18,197	3,824	-	-
Restricted cash (4)	12,229	41,397	-	-
	<u>157,693</u>	<u>171,482</u>	<u>3,433</u>	<u>29,270</u>

- (1) Mainly investment in shares of the income producing real estate companies in the U.S. and Canada. At December 31, 2000, the item includes also Supersol's shares which were held as a short-term investment (see Note 9(3)).
- (2) In January 2001, the debentures were sold to Alony-Hetz at cost, pursuant to the agreement with that company, see Note 1b3b.
- (3) Deposits for the examination of investments in real estate and other deposits. These deposits primarily do not bear interest.
- (4) Cash designated to secure various liabilities of subsidiaries. The restriction is expected to end in the course of the coming year.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 5:- TENANTS

a. Composition:

	Consolidated	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Open accounts	43,201	(* 40,525
Less - allowance for doubtful accounts	5,658	(* 4,270
	<u>37,543</u>	<u>36,255</u>

b. As for principal tenants in subsidiaries, see Note 27.

NOTE 6:- ACCOUNTS RECEIVABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Dividend receivable	260	2,277	-	2,277
Interest receivable	146	143	-	-
Government authorities (1)	15,950	16,331	326	967
Related parties (2)	1,750	327	-	-
Loan to jointly controlled entity	1,562	470	-	-
Prepaid expenses	32,724	15,595	5,855	102
Employees	848	339	-	-
Others	2,706	406	102	200
	<u>55,946</u>	<u>35,888</u>	<u>6,283</u>	<u>3,546</u>

(1) Mainly for municipal taxes.

(2) The balance includes mainly a loan which EQ1 provided to the Company's chairman in June 1999 amounting to approximately \$ 297 thousand for exercising stock options (series C) issued to him by EQ1. The loan bears annual interest of 6.35%, payable quarterly, maturing in December 2002 and is secured by a charge placed on EQ1 shares deriving from the said exercise as well as current maturities on a loan to the Company's CEO, see Note 10b(2)a.

NOTE 7:- LOANS TO FORMER PARTNERS IN JOINTLY CONTROLLED ENTITIES

Loans which FCR and CEFUS provided to former partners in property development companies are for their share in financing the development of the properties of these companies.

The loans are in U.S. dollars and in Canadian dollars, in accordance with the location of the property, and bear interest of 9% - 10%. The loans are secured by the partners' rights to the properties. According to the partnership agreement and the loan agreement for the sale of part of the properties by FCR and CEFUS, these loans will mature until December 2002.

During the reported year, FCR and CEFUS (see Note 1b(2)c) acquired the partners share in 10 properties (of which one land for future development) which were owned (in full or in part) by the development companies for the amount of approximately NIS 129 million (the partners' share) which was paid through assuming the partners' share in the mortgages associated with the properties and through waiving on the partners' indebtedness to the Company. Further, during the reported year, 5 properties which were owned by development companies were sold to the partners of those companies in consideration of approximately NIS 25 million (Company share).

In the context of the liquidation of these partnership during and the sale of the Company's share to the partners of these properties, as aforementioned, FCR received from the partners promissory notes amounting to approximately NIS 21.9 million. The promissory notes bear interest of 9% - 10%, mature in December 2002 and are secured by a charge placed on real estate properties.

In addition, in the context of the liquidation of the partnerships of said properties, 2 properties under development and lands for future development were transferred to a new partnership of the Company and the former partners.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES

a. Composition:

		The Company	
		December 31,	
		2001	2000
		Adjusted NIS in thousands	
1.	Investments in subsidiaries:		
	Cost of shares	366,562	227,927
	Capital reserves on investment in subsidiaries	(30,869)	(30,869)
	Equity in post-acquisition earnings	159,707	85,848
	Dividend received from subsidiaries	(26,868)	(20,932)
	Foreign currency translation adjustments for foreign autonomous units	68,943	24,175
		<u>537,475</u>	<u>286,149</u>
2.	Investments in jointly controlled entity *):		
	Cost of shares	103,820	101,728
	Equity in post-acquisition earnings (losses)	(7,352)	412
		<u>96,468</u>	<u>102,140</u>
	Loans **)	<u>345,130</u>	<u>327,228</u>
		<u><u>979,073</u></u>	<u><u>715,517</u></u>

*) See g and h below.

***) As of December 31, 2001, the loans are in U.S. dollars and in Canadian dollars and bear interest of 6% to 6.5% (in the United States) and 8.5% or LIBOR + 2.5%, whichever is higher (in Canada). The principal and the interest are repayable upon the earlier of five years from the date of receipt of loan or at the Company's request.

b. The investment, directly and indirectly, in EQ1, which is listed for trade on the New York Stock Exchange:

	December 31, 2001		December 31, 2000	
	Carrying amount	Market value	Carrying amount	Market value
Adjusted NIS in thousands				
Shares	<u>764,686</u>	<u>968,236</u>	<u>339,260</u>	<u>331,804</u>

As of the balance sheet date, the Company holds, directly and indirectly, in some 55.4% (54.9% assuming full dilution) of EQ1 share capital (see Note 1b2).

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

c. The stock options of EQ1 as of the balance sheet date are as follows:

<u>Series</u>	<u>Exercise increment per share *)</u>	<u>Expiration date</u>	<u>Total number in units **)</u>
Options issued to employees	\$ 10	10.12.06 - 31.3.10	370,000
Options issued to employees	\$ 12.375	31.12.2006	30,000
Options issued to employees	\$ 9.9	31.8.09	175,000
Options issued to employees	\$ 10.438	6.9.09	50,000

*) The price for an EQ1 share as of the balance sheet date is \$ 13.74.

***) Including all of the stock options which were issued to employees, as well as the 300,000 stock options which have not yet gained the minimal span required for their vesting rights.

<u>The Company</u>	
<u>December 31,</u>	
<u>2001</u>	<u>2000</u>
<u>Adjusted NIS in thousands</u>	

d. Dividend directly received by the Company from EQ1 during the reported year

<u>5,136</u>	<u>5,141</u>
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e. The indirect investment in FCR which is listed for trade on the Toronto Stock Exchange:

	<u>December 31, 2001</u>		<u>December 31, 2000</u>	
	<u>Carrying amount</u>	<u>Market value</u>	<u>Carrying amount</u>	<u>Market value</u>
	<u>Adjusted NIS in thousands</u>			
Shares	<u>434,598</u>	<u>376,303</u>	<u>388,882</u>	<u>254,227</u>

The Company holds, through a subsidiary, in some 68.08% (43.3% assuming full dilution) of FCR share capital (see Note 1b3).

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

f. The stock options of FCR as of the balance sheet date are as follows:

<u>Series</u>	<u>Exercise increment per share *) **)</u>	<u>Expiration date</u>	<u>Total number in units</u>
Options to former employees and managers and employees of the property management company	CD 14.3	3.10.2008	480,000
Options to former controlling shareholders in FCR and others	CD 14	1.1.2010	1,000,000

As for FCR debentures that are redeemable into FCR shares, see Note 18b.

As for the issuance of options by FCR to shareholders, employees and its managers subsequent to the balance sheet date, see Note 35c.

*) The price for FCR share as of the balance sheet date is CD 12.95.

***) Following the rights issue subsequent to the balance sheet date, the exercise increment was changed to CD 13.54, see Note 35g.

g. Investment in jointly controlled entity which was consolidated using the proportionate consolidation method:

	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Current assets	<u>4,297</u>	<u>2,085</u>
Non-current assets	<u>156,921</u>	<u>165,163</u>
Current liabilities	<u>28,284</u>	<u>22,229</u>
Long-term liabilities	<u>103,024</u>	<u>108,981</u>
	Year ended	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Revenues	<u>16,814</u>	<u>4,650</u>
Expenses	<u>23,652</u>	<u>4,055</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (cont.)

h. Goodwill included in the investment in jointly controlled entity:

	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Goodwill created upon acquisition	14,500	14,211
Amortized goodwill	1,104	177
	<u>13,396</u>	<u>14,034</u>

i. As for the charge placed on part of the subsidiaries' shares as collateral for the Group's liabilities, see Note 25.

