

## **GAZIT-GLOBE (1982) LTD.**

### **Directors' Report to Shareholders** **For the period ended December 31, 2000**

**The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – “the Company”) is honored to present the financial statements of the Company and its consolidated subsidiaries for the year ended December 31, 2000:**

#### **1. A. General**

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

As of the approval date of the financial statements, the Company owns – directly and indirectly – 112 properties with Gross Leasable Area (G.L.A.) of close to 14 million square feet, with a book value of NIS 4.4 billion, generating annual rental income of NIS 550 million (based on gross annual rent for the properties owned), as well as 50% in a company engaged in the assisted/independent living residences industry.

In the USA, the Company operates via Equity One Inc. (hereinafter – “EQ1”), a self-administered, self-managed REIT (real estate investment trust) traded on the NYSE. As of the approval date of the financial statements, the Company owns some 64.5% of the share capital of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of income-producing properties (primarily supermarket anchored shopping centers), owning 31 properties with G.L.A. of close to 3.2 million square feet. The company also owns 9.8% of a public REIT based in Houston, Texas.

The operations in Canada are carried out via Centrefund Realty Corp. (hereinafter – “CFE”), a public company traded on the TSE. As of the approval date of the financial statements, the company owns some 68% of the share capital of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in Florida and Texas. CFE holds interest in 72 properties with total G.L.A. of approx. 10 million square feet, as well as additional properties under development.

In addition, the Company owns 100% of the shares of First Capital Inc. (a Canadian company) (hereinafter – “F.C.I.”), which, as of the approval date of the financial statements, owns 8 shopping centers with G.L.A. of 850,000 square feet.

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

## **B. Operating Results in the Period**

**In the year ended December 31, 2000, net income was NIS 67.2 million, compared with NIS 21.2 million, last year.**

Earnings per share grew by 85% to NIS 1.7 from NIS 0.92 in 1999.

In addition, depreciation on assets (net of the minority interest) for the reported year totaled NIS 30.9 million, which is NIS 0.75 depreciation per share, compared with NIS 11.9 million, which is NIS 0.51 depreciation per share, in 1999. Total earnings, including dividends and gains from the Supersol transaction, and from investments in public real estate companies in the USA and Canada, and excluding non-recurring income and expenses, plus depreciation per share (F.F.O.) grew by 113% to NIS 2.32 per share, compared with NIS 1.09 per share last year.

As of December 31, 2000, shareholders' equity per share was NIS 10.65, compared with NIS 9.15 per share last year, an increase of 16.4%.

**(all per share data is after adjustment to the distribution of a stock dividend of 11.11%.)**

Regarding the results of operations see Item 3 below.

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

### **General**

In the reported period, the Company invested NIS 472 million in the acquisition of Centrefund, Mishkenot Clal and shares of EQ1. The Company also invested – directly and through subsidiaries – the sum of NIS 184 million, net, in the acquisition, development, and improvement of properties and long-term investments. Their effect on the results of operations will be expressed in full during 2001.

### **A. Acquisition of Centrefund Realty Corp.**

In August 2000, Gazit 1997, a Canadian company wholly-owned by the Company, successfully completed a tender offer for the shares of CFE, a real estate company traded on the Toronto Stock Exchange. The tender offer, which was accepted in full, was for up to 10.8 million shares of CFE (some 72% of share capital) at a price of 13.25 Canadian dollars (“C\$”) per share, which, combined with the additional shares acquired by Gazit 1997 through the TSE just before the tender offer, conferred 84% of the share capital of CFE.

On October 5, 2000, Gazit 1997 sold 2.5 million shares in CFE, representing 16% of CFE's share capital, to a wholly-owned subsidiary of Alony Hetz Properties and Investments Ltd. (hereinafter – “Aloni Hetz”), at a price of C\$ 13.25 per share. In addition, an agreement was signed between Gazit 1997 and Alony Hetz with respect to the appointment of directors to CFE. Following the sale, Gazit 1997 now owns some 68% of CFE.

CFE is a public real estate company traded on the TSE. The company specializes in supermarket-anchored neighborhood and community shopping centers in Canada (about 60% of its properties) and the USA (about 40% of its properties).

CFE holds interest in 72 properties with a book value of approx. one billion Canadian dollars, with total G.L.A. of 10 million square feet. CFE has occupancy rates of 97% in its Canadian properties and 92% in its U.S. properties. CFE has additional properties under development, as well as land reserves for future development representing a G.L.A of some 535,000 square feet.