NOTE 9:- LONG-TERM INVESTMENTS

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Long-term deposits (1)	17,604	5,152	816	1,609
Marketable securities presented at cost (2):				
Shares of companies in Israel (3)	28,458	86,200	28,458	86,815
Shares of companies in the United States and Canada (4)	37,469	63,345	-	-
	<u>65,927</u>	<u>149,545</u>	<u>28,458</u>	<u>86,815</u>
	<u>83,531</u>	<u>154,697</u>	<u>29,274</u>	<u>88,424</u>

(1) A deposit of NIS 13,625 thousand is unrestricted deposit, which was deposited with the Bank of Israel and which bears interest of 1.6%. According to the agreement with the Bank, as long as the deposit is maintained, the interest rate on loans which were provided by the Bank to the Company's employees and CEO in order to acquire the Company's shares issued to them shall be 2%. If the deposit is withdrawn, the interest rate on these loans shall be as the interest in the market. The balance of the deposits were granted to the providers of the mortgages in order to secure the performance of renovations in the mortgaged properties so to maintain their value.

(2) The market value of these shares as of the balance sheet date is approximately NIS 75 million (in 2000 - approximately NIS 190 million).

(3) At December 31, 2000, mainly shares of Supersol Ltd.

(4) Mainly income producing real estate companies.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM LOANS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Employees (1)	12,491	2,789	140	150
Related parties (2)	12,850	5,843	-	-
Loan provided by a jointly controlled entity (3)	18,846	19,781	-	-
Others (4)	22,238	22,317	-	-
	<u>66,425</u>	<u>50,730</u>	<u>140</u>	<u>150</u>

b. Maturity dates:

	Consolidated	The Company
	December 31, 2001	December 31, 2001
	Adjusted NIS in thousands	
Second year	586	-
Third year	149	-
Fourth year	83	-
Fifth year	31,415	-
Sixth year and thereafter	14,989	-
Amounts for which a maturity date was not yet determined	<u>19,203</u>	<u>140</u>
	<u>66,425</u>	<u>140</u>

(1) Consolidated - mainly loans in U.S. dollars for which the weighted interest rate is 5.1%.

The Company - the loans are in NIS, linked to the Israeli CPI and bear annual interest of 4%.

(2) The composition as of December 31, 2001 is as follows:

- (a) A loan amounting to \$ 80 thousand which a subsidiary provided to the Company's CEO (a related party by virtue of his holdings in Gazit and a director of the Company) in August 1997 for relocating, within the framework of his position, to Canada. The loan matured in August 2001, bearing interest of LIBOR + 1% payable quarterly. In August 2001, the loan maturity was extended so that it is repayable in eight quarterly payments commencing from October 1, 2001. As of December 31, 2001, approximately \$ 30 thousand are presented under the caption "Accounts receivable".

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 10:- LONG-TERM LOANS (cont.)

- (b) A loan amounting to \$ 2,880 thousand which a subsidiary provided to the Company's chairman of the Board in September 2001 for exercising stock options issued to him by EQ1, within the framework of employee stock option plan. The loan bears interest of 5%, payable quarterly and matures within 5 years.
- (3) A loan that Mishkanot Clal provided to Azorim. The loan is linked to the Israeli CPI and bears annual interest of 4%.
- (4) Loans provided by FCR and EQ1 to various entities and companies. The loans are in Canadian dollars and U.S. dollars, primarily bear interest of 8% - 10% and mature from 2006 to 2021.

NOTE 11:- FIXED ASSETS

- a. Consolidated:

	<u>Foreign real estate *)</u>	<u>Real estate in Israel *)</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>		
Cost:			
Balance at January 1, 2001	4,184,420	212,628	4,397,048
Foreign currency translation adjustments for foreign autonomous units	268,272	-	268,272
Newly consolidated subsidiaries	614,840	4,901	619,741
Purchases during the year	539,149	13,321	552,470
Disposals during the year	(115,999)	(1,720)	(117,719)
Balance at December 31, 2001	<u>5,490,682</u>	<u>229,130</u>	<u>5,719,812</u>
Accumulated depreciation:			
Balance at January 1, 2001	102,623	9,624	112,247
Foreign currency translation adjustments for foreign autonomous units	8,002	-	8,002
Newly consolidated subsidiaries	-	806	806
Additions during the year	90,195	4,891	95,086
Disposals during the year	-	(63)	(63)
Balance at December 31, 2001	<u>200,820</u>	<u>15,258</u>	<u>216,078</u>
Depreciated cost at December 31, 2001	<u><u>5,289,862</u></u>	<u><u>213,872</u></u>	<u><u>5,503,734</u></u>
Depreciated cost at December 31, 2000	<u><u>4,081,797</u></u>	<u><u>203,004</u></u>	<u><u>4,284,801</u></u>

*) Mainly real estate.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS (cont.)

b. The Company:

	Motor vehicles	Office furniture and equipment	Leasehold improvement s	Total
	Adjusted NIS in thousands			
Cost:				
Balance at January 1, 2001	510	827	725	2,062
Additions during the year	159	168	341	668
Disposals during the year	(204)	(294)	-	(498)
Balance at December 31, 2001	465	701	1,066	2,232
Accumulated depreciation:				
Balance at January 1, 2001	46	510	24	580
Additions during the year	71	122	99	292
Disposal during the year	(63)	(294)	-	(357)
Balance at December 31, 2001	54	338	123	515
Depreciated cost at December 31, 2001	<u>411</u>	<u>363</u>	<u>943</u>	<u>1,717</u>
Depreciated cost at December 31, 2000	<u>464</u>	<u>317</u>	<u>701</u>	<u>1,482</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 11:- FIXED ASSETS (cont.)

- c. Initial difference attributed to real estate:

	<u>December 31, 2001</u>		<u>December 31, 2000</u>	
	<u>Foreign</u>	<u>In Israel</u>	<u>Foreign</u>	<u>In Israel</u>
	Adjusted NIS in thousands			
Balance of initial difference attributed to land	<u>209,002</u>	<u>54,082</u>	<u>185,375</u>	<u>46,704</u>

- d. Rights to real estate:

The ownership rights to land in the United States and Canada are registered in the names of the subsidiaries according to the registration regulations in their respective places of residence.

Subsidiaries and a jointly controlled entity own land in Israel under capitalized lease amounting to approximately NIS 45,457 thousand (As of December 31, 2000 - NIS 50,314 thousand). The lease periods terminate between 2011 to 2050. The subsidiaries have an option to lease the land for additional 49 years.

As for charges, see Note 25.

- e. In 2001, financial expenses of NIS 14,018 thousand were capitalized to real estate under development, in 2000 - NIS 13,640 thousand were capitalized and in 1999 - NIS 7,656 thousand.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 12:- OTHER ASSETS AND DEFERRED CHARGES, NET

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Cost:				
Deferred selling expenses (1)	1,595	1,306	-	-
Expenses related to raising long-term loans and debentures and other expenses	59,541	59,646	4,056	1,019
Goodwill (2)	14,500	14,211	-	-
	<u>75,636</u>	<u>75,163</u>	<u>4,056</u>	<u>1,019</u>
Accumulated amortization:				
Deferred selling expenses (1)	197	55	-	-
Expenses related to raising long-term loans and debentures and other expenses	15,795	9,137	609	331
Goodwill (2)	1,104	178	-	-
	<u>17,096</u>	<u>9,370</u>	<u>609</u>	<u>331</u>
	58,540	65,793	3,447	688
Deferred taxes, see Note 22c	65,350	(* 48,366)	-	-
	<u>123,890</u>	<u>114,159</u>	<u>3,447</u>	<u>688</u>

(1) Expenses for selling protected residential units in a jointly controlled entity.

(2) Goodwill created upon the acquisition of Mishkanot Clal, see Note 2j.

*) Reclassified.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 13:- SHORT-TERM CREDIT FROM BANKS AND OTHERS

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Short-term credit from banks (b)	21,426	11,494	2,973	2,849
Current maturities of long-term liabilities (Note 19)	290,773	265,351	-	24,499
Current maturities of debentures (Note 17)	24,631	22,792	24,631	22,792
	<u>336,830</u>	<u>299,637</u>	<u>27,604</u>	<u>50,140</u>

b. Linkage terms and interest rates of short-term credit from banks:

	Weighted interest rate	Consolidated		The Company	
		December 31,		December 31,	
	2001	2001	2000	2001	2000
	%	Adjusted NIS in thousands			
In NIS	5.3	15,199	8,288	2,973	52
In U.S. dollar	4.05	6,227	3,172	-	2,763
In Canadian dollar	-	-	34	-	34
		<u>21,426</u>	<u>11,494</u>	<u>2,973</u>	<u>2,849</u>

c. To secure the credit it received, the Company recorded a charge on certain assets, see Note 25.

NOTE 14:- TRADE PAYABLES

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Open accounts	35,982	(* 29,158	149	124
Notes payable	460	361	219	150
	<u>36,442</u>	<u>29,519</u>	<u>368</u>	<u>274</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 15:- OTHER ACCOUNTS PAYABLE

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Interest payable	35,852	(* 27,122	-	-
Current maturity of deposits and entrance fees from tenants (see Note 20(2))	10,245	9,346	-	-
Government authorities (1)	45,704	(* 30,620	1,046	1,103
Related parties	-	80	-	80
Revenues received in advance from tenants	3,891	3,222	-	-
Investee	-	-	8,728	3,971
Unrealized gain	-	-	428	428
Employees	5,529	(* 5,316	139	130
Payables for acquisition of real estate and investments	-	14,906	-	14,609
Dividend declared by subsidiary	3,681	3,215	-	-
	<u>104,902</u>	<u>(* 93,827</u>	<u>10,341</u>	<u>20,321</u>

(1) Mainly for municipal taxes.

*) Reclassified.

NOTE 16:- DIVIDEND DECLARED

In December 2001, the Company declared an interim dividend for 2001 in the amount of NIS 8,452 thousand. The dividend was paid at the beginning of January 2002. The caption also includes dividend which was declared subsequent to the balance sheet date in the amount of NIS 9,992 thousand, see Note 35h.

As for the dividend distribution policy, see Note 1b5.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES

a. Composition:

	Consolidated		The Company	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Debentures (series D), see b below	105,140	122,427	105,140	122,427
Less - bond discount	6,141	7,985	6,617	8,467
	98,999	114,442	98,523	113,960
Less - current maturities	24,631	22,792	24,631	22,792
	74,368	91,650	73,892	91,168
Non-marketable debentures, see c below	112,062	-	112,062	-
Less - bond discount	9,056	-	9,056	-
	103,006	-	103,006	-
Debentures of FCR, see d below	67,892	(* 67,153	-	-
Less - bond discount	750	(* 1,135	-	-
	67,142	66,018	-	-
	<u>244,516</u>	<u>157,668</u>	<u>176,898</u>	<u>91,168</u>

*) Reclassified.

b. In the context of an agreement signed between the Company and Gazit Group in August 1998, the Company assumed the liabilities in respect of debentures (series D) which were issued to the public primarily in November 1996 by Gazit, to Gazit and the holders of these debentures as of July 1, 1998.

The series included NIS 76,498,200 par value of registered debentures, redeemable in five annually equal payments commencing December 2001, bearing annual interest, payable every three months at the rate of LIBOR for dollar deposits for a period of 3 months + 0.5% per year and are linked (principal and interest) to the representative exchange rate of the dollar (base exchange rate of \$ 1 = NIS 3.23).

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES (cont.)

By virtue of an agreement dated April 12, 1999, the Company's parent company issued in May 1999, under a private placement, an additional NIS 20,000,000 par value of debentures (series D) in consideration of approximately NIS 23,465 thousand. NIS 14,500,000 par value of debentures was issued to the underwriters and the balance was issued to the Company's subsidiary. By virtue of the above agreement, Gazit Inc. loaned the Company the raised funds at identical terms and for an identical period as the terms of the debentures, and the Company, on its part, has committed towards the parent company in respect of all the obligations that the parent company has to fulfill towards the holders of the issued debentures. As of the balance sheet date, all the debentures (series D) which were held by the Group were sold.

On December 31, 2001, the Company redeemed 19,299,640 par value of debentures (20% of the outstanding amount of debentures) and, as a result, about 350 thousand of EQ1 shares which were pledged in favor of the debenture holders were released.

As for the remaining collaterals provided in order to secure these debentures, see Note 25b.

- c. In January 2001, the Company issued non-marketable debentures in the amount of NIS 97 million to two provident funds. The debentures are linked to the Israeli CPI, bear interest which reflects a gross annual yield of 8.25% and are redeemable in the years 2006 - 2015.

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

- d. Debentures in the amount of CD 38,166 thousand par value were issued by FCR in consideration of their par value and they bear interest of 7.5% payable twice per year. The debentures are redeemable in December 2003.

In December 2000, a subsidiary acquired CD 17,193 thousand par value of debentures. In January 2001, the subsidiary sold at cost approximately 22% of the debentures it held to Alony-Hetz, see Note 1b3b. In addition, in the context of obtaining credit from a bank in order to acquire the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the acquisition of an additional some 10% of the debentures it holds at cost. As for the gain on early redemption which resulted from the acquisition of the debentures, see Note 18b below.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 17:- DEBENTURES (cont.)

During the year, FCR acquired during the trade on the Toronto Stock Exchange some CD 300 thousand par value of debentures. As of the balance sheet date, total balance of outstanding debentures is CD 37,866 thousand par value.

As of the balance sheet date, the subsidiary holds in approximately CD 13.4 million par value of FCR debentures (35% of the issued amount).

In the consolidated financial statements, the debentures are presented less debentures acquired by the subsidiary and less discount which was computed upon the acquisition of FCR, taking into account the interest rates prevailing upon acquisition, in order to present the debentures at their fair value.

NOTE 18:- CONVERTIBLE DEBENTURES

a. Convertible debentures redeemable into subsidiary's shares ("the debentures"):

Four series of debentures which FCR issued in an aggregate to CD 354,963 thousand par value, which were issued in consideration of their par value, are convertible into FCR shares and bear interest as detailed below, payable semi-annually. FCR is entitled to enforce the conversion of the debentures at the determined dates. The conversion ratio in this case will be determined according to the share price on the Stock Exchange during the period prior to the conversion multiplied by the rate of 95%. (In respect to two of the series, FCR is entitled to also pay the accrued interest in shares, at terms identical to the terms for the repayment of the principal of the debentures.) In view of the aforesaid, these debentures were presented under a separate item among long-term liabilities and minority interest.

b. In December 2000, a subsidiary acquired CD 11,783 thousand par value of convertible debentures which are redeemable into FCR shares. In January 2001, the subsidiary sold at cost approximately 22% of the debentures it held to Aloni-Hetz, see Note 1b3b. In addition, in the context of obtaining credit from a bank in order to acquire the debentures, the subsidiary provided an option to the financing bank, for a period of two years, for the acquisition of an additional some 10% of the debentures it holds at cost.

As a result of the acquisition of the debentures and the debentures redeemable into FCR shares in 2000, the Company recorded a gross gain on early redemption in the amount of approximately NIS 9.6 million (approximately NIS 3.7 million net after the provision for tax and the minority interest).

NOTE 18:- CONVERTIBLE DEBENTURES (cont.)

- c. In 2001, a subsidiary published two tender offers for three series of FCR convertible debentures. In the tender offers, about CD 12 million par value of convertible debentures (which bear interest of 7.875%) were acquired at 80% of their par value, about CD 22.4 million par value of convertible debentures (which bear interest of 7%) were acquired at the average of 77% of their par value and about CD 28.5 million par value of convertible debentures (which bear interest of 7.25%) were acquired at 80% of their par value. By virtue of the agreement with Alony-Hetz, about 22% of the debentures which were acquired through the tender offers were sold to Alony-Hetz at their purchase prices. Further to the above, in 2001, a subsidiary acquired additional convertible debentures of FCR during trade on the stock exchange.

In respect of the acquisition of said debentures, in 2001, the Company derived a net gain on early redemption in the amount of approximately NIS 36.6 million (approximately NIS 18 million net after the provision for tax and the minority interest).

As of the balance sheet date, the subsidiary holds in approximately CD 94 million par value of FCR convertible debentures (26.5% of the issued amount) and in CD 13.4 million par value of FCR debentures (35% of the issued amount).

The debentures and the convertible debentures which are held by the subsidiary are pledged as a security for the credit received in connection with their acquisition from a bank in Israel.

As for additional acquisitions of FCR convertible debentures subsequent to the balance sheet date, see Note 35a.

In the consolidated financial statements, the debentures are presented less debentures acquired by the subsidiary and less discount which was computed upon the acquisition of FCR, taking into account the interest rates prevailing upon acquisition, in order to present the debentures at their fair value.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 18:- CONVERTIBLE DEBENTURES (cont.)