The properties owned by CFE are anchored, for the most part, by anchor tenants that are leading national and international supermarket and retail chains. These chains specialize in providing basic daily products and services, considered recession-proof, to a population within a radius of some 1 – 3 miles. Among CFE's anchor tenants in Canada are the chains Wall-Mart, Loblaw's, Safeway, A&P, Canadian Tire, Zeller's, and Toys R US, and in the USA, are Eckerd, Albertson's, Publix, Kroger and Wallgreen.

The management of the Company sees the acquisition of CFE as a business opportunity with enormous potential, that enhances the Company's strategy of becoming a key player in the North American shopping center industry – an industry with clear advantages for size. The company intends to keep CFE as an independent public real estate company, managed locally in Canada. Furthermore, the Company will evaluate ways to improve the management of the existing property portfolio, and to accelerate it's growth.

During October 2000, CFE and EQ1 announced that they had entered into preliminary discussions to investigate the possibility of a business combination between Centrefund Realty (US) Corporation ("CEFUS"), a wholly-owned subsidiary of Centrefund, which owns 32 properties in Florida and Texas and Equity One. CFE also announced that it had entered into preliminary discussions with First Capital Inc. to investigate the possibility of a business combination with First Capital.

In the second half of 2000, CFE's rental income totaled C\$ 72 million. In the full year 2000, CFE's rental income totaled C\$ 148 million.

The total book value of CFE's properties (net of depreciation) as of December 31, 2000 is C\$ 1 billion (including properties under development), compared with C\$ 958 million (including properties under development) in 1999.

**The Company investment in the acquisition of CFE shares in the reported period, offset by the sale of shares to Alony Hetz, totaled NIS 365.7 million.**

## **B. Purchases and sales of real estate**

1. In the reported year, EQ1 acquired 2 shopping centers with total G.L.A. of more than 170,000 square feet.
2. In the reported year, EQ1 completed the first stage of development of a property in Tallahassee, Florida, the second stage of a property in Miami, Florida, and the development of 3 additional buildings – 2 adjacent to its properties and 1 facing a supermarket owned by an unrelated party, with total G.L.A. of more than 160,000 square feet.
3. In the reported year, F.C.I. acquired 2 shopping centers with total G.L.A. of more than 300,000 square feet, and also acquired for future development approx. 0.9 acre of land adjacent to its existing property.

Regarding the acquisition of the shares of FCI against a transfer of assets, see Item E.

4. During the reported year, CFE and F.C.I. completed the development of additional areas on existing properties, with G.L.A. of more than 320,000 square feet.
5. In December 2000, CFE sold two shopping centers in Canada and USA, with G.L.A. of more than 260,000 square feet, in consideration for C\$ 20 million.

## **C. Additional investments**

In the reported year, the Company invested NIS 244 million in shares of public real estate companies (REIT's) and shares of other companies in the USA and Canada (excluding the shares of CFE and EQ1), and sold a part of these investments in consideration for NIS 218 million.

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

One investment was made in United Investment Realty Trust (hereinafter – "UIRT"), a public REIT traded on the Nasdaq. As of the approval date of the financial statements, the Company holds 9.8% of UIRT's shares. UIRT, headquartered in Houston, Texas, owns 25 neighborhood shopping centers, of which 16 are in Texas and 5 in Florida. The total G.L.A. of the centers is close to 3 million square feet (approx. 2.2 million square feet are wholly-owned by UIRT).

Subsequent to the date of the financial statements, UIRT announced that its financial advisor, has completed its initial evaluation of alternatives available to the Company to increase shareholder value. As a result of the initial evaluation, UIRT's Board has instructed its financial adviser to immediately begin exploring a possible sale of the Company or substantially all of its assets.

**D. Acquisition of EQ1 shares and issuance of shares of EQ1**

**Acquisition of EQ1 shares**

In the reported period- Some 569,000 shares at the stock market, at prices ranging from US\$ 9.20-10.00 per share.

Some 364,000 shares pursuant to a dividend reinvestment plan in EQ1, at a price of US\$ 9.50 per share.

Subsequent to reported period- Some 47,000 shares at the stock market, at prices ranging from US\$ 9.40-10.00 per share.

**During the reported year, the Company invested a total of NIS 38 million in acquiring shares of EQ1.**

**Issuance of shares by EQ1**

In October 2000, further to an agreement in principle from July 2000, EQ1 signed an agreement with "Alony Hetz" for a private placement of up to 20% of its shares, at a price of US\$ 10.875, net, per share.