Below are details of the composition and terms of the convertible debentures as of December 31, 2001:

<u>First repayment date</u>	<u>Last repayment date</u>	<u>Interest rate</u>	<u>Conversion price per share *)</u>	<u>Balance</u>
		<u>%</u>	<u>In CD</u>	<u>Adjusted NIS in thousands</u>
30.11.2002	30.11.2006	8.5	15.5	138,301
31.1.2003	31.1.2007	7.875	17	197,884
28.2.2004	28.2.2008	7.0	23.5	198,575
30.6.2004	30.6.2008	7.25	25.25	188,791
				723,551
				16,100
				<u>707,451</u>

Less - discount of convertible debentures

- *) The price for an FCR share as of the balance sheet date is CD 12.95. The above conversion prices represent the right of conversion of the debenture holders. Subsequent to the balance sheet date, following rights issue effected by FCR, the conversion prices of debentures into shares were changed to 3.4%, reflecting the compensation component in the rights issue.
- d. In January 2000, agreements were signed between the Company and 11 provident funds, whereby the Company allocated convertible debentures in the aggregate par value of NIS 11,000 thousand in consideration of their par value.

In October 2000, convertible debentures in the amount of NIS 10 million par value were converted into NIS 768 thousand par value of the Company's shares. In April 2001, the outstanding debentures, NIS 1 million par value, were converted into NIS 85 thousand par value of the Company's shares.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS

a. Consolidated:

1. Composition:

	December 31,					2000
	2001					
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. \$	Total	
Adjusted NIS in thousands						
To banks	61,095	57,001	453,208	758,897	1,330,201	1,133,399
Other financial institutions	-	-	997,924	1,394,674	2,392,598	1,716,565
Provision for termination of commitment with former management of FCR (1)	-	-	-	-	-	34,961
Loan from jointly controlled entity	17,354	-	-	-	17,354	19,781
Liabilities to sellers of properties	-	-	-	17,086	17,086	15,879
Other liabilities (2)	-	-	22,418	-	22,418	8,459
	78,449	57,001	1,473,550	2,170,657	3,779,657	2,929,044
Less - current maturities	-	-	170,163	120,610	290,773	265,351
	<u>78,449</u>	<u>57,001</u>	<u>1,303,387</u>	<u>2,050,047</u>	<u>3,488,884</u>	<u>2,663,693</u>
Weighted interest rate (%)	<u>5.18</u>	<u>9.71</u>	<u>6.34</u>	<u>6.22</u>	<u>6.28</u>	<u>7.82</u>

(1) During 2001, an agreement was signed with the former management of FCR whereby the amounts which were paid as an advance until now represent the extinguishment of all of FCR liabilities towards them and, accordingly, the above provision was written off against the decrease in the initial difference created upon the acquisition of FCR shares in August 2000 which was attributed to fixed assets.

(2) Including unrealized gain, long-term interest and commitment for future engagement.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2001				
	In NIS - linked to CPI	In NIS - unlinked	In CD	In U.S. \$	Total
	Adjusted NIS in thousands				
First year - current maturities	-	-	170,163	120,610	290,773
Second year	32,097	15,963	65,549	246,943	360,552
Third year	1,033	5,862	60,746	159,608	227,249
Fourth year	1,033	5,867	46,931	141,188	195,019
Fifth year	14,140	5,867	451,854	173,394	645,255
Sixth year and thereafter	11,958	23,442	670,651	1,221,985	1,928,036
Repayment date yet undetermined	18,188	-	7,656	106,929	132,773
	<u>78,449</u>	<u>57,001</u>	<u>1,303,387</u>	<u>2,050,047</u>	<u>3,488,884</u>
	<u>78,449</u>	<u>57,001</u>	<u>1,473,550</u>	<u>2,170,657</u>	<u>3,779,657</u>

b. The Company:

1. Composition:

	December 31,			
	2001			2000
	In NIS - linked to CPI	In NIS - unlinked	Total	Total
Adjusted NIS in thousands				
Banks	60,262	57,001	117,263	181,374
Investees	34,709	-	34,709	52,242
	<u>94,971</u>	<u>57,001</u>	<u>151,972</u>	<u>233,616</u>
Less - current maturities	-	-	-	24,499
	<u>94,971</u>	<u>57,001</u>	<u>151,972</u>	<u>209,117</u>
Weighted interest rate (%)	<u>4.95</u>	<u>9.71</u>	<u>7.55</u>	<u>9.52</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 19:- LIABILITIES TO FINANCIAL INSTITUTIONS AND OTHERS (cont.)

2. The maturity dates subsequent to the balance sheet date are as follows:

	December 31, 2001		
	In NIS -	In NIS -	Total
	linked to	unlinked	
	CPI	unlinked	Total
Adjusted NIS in thousands			
First year - current maturities	-	-	-
Second year	32,096	15,964	48,060
Third year	1,033	5,862	6,895
Fourth year	1,033	5,862	6,895
Fifth year	14,140	5,862	20,002
Sixth year and thereafter	11,960	23,451	35,411
Repayment date yet undetermined	34,709	-	34,709
	<u>94,971</u>	<u>57,001</u>	<u>151,972</u>

c. To secure the above loans, the subsidiaries recorded charges on specific assets, see Note 25.

NOTE 20:- TENANTS' SECURITY DEPOSITS

	Consolidated	
	December 31,	
	2001	2000
Adjusted NIS in thousands		
Deposits from tenants (1)	<u>21,310</u>	<u>16,494</u>
Deposits and entrance fees from tenants (2)	129,126	117,325
Less - current maturities	<u>10,245</u>	<u>9,346</u>
	<u>118,881</u>	<u>107,979</u>
	<u>140,191</u>	<u>124,473</u>

(1) Deposits from tenants are received to secure their fulfillment of the terms of the rental agreements. The deposit is refunded to the tenants at its dollar value at the end of the rental period.

(2) Mishkanot Clal and tenants signed on agreements to occupy residential units in existing buildings. In addition, potential tenants purchased options to occupy residential units in the future, in accordance with the terms specified in the agreements which were reached with them.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 20:- TENANTS' SECURITY DEPOSITS (cont.)

Below are the types of commitments with the tenants in Mishkenot Clal:

deposit - amounts deposited by tenants which are forfeited at an annual rate of 2.5% - 6% during the initial 10 years, and part of them at an annual rate of 1.4% during the subsequent period. Part of the deposits bear annual interest of 2%. The balance of the forfeited amount includes exchange rate differences and linkage differences, according to the agreement with the tenants.

- amounts deposited by tenants which are refunded at the end of the period of the use of the property, primarily linked to the dollar and part are linked to the Israeli CPI.

fees - amounts paid by tenants to purchase the right of occupancy and which, primarily, are forfeited during 60 months and part during 36 months.

- amounts received from potential tenants for periods of up to 15 years in respect to options to occupy residential units in the future which are refunded at the end of the period. The amounts are linked partially to the exchange rate of the U.S. dollar and bear interest of up to 9% and part are linked to the Israeli CPI and bear interest of 1% - 7.5%.

The amounts carried to the statement of income in the coming year, and the amounts available for refunds to tenants in respect to the cancellation of agreements and options, as per the estimate of the management of Mishkenot Clal, in addition to amounts which will be carried to the statement of income in respect to the balance of forfeited deposits and forfeited entrance fees, are included under the caption "Other accounts payable" among current liabilities.

NOTE 21:- ACCRUED SEVERANCE PAY

The liabilities of the Company and its Israeli subsidiaries for severance pay are computed on the basis of the employees most recent salary as of the balance sheet date and in accordance with the Severance Pay Law and are fully covered by current payments to insurance companies in respect of managers' insurance policies and severance pay funds as well as by the balance sheet accrual.

The liabilities of the subsidiaries in the United States and Canada, under the law prevailing in these countries, are covered, on a regular basis, by payments for social security, medical insurance, unemployment insurance and by payments which the employee bears (such as: insurance fees for disability insurance). Additional payments for sick leave, severance pay, vacation and etc. are at these subsidiaries' discretion, unless otherwise indicated in a specific employment contract.

NOTE 21:- ACCRUED SEVERANCE PAY (cont.)

All the liabilities of these subsidiaries for severance pay, according to labor laws and specific employment contracts, are provided for on a current basis and are fully reflected in the financial statements.

The amounts accrued in managers' insurance policies, in other insurance policies and provident funds on behalf of the employees and the related liability are not reflected in the balance sheet since the funds are not under the control and management of the Company and the subsidiaries.

The current payments to insurance companies and to provident funds and the other payments as well as the balance sheet accrual fully cover the Group's liability for severance pay.

NOTE 22:- TAXES ON INCOME

- a. Effective January 1, 1995, EQ1 does not record taxes on income in its statements because its tax status in the United States has been changed to a REIT, in effect from the above date. The implication of this status is that its income is tax-exempt, it is required to distribute at least 90% of the earnings and subject their recipient to tax.
- b. In accordance with the Income Tax (Inflationary Adjustments) Law, 1985, the results for tax purposes are measured in real terms, based on the changes in the Israeli CPI.

In November 2001, an amendment to the Income Tax (Inflationary Adjustments) Law (Amendment No. 14), 2001 was passed by the "Knesset" (Israeli parliament), pursuant to which until February 28, 2002, the Minister of Finance with the approval of the finance committee of the Knesset, is entitled to determine by an order that the provisions of the aforesaid law, in whole or in part, will not apply with respect to a certain tax year if the rate of increase in the Israeli CPI in that year did not exceed 3%. On February 28, 2002, the finance committee of the Knesset determined that the provision of the law will apply to all corporations, which are subject to the law, also in 2001.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (cont.)

c. Deferred taxes:

Composition and changes in deferred taxes as presented in the consolidated balance sheet are as follows:

	<u>Depreciable fixed assets</u>	<u>Other</u>	<u>Carryforward tax losses</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>			
Balance as of January 1, 2000	(950)	-	1,112	162
Changes in respect of newly consolidated subsidiaries (*)	(94,604)	9,845	131,655	46,896
Amounts carried to statement of income	<u>42,128</u>	<u>27,291</u>	<u>(68,582)</u>	<u>837</u>
Balance as of December 31, 2000	(53,426)	37,136	64,185	47,895 (1)
Acquisition of shares in jointly controlled entity shares	-	-	160	160
Foreign currency translation adjustments for foreign autonomous units and other differences	(2,134)	345	599	(1,190)
Amounts carried to statement of income	61,132	(37,985)	(19,312)	3,835
Transfer of CEFUS assets to EQ1 (see Note 1c)	<u>14,148</u>	<u>-</u>	<u>-</u>	<u>14,148</u>
Balance as of December 31, 2001 (1)	<u>19,720</u>	<u>(504)</u>	<u>45,632</u>	<u>64,848</u>

- (1) The balance of NIS 68,848 thousand is presented in the balance sheet among "Other assets" (NIS 63,350 thousand) and the remaining balance among "Long-term liabilities" (NIS 502 thousand). The deferred taxes are computed at tax rates varying between 36% and 43% (the tax rates expected to be in effect at the time of reversal).

*) Reclassified.

d. Taxes on income included in the statements of income:

Composition:

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>Adjusted NIS in thousands</u>					
Current taxes (1)	21,443	13,186	4,327	3,565	2,782	1,693
Deferred taxes	<u>(3,835)</u>	<u>(837)</u>	<u>(607)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>17,608</u>	<u>12,349</u>	<u>3,720</u>	<u>3,565</u>	<u>2,782</u>	<u>1,693</u>

- (1) The Company - including mainly withholding tax of 30% on dividend paid to the Company by EQ1 and withholding tax on interest paid to the Company by other foreign subsidiaries. Consolidated - including, in addition to the aforementioned, current tax expenses in respect of the activities of foreign subsidiaries.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (cont.)

- e. The Company has operating loss carry forward for tax purposes estimated at about NIS 18,602 thousand (2000 - NIS 37,920 thousand). The Company did not provide for deferred taxes in respect of this tax benefit and in respect of other temporary differences.
- f. The Company has received assessments considered as final up to and including the fiscal year of 1997.
- g. Below is a reconciliation between the tax expense assuming that all the income was taxed at the regular tax rates applicable to the companies in Israel and the actual tax expense as reported in the statements of income:

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Income before taxes on income	<u>143,792</u>	<u>115,240</u>	<u>48,844</u>
Statutory tax rate	<u>36%</u>	<u>36%</u>	<u>36%</u>
Tax expense computed at the statutory tax rate	51,765	41,486	17,584
Increase (decrease) in taxes resulting from permanent differences - the tax effect:			
Income subject to other special tax rates	(2,445)	(7,460)	-
Increase (decrease) in taxes resulting from incurrence (utilization) of losses for tax purposes for which deferred taxes were not provided	(4,504)	3,033	(667)
Tax on minority interest in earnings of investee type REIT	(7,585)	(7,837)	(7,589)
Adjustment of statements of foreign investees	(9,444)	(16,298)	(3,477)
Tax difference applicable on income of foreign companies and other differences	<u>(10,179)</u>	<u>(575)</u>	<u>(2,131)</u>
Taxes on income	<u>17,608</u>	<u>12,349</u>	<u>3,720</u>

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Commitments:

As for commitments with related parties, see Note 34.

As for the commitment with Alony-Hetz and the financing bank in connection with the investment in shares, debentures and convertible debentures of FCR, see Notes 1b3, 17c and 18a.

b. Guarantees:

FCR is a guarantor for loans from various parties to its jointly controlled entities, which are engaged the development of properties, in the amount of approximately NIS 15 million (CD 5.4 million).

In addition, FCR provided bank guarantees in the ordinary course of its business in the amount of approximately NIS 19.2 million (CD 6.9 million).

To secure the renovation of one of its properties, which EQ1 has undertaken to execute, EQ1 provided a bank guarantee of \$U.S. 500 thousand. To secure the guarantee, EQ1 pledged one of its properties.

c. Contingent liabilities:

1. In January 1995, a subsidiary of Mishkanot Clal was issued a VAT assessment in the amount of approximately NIS 2.2 million for imputed interest on deposits from tenants for the period from June 1990 until September 1994. In July 1999, the Court accepted part of the appeal which the company filed in respect of this assessment and the VAT Authorities have appealed the ruling and the subsidiary filed a counter appeal. The decision in the appeal was not yet rendered.

In June 2000, subsidiaries of Mishkanot Clal were issued another VAT assessment in the amount of approximately NIS 4.6 million for imputed interest on deposits from tenants for the period until December 1999. The subsidiaries have filed an appeal in respect of this assessment.

Mishkanot Clal makes current payments in accordance with the Court's decision from July 1999. Should VAT position in the appeals be accepted, the exposure of Mishkanot Clal is in the amount of approximately NIS 3.9 million (the Company's exposure is at the rate of 50% of that amount). In the opinion of the Company and its legal counsel, the Company shall not incur an additional monetary liability, if any, in excess of the provision made in the books.

NOTE 23:- CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

2. In January 1998, Psagot Haifa (Mishkanot Clal's subsidiary) and the Property Tax Authority signed an agreement whereby Psagot Haifa shall pay the amount of NIS 2 million until the end of January 1998 and that for the complete and final dismissal of property tax debts for the period ending on December 31, 1997. This agreement is subject to the performance of the project in the framework of an agreement with the Municipality of Haifa. Said property tax debts were not yet paid as a result of delay in the timetable for approving the project by the Municipality.

In November 2000, according to the Tax Ordinance (Collection), the Property Tax Authority levied an attachment on the bank account of Psagot Haifa in the amount of approximately NIS 5.8 million which constitute, as alleged by the Property Tax Authority, the outstanding indebtedness of Psagot Haifa in respect of property tax.

Psagot Haifa is negotiating with the Property Tax Authority to reduce the amount charged and to spread it over a long term. In the opinion of the Company, based, among others, on a settlement agreement which was signed in the past with the Property Tax Authority, the timing of payment is subject to the actual implementation of the agreement with the Municipality of Haifa, as aforementioned.

3. In April 2001, Mishkanot Clal was issued a purchase tax assessment in the amount of approximately NIS 1.1 million in connection with the company's agreement with Kibbutz Alonim and which rejects the self-assessment filed by the company according to which the company is not liable for property tax. Since the property tax payment is subject to meeting the above agreement prerequisites and its validity, Mishkanot Clal received the Tax Authorities consent that the date for filing an objection to the assessment shall be extended until the time when all the agreement prerequisites are met.

- d. Legal claims:

Several negligence claims are pending against subsidiaries in respect of damages caused in their shopping centers. The Company estimates that all the aforementioned claims are covered by the insurance policies of these companies.

In the opinion of the management of these companies, based on the opinion of their legal counsel, there is no exposure in respect of these claims and, accordingly, no provisions were made in the financial statements.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 24:- SHAREHOLDERS' EQUITY

- a. Composition of the share capital:

	December 31, 2001		December 31, 2000	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Common shares of NIS 1 par value each	<u>200,000,000</u>	<u>(* 52,846,822</u>	<u>200,000,000</u>	<u>(** 42,788,634</u>

*) Of which, NIS 247,494 par value of shares are held by the Company.

***) Of which, NIS 51,040 par value of shares were held by the Company

- b. The Common shares of NIS 1 par value confer upon their holders the right to receive dividends, the right to receive a stock dividend and the right to receive the Company's assets in the event of liquidation whether voluntary or in any other manner. Each share confers one voting right. The shares are traded on the Tel Aviv Stock Exchange.

The Company has about 7,750 thousand options (series 4), of which 642 thousand options (series 4) are held by the Company and a subsidiary (100%). Each stock option (series 4) is exercisable into 1.2345 shares in exchange for NIS 13.6, linked to the 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.

- c. In February 2001, the Company issued to institutional entities and the parent company about 2 million Common shares and about 1.6 million stock options (series 4). The securities were issued in 403,260 units which contain 5 Common shares and 4 sock options (series 4) at NIS 70.25 per unit.

In addition, the Company offered additional 250,000 units to a subsidiary (100%). The securities to be held by the subsidiary will be dormant until sold to third parties.

The total net immediate capital raising amounts to approximately NIS 29 million. Assuming that the options are fully exercised, the total capital raising is expected to amount to approximately NIS 51.4 million.

- d. In November 2001, the Company issued to institutional entities, to related party and to the parent company, about 3.4 million Common shares at NIS 13.3 per share. The total capital raising amounts to approximately NIS 45 million.

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

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 24:- SHAREHOLDERS' EQUITY (cont.)

- f. During the year 2001, about 2,226 thousand options (series 3) were exercised into about 2,543 thousand shares for the total consideration of approximately NIS 23.3 million. As of the date of the approval on the financial statements, all stock options (series 3) were exercised into the Company's shares.
- g. During the year 2001, convertible debentures in the amount of NIS 1 million were converted into about 84.5 thousand shares.
- h. During the reported year, the Company sold about 1,054 thousand shares which were held by it in consideration of approximately NIS 14.3 million.
- i. As for the issuance of stock dividend in March 2002, see Note 35d.

NOTE 25:- CHARGES (ASSETS PLEDGED)

- a. As collateral for most of the Group's liabilities, its rights to various properties were mortgaged. In addition, charges were placed on part of the subsidiaries' shares and of other companies which are held by the Group companies.

The balances of the secured liabilities are as follows:

	Consolidated	
	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Short-term loans and credit	21,426	11,494
Long-term liabilities (including current maturities)	3,739,885	2,840,375
Debentures (including current maturities) (b below)	269,147	180,460
	4,030,458	3,032,329

- b. As collateral for the liability in respect of NIS 77,198,560 par value of debentures (series D) of the parent company, assumed by the Company towards the parent company and the holders of these debentures (see Note 17b), the Company placed, a senior in priority, fixed charge in favor of the trustee for those debentures, on an income producing property known as "Gazit House" in Tel Aviv in the amount of \$ 9 million and on 2,262,677 EQ1 Common shares of \$ 0.01 par value each, held by a subsidiary.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated:

	December 31, 2001				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	
Adjusted NIS in thousands					
Assets:					
Cash and cash equivalents	-	52,344	159,535	2,038	213,917
Short-term investments	-	19,912	10,514	-	30,426
Tenants and accounts receivable	3,459	40,519	16,254	533	60,765
Loans to former partners in jointly controlled entities	-	34,859	23,760	-	58,619
Long-term investments	13,625	3,979	-	-	17,604
Long-term loans	18,025	33,080	15,320	-	66,425
	<u>35,109</u>	<u>184,693</u>	<u>225,383</u>	<u>2,571</u>	<u>447,756</u>
Liabilities:					
Short-term credit from banks and others	-	6,227	-	15,199	21,426
Trade payables and other accounts payable	-	41,874	77,572	18,002	137,448
Dividend declared	-	-	-	18,444	18,444
Debentures	15,519	186,486	67,142	-	269,147
Liabilities to financial institutions and others	78,449	2,170,657	1,473,550	57,001	3,779,657
Tenants' security deposits	6,458	116,985	3,249	13,499	140,191
Accrued severance pay	-	-	-	755	755
Convertible debentures redeemable into subsidiary's shares	-	-	707,451	-	707,451
	<u>100,426</u>	<u>2,522,229</u>	<u>2,328,964</u>	<u>122,900</u>	<u>5,074,519</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 26:- LINKAGE TERMS OF MONETARY BALANCES (cont.)

b. The Company:

	December 31, 2001				Total
	Linked to the Israeli CPI	In U.S. dollars or linked thereto	In CD or linked thereto	In NIS - unlinked	
Adjusted NIS in thousands					
Assets:					
Cash and cash equivalents	-	23,038	4,412	74	27,524
Accounts receivable	388	-	-	-	388
Investments in investees	-	210,625	134,505	-	345,130
Long-term investments	816	-	-	-	816
Long-term loans	140	-	-	-	140
	<u>1,344</u>	<u>233,663</u>	<u>138,917</u>	<u>74</u>	<u>373,998</u>
Liabilities:					
Short-term credit from banks and others	-	2	-	2,971	2,973
Trade payables and other accounts payable	-	-	-	10,281	10,281
Dividend declared	-	-	-	18,444	18,444
Debentures	15,519	186,010	-	-	201,529
Liabilities to financial institutions and others	94,971	-	-	57,001	151,972
Accrued severance pay	-	-	-	74	74
	<u>110,490</u>	<u>186,012</u>	<u>-</u>	<u>88,771</u>	<u>385,273</u>

NOTE 27:- REVENUES FROM RENTAL OF BUILDINGS - MAJOR CUSTOMERS

	Year ended December 31,		
	2001	2000	1999
Adjusted NIS in thousands			
Tenant A	36,438	18,288	-
Tenant B	17,615	14,572	12,103
Others	623,370	330,105	119,450
	<u>677,423</u>	<u>362,965</u>	<u>131,553</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 28:- OTHER INCOME

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Gain from investments in marketable securities	69,208	36,110	(* 1,275	20,717	14,505	(* 569
Income from dividend	13,459	29,806	(* 3,442	-	20,074	(* 1,944
Gain from issuance to third party, net	4,630	2,481	-	-	356	-
Capital gain	225	2,973	12,749	618	-	-
Management fees from affiliated company and third parties	872	196	202	2,049	1,677	1,733
Oil and gas explorations, net and others (1)	35	-	48	35	-	48
	<u>88,429</u>	<u>71,566</u>	<u>17,716</u>	<u>23,419</u>	<u>36,612</u>	<u>4,294</u>

- (1) The Company has rights to oil wells Star 29 and Star 30 at the participation rate of 10%, as well as rights to drilling to Emuna 1, drilling in search of oil, at the participation rate of 4%. All of the Company's investments in oil and gas producing wells, as described above, were fully amortized, primarily in 1996.

The Company did not make any significant investments in the oil and gas exploration sector during the five years ending December 31, 2001. At this time, the Company does not have any specific plans for investments in this sector.

NOTE 29:- OPERATING EXPENSES OF PROPERTIES FOR RENT

	Consolidated		
	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Salaries and related expenses	12,520	4,701	2,897
Fees and taxes on properties	123,331	64,239	15,998
Repairs and maintenance	40,285	27,940	8,622
Utilities	17,597	8,964	3,037
Insurance and security expenses	10,611	5,773	2,302
Others	26,648	9,972	4,590
	<u>230,992</u>	<u>121,589</u>	<u>37,446</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 30:- GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	Adjusted NIS in thousands					
Salaries and management fees *)	28,792	18,459	9,357	3,718	1,626	1,008
Professional fees	8,429	5,362	1,915	1,920	1,011	159
Depreciation	518	447	156	(* 292)	163	100
Amortization of goodwill	927	177	-	-	-	-
Others (including office and office maintenance)	17,671	11,088	(** 4,521)	(* 110)	592	335
	<u>56,337</u>	<u>35,533</u>	<u>15,949</u>	<u>6,040</u>	<u>3,392</u>	<u>1,602</u>

*) As for salaries and management fees to related parties, see Note 34.

***) Reclassified.

NOTE 31:- FINANCIAL EXPENSES, NET

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	Adjusted NIS in thousands					
Financial expenses for debentures	15,174	9,689	6,345	10,501	6,599	6,345
Financial expenses for convertible debentures	52,549	27,600	842	14	623	842
Financial expenses for liabilities to financial institutions and others	203,310	92,556	28,326	7,406	17,180	4,014
Gain from early redemption of FCR debentures *)	(36,603)	(9,639)	-	-	-	-
Other financial (income) expenses **)	3,900	(1,538)	390	(19,104)	(9,588)	(11,201)
Less - expenses carried to cost of fixed assets	14,017	13,610	7,656	-	-	-
	<u>224,313</u>	<u>105,058</u>	<u>28,247</u>	<u>(1,183)</u>	<u>14,814</u>	<u>-</u>

*) See Note 18a.

***) In the Company - primarily financial income from subsidiaries.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 32:- OTHER EXPENSES

	<u>Consolidated</u>			<u>The Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>Adjusted NIS in thousands</u>					
Activity and provision for impairment in value of Internet ventures in the real estate sector	8,835	8,395	-	-	-	-
Expenses related to early repayment of mortgage	6,811	-	-	-	-	-
Loss from issuance to third party, net	-	-	101	30	-	19
Oil and gas explorations, net *)	-	11	-	-	12	-
	<u>15,646</u>	<u>8,406</u>	<u>101</u>	<u>30</u>	<u>12</u>	<u>19</u>

*) See Note 28(1).

NOTE 33:- EARNINGS PER SHARE

Below are details pertaining to the number of shares and income used in the computation of earnings per share:

	<u>Year ended December 31,</u>					
	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	<u>Weighted number of shares</u>	<u>Income</u>	<u>Weighted number of shares</u>	<u>Income</u>	<u>Weighted number of shares</u>	<u>Income (loss)</u>
	<u>In thousands</u>	<u>Adjusted NIS in thousands</u>	<u>In thousands</u>	<u>Adjusted NIS in thousands</u>	<u>In thousands</u>	<u>Adjusted NIS in thousands</u>
Number of shares and income used in the computation of basic earnings per share	(* 53,774)	81,062	(* 45,918)	68,111	(* 25,609)	21,511
Number of shares and income used in the computation of diluted earnings per share (1)					(* 30,512)	23,755

- (1) The number of shares and income used in the computation of diluted earnings per share include adjustments in respect of convertible securities which were not included in the computation of basic earnings per share.

The probability of conversion and the computation of imputed gain from marketable securities that are linked to the dollar were computed based on the interest rate of 2% (2000 and 1999 based on the interest rate of 6% and 6%, respectively).

*) Adjusted for the compensation component at the rate of 11.11% of the issuance of stock dividend in March 2002, see Note 35d.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Revenues:

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Financial income for loans to related parties (1)	552	416	415	-	-	-
Management fees from the parent company	205	196	202	205	196	202
Management fees from subsidiaries	-	-	-	1,432	1,481	1,531
Financial income for balances with subsidiaries, net	-	-	-	28,578	19,070	11,428

(1) The loans and their terms are detailed in Note 10(2).

b. Other expenses and payments:

	Consolidated					
	Year ended December 31,					
	2001		2000		1999	
Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	
Directors' fees	5	276	5	296	8	233
Salaries and related expenses	3	13,987	3	10,336	3	5,482

	The Company					
	Year ended December 31,					
	2001		2000		1999	
Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	Number of recipients	Adjusted NIS in thousands	
Directors' fees	5	276	5	296	8	233
Salaries and related expenses	1	684	1	481	1	350

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

- (1) EQ1 entered into an employment contract with the Company's chairman of the Board, who is also the chairman of EQ1 Board for a period of seven years beginning in June 1996 with an option to extend for additional seven years. The related party or a company controlled by him will be entitled to a salary of \$ 240 thousand per year, linked to the index in the United States.

Effective 1999, the Company's chairman of the Board is entitled to a cash bonus from EQ1 up to a maximum rate of 75% of his base salary. The bonus is computed according to a formula which compares the increase in the annual income of EQ1 (neutralizing depreciation and financial expenses) in relation to the preceding year against such increase in Group companies which operate in that sector.

In October 2001, FCR entered into an employment contract with the Company's CEO (who acts also as FCR CEO), whereby beginning that month, the CEO is entitled to an annual base salary of CD 400 thousand. The above is also entitled to annual grants and participation in the Company's compensation plans, at the discretion of FCR Board.

At the same date, FCR also entered into a management contract with the chairman of the Company's Board (who acts also as the chairman of FCR Board), whereby beginning that month, the Company's chairman is entitled to an annual base salary of CD 150 thousand. The above is also entitled to annual grants, at the rate of 50% of the grants to be received by the Company's CEO, and participation in compensation plans.

The contracts with the above related parties contain certain provisions, in the event that their employment at FCR is terminated.

Further, the chairman of the Company's Board is entitled to an annual salary from the Company (through its wholly owned subsidiary) at the cost of \$ 136 thousand from October 2001. The chairman of the Board is also entitled from July 1998 to a bonus at the rate of 5% of the Company's adjusted pre-tax income. The above is also entitled to a life insurance policy at the scope of \$ 1 million whose family members are its beneficiaries.

The Company's CEO is entitled to an annual salary from the Company (through its wholly owned subsidiary) at the cost of \$ 153 thousand from October 2001. The Company's CEO is also entitled to a bonus at the rate of 2% of the Company's pre-tax income. The above is also entitled to a life insurance policy at the scope of \$ 2 million whose family members are its beneficiaries.

The contracts with the above related parties contain certain provisions, in the event that their employment at the Company and at the subsidiaries is terminated.

c. Balances:

As for balances with related parties, see Notes 6, 10 and 15.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 34:- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (cont.)

d. Convertible securities and shares - EQ1 and FCR:

Within the framework of employee stock option plan in EQ1, the Company's chairman of the Board was granted an option for the purchase some 288 thousand EQ1 shares at approximately \$ 10 per share.

In September 2001, the above options were exercised into shares. EQ1 provided to the Company's chairman a loan for exercising the options, see Note 10(2)b.

In September 1999, the authorized authorities of EQ1 resolved to allocate to the Company's chairman of the Board 45,000 EQ1 shares at no consideration. The shares will confer upon the Company's chairman of the Board the full rights deriving from their date of allocation, however, they will be at his disposal and he will be entitled to sell up to one-third of the shares allocated to him at the end of each of the three years, beginning in 2000.

As for stock option plan to employees and officers of FCR in which stock options were allocated to the Company's chairman of the Board and to the Company's CEO who act also as the chairman and the CEO of FCR, see Note 35.

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- a. Subsequent to the balance sheet date, a subsidiary acquired, during trade on the stock exchange, additional CD 8 million par value of FCR convertible debentures (see Note 18b). As for the accounting treatment regarding the acquisition of said debentures, see Note 2o.
- b. Following additional issuance of EQ1 shares (see Note 1b2) to the Company and to others subsequent to the balance sheet date, close to the publication of these financial statements, the Company reached the holding rate, directly and indirectly, in some 50.2% (49.7% assuming full dilution) of EQ1 share capital. In connection with these issuance, the Company derived a gain from the decrease in the holding rate in EQ1 in the amount of approximately NIS 3 million.
- c. In January 2002, FCR issued about 775 thousand stock options to officers and employees at FCR which are exercisable until January 2012 at the exercise price of CD 12.85 per share. In the context of the issuance, the Company's CEO and the Company's chairman of the Board received 200 and 100 thousand stock options, respectively.
- d. During February 2002, the Company's Board decided on the issuance of stock dividend to the Company's shareholders so that each shareholder who held at the record date in 9 Common shares of the Company was entitled to receive one Common share of the Company of NIS 1 par value as stock dividend, at no consideration. The record date was determined to be March 4, 2002. On March 6, 2002, the Company issued about 6.3 million par value of stock dividend.
- e. During February 2002, the Company issued through a private placement 3,442,720 Common 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 51.5 million.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 35:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (cont.)

- f. On February 7, 2002, the Company issued to institutional investors NIS 77.5 million non-marketable debentures. The debentures are linked to the Israeli CPI and bear interest of 5.65%. The redemption period of the debentures is in 8 equal annual payments beginning in 2005.
- g. In March 2002, FCR published a prospectus for the issuance of options exercisable into FCR shares until 2008, by way of rights issued to its shareholders, so that anyone who holds in 1.25 of FCR shares may acquire one option at CD 0.05.

The exercise increment per each option was determined at CD 11.8. The Company announced that it will acquire all the options that it is entitled to acquire by virtue of its holdings in FCR shares and, it will also acquire additional options which are not acquired by the other shareholders.

- h. Pursuant to the dividend distribution policy (see Note 1b(5)), during March 2002, the Company declared on the distribution of interim dividend for 2002 in the amount of approximately NIS 10 million payable at the beginning of April 2002. In the financial statements for 2001, the dividend was deducted from the Company shareholders' equity.

NOTE 36:- GEOGRAPHIC INFORMATION

The Company and the Group companies operate in three major geographical areas: United States, Canada and Israel.

	Year ended December 31, 2001			Total
	U.S.	Canada	Israel	
	Adjusted NIS in thousands			
Total revenues	<u>405,310</u>	<u>315,530</u>	<u>45,012</u>	<u>765,852</u>
Segment results	<u>238,179</u>	<u>173,954</u>	<u>27,955</u>	<u>440,088</u>
General and administrative expenses				<u>56,337</u>
Operating income				383,751
Financial expenses, net				224,313
Other expenses				<u>15,646</u>
Income before taxes on income				143,792
Taxes on income				<u>17,608</u>
Income after taxes on income				126,184
Minority interest in earnings of subsidiaries				<u>45,122</u>
Net income for the year				<u>81,062</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2000			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total revenues	<u>241,811</u>	<u>149,323</u>	<u>43,397</u>	<u>434,531</u>
Segment results	<u>144,414</u>	<u>80,833</u>	<u>38,990</u>	<u>264,237</u>
General and administrative expenses				<u>35,533</u>
Operating income				228,704
Financial expenses, net				105,058
Other expenses				<u>8,406</u>
Income before taxes on income				115,240
Taxes on income				<u>12,349</u>
Income after taxes on income				102,891
Minority interest in earnings of subsidiaries				26,312
Equity of former shareholders in earnings of newly consolidated subsidiary				<u>8,468</u>
Net income for the year				<u><u>68,111</u></u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 1999			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Total revenues	<u>128,853</u>	<u>14,490</u>	<u>5,926</u>	<u>149,269</u>
Segment results	<u>82,800</u>	<u>6,089</u>	<u>4,252</u>	<u>93,141</u>
General and administrative expenses				<u>15,949</u>
Operating income				77,192
Financial expenses, net				28,247
Other expenses				<u>101</u>
Income before taxes on income				48,844
Taxes on income				<u>3,720</u>
Income after taxes on income				45,124
Minority interest in earnings of subsidiaries				<u>23,613</u>
Net income for the year				<u>21,511</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 36:- GEOGRAPHIC INFORMATION (cont.)

	Year ended December 31, 2001			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	<u>3,139,241</u>	<u>2,150,158</u>	<u>214,335</u>	<u>5,503,734</u>
Corporate assets - unallocated				<u>797,564</u>
Total consolidated assets				<u>6,301,298</u>
Segment liabilities	<u>1,756,448</u>	<u>1,826,791</u>	<u>118,890</u>	<u>3,702,129</u>
Corporate liabilities - unallocated				<u>669,337</u>
Total consolidated liabilities				<u>4,371,466</u>
	Year ended December 31, 2000			
	U.S.	Canada	Israel	Total
	Adjusted NIS in thousands			
Segment assets	<u>2,260,147</u>	<u>1,821,649</u>	<u>203,005</u>	<u>4,284,801</u>
Corporate assets - unallocated				<u>755,613</u>
Total consolidated assets				<u>5,040,414</u>
Segment liabilities	<u>1,240,374</u>	<u>1,842,090</u>	<u>107,982</u>	<u>3,190,446</u>
Corporate liabilities - unallocated				<u>186,383</u>
Total consolidated liabilities				<u>3,376,829</u>

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE

a. Balance sheets - the Company:

	December 31,	
	2001	2000
	NIS in thousands	
ASSETS		
Current assets	<u>37,240</u>	<u>33,885</u>
Long-term investments and loans	<u>(* 788,979)</u>	<u>(* 683,973)</u>
Fixed assets, net	<u>1,666</u>	<u>1,347</u>
Other assets and deferred charges, net	<u>3,399</u>	<u>342</u>
	<u><u>831,284</u></u>	<u><u>719,547</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	<u>56,594</u>	<u>76,430</u>
Long-term liabilities	<u>328,944</u>	<u>297,178</u>
Shareholders' equity	<u>445,746</u>	<u>345,939</u>
	<u><u>831,284</u></u>	<u><u>719,547</u></u>

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method, accordingly, earnings of the subsidiaries are not included in these financial statements.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

b. Statements of income - the Company:

	Year ended December 31,		
	2001	2000	1999
	NIS in thousands		
Revenues:			
Equity in earnings of subsidiaries	(* -	(* -	(* -
Other income	29,312	36,006	6,180
Financial, net	346	-	1,789
	<u>29,658</u>	<u>36,006</u>	<u>7,969</u>
Costs and expenses:			
General and administrative	6,016	3,337	1,523
Other expenses	-	-	-
Financial, net	-	15,187	-
	<u>6,016</u>	<u>18,524</u>	<u>1,523</u>
Income before taxes on income	23,642	17,482	6,446
Taxes on income	3,548	2,738	1,647
	<u>23,642</u>	<u>17,482</u>	<u>6,446</u>
Net income for the year	<u>(* 20,094</u>	<u>(* 14,744</u>	<u>(* 4,799</u>

*) Since 1999, the investments in investees are presented in the financial statements in nominal values according to the cost method, accordingly, earnings of the subsidiaries are not included in these financial statements.

GAZIT-GLOBE (1982) LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 37:- A SUMMARY OF THE FINANCIAL STATEMENTS IN NOMINAL VALUE (cont.)

c. Statements of changes in shareholders' equity:

	Share capital	Share premium	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less shares held by the Company	Total
	NIS in thousands					
Balance at January 1, 1999	17,252	64,352	36,172	10,690	-	128,466
Issuance of share capital, net	7,612	67,505	-	-	-	75,117
Net income for the year	-	-	-	4,799	-	4,799
Dividend paid	-	-	-	(11,204)	-	(11,204)
Balance at December 31, 1999	24,864	131,857	36,172	4,285	-	197,178
Issuance of share capital, net	6,904	72,912	-	-	(12,157)	67,659
Conversion of debentures into shares	2,434	23,645	-	-	-	26,079
Exercise of stock options into shares	4,775	39,383	-	-	(6,000)	38,158
Issuance of stock dividend	3,811	-	-	(3,811)	-	-
Sale of shares by a subsidiary	-	3,310	-	-	17,543	20,853
Reimbursement of issuance expenses	-	650	-	-	-	650
Net income for the year	-	-	-	14,744	-	14,744
Dividend paid	-	-	-	(12,547)	-	(12,547)
Dividend declared	-	-	-	(6,835)	-	(6,835)
Balance as of December 31, 2000	42,788	271,757	36,172	(4,164)	(614)	345,939
Issuance of share capital, net	7,411	92,033	-	-	-	99,444
Conversion of debentures into shares	84	920	-	-	-	1,004
Exercise of stock options into shares	2,564	20,695	-	-	-	23,259
Acquisition of shares by a subsidiary, net	-	-	-	-	(2,862)	(2,862)
Net income for the year	-	-	-	20,094	-	20,094
Dividend paid	-	-	-	(22,688)	-	(22,688)
Dividend declared	-	-	-	(18,444)	-	(18,444)
Balance as of December 31, 2001	52,847	385,405	36,172	(25,202)	(3,476)	445,746

GAZIT-GLOBE (1982) LTD.
APPENDIX TO FINANCIAL STATEMENTS

List of companies of the Group as of December 31, 2001 (1)

	Percentage of ownership as of December 31, 2001		Country of registration
Equity One Inc.	54.9%	***) (2)	U.S.
First Capital Reality Inc.	68.08%	**) (3)	Canada
First Capital Inc.	100%	**)	Canada
Mishkanot Clal (1982) Ltd.	50%	*) (4)	Israel
Golden Equity	92.36%	***)	U.S.
Hashalom Boulevard House Ltd.	100%	**)	Israel
M.G.N. USA Inc.	100%	*)	U.S.
Gazit (1995) Inc.	100%	***)	U.S.
Gazit (1997) Inc.	100%	***)	Canada
Golden Oak Inc.	100%	*)	Cayman Islands
Hollywood Properties Ltd.	100%	*)	Cayman Islands
Dinerib 53 Ltd.	100%	**)	Israel
Dinerib 51 Ltd.	100%	**)	Israel
Gazit Globe Israel Ltd.	100%	*)	Israel
Dinerib 52 Ltd.	100%	**)	Israel
Automart (founded by Gazit Financing Group) Ltd. (previously: Gazit B.C. Ltd.)	100%	**)	Israel

*) Held directly by the Company.

**) Held through subsidiaries.

***) Held directly and through subsidiaries.

(1) The list does not include companies held by EQ1, FCR and First Capital and Mishkanot Clal.

(2) See Notes 1b2 and 8b - d.

(3) See Notes 1b3 and 8e - f.

(4) See Notes 1b4 and 8g.