The agreement includes the issuance of 1.9 million shares to Alony Hetz, representing 14% of the share capital of EQ1, in consideration for US\$ 21 million. In addition, option warrants will be issued to Alony Hetz, to be exercised on two dates. Thus, on a fully diluted basis, Alony Hetz will have a 20% holding in EQ1.

The closing date of the agreement was set as November 17, 2000. On this date, EQ1 issued one million shares to Alony Hetz, in consideration for US\$ 10.9 million. The balance of the shares, as above, will be issued to Alony Hetz at the demand of EQ1, during the next 9 months (as of the approval date of the financial statements, the additional shares had not been issued as yet to Alony Hetz).

Upon completion of the acquisitions and the issuance of the shares by EQ1, as above, the Company's holdings in EQ1 – direct and indirect – are 64.5% of the issued share capital of EQ1. The Company recorded a gain consequently to the decrease in its stake in EQ1 of NIS 3.3 million.

**E. Acquisition of shares in F.C.I.**

On January 31, 2000, an agreement was signed between Gazit 1997 (a wholly-owned Canadian subsidiary of the Company), F.C.I., and the minority shareholders in F.C.I., for F.C.I. to acquire all of their shares (25%) in F.C.I. in the form of an exchange in which commercial center and land for future development of F.C.I. were transferred to the minority shareholders for their shares in F.C.I. After completion of the transaction, Gazit 1997 owns 100% of F.C.I. In July 2000, F.C.I. signed a memorandum of understanding with a wholly-owned Dutch subsidiary of the Electra Group for a private placement of approx. 30% of the shares in F.C.I. In October, the parties announced that the memorandum of understanding did not result in a binding agreement between the parties.

**F. Investments in Supersol**

In the reported period, the Company purchased 2.6 million shares in Supersol Ltd. at a total cost of NIS 36 million. At its peak the Company's stake of Supersol shares totaled 14.1 million shares. In the reported period and until just before the approval date of the financial statements, the Company sold some 7.2 million shares of Supersol Ltd., for total proceeds of NIS 105.2 million, and a gain of NIS 15 million. Furthermore, on March 30, 2000, the Company received a dividend of NIS 18 million from Supersol Ltd. and in December 2000 received another dividend of NIS 2.2 million. The financing expenses in respect of the holdings in Supersol were expensed in full.

On October 16, 2000, the Company announced that it was no longer an interested party in Supersol.

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

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

1. Investment in MSC

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

MSC is working toward connecting and networking neighborhood and community shopping centers to broadband, mainly using wireless technology. The broadband platform is offered to the property owners, business owners in the shopping centers, and to companies with suitable applications to retail centers and the wide range of services offered in the commercial center, that need the broadband technology so that the different applications will operate optimally.

MSC also owns an advanced Internet site that it developed and maintains, which provides information on the shopping centers and the various businesses linked to the site.

The objective of the venture is to increase and strengthen customer loyalty to the shopping centers, to enable business owners in the shopping centers to benefit from the advantages of broadband Internet opposite their customers (B2C) and to make their businesses more efficient (using B2B and ASP applications).

In the reported year, the Company invested US\$ 2.1 million in MSC. The Company expects to invest another US\$ 1 million in MSC. In the reported year, the Company wrote down US\$ 1.7 million (NIS 7.1 million) of its investment in MSC. During 2001, the Company will continue to evaluate the developments and trends in the markets relating to such companies (which are currently negative), and, accordingly, will decide on the continuation of its investments in MSC.

2. Investment in Vuetopia Inc. (Vuetopia.com)

In June 2000, the Company invested US\$ 290 thousand, net, in the form of convertible loans, in Vuetopia Inc., a company developing an Internet-based technology to transmit high resolution video content to large screens in public areas, mainly in large shopping centers.

In the reported year, the Company wrote off the entire balance of the loans.

**H. Acquisition of Mishkenot Clal (1982) Ltd.**

On September 11, 2000, the Company signed an agreement for the acquisition of 50% of the controlling interest in Mishkenot Clal (1982) Ltd. (hereinafter – “Mishkenot Clal”) from Azorim Properties Ltd.

The acquisition was done in way of issuance of shares by Mishkenot Clal and by acquisition of some of Mishkenot Clal shares held by Azorim Properties Ltd., based on a company value for Mishkenot Clal of NIS 135 million, before the issuance of the new shares.

The Company acquired its share in a cash transaction, in which the final balance was paid on January 2, 2001.

Upon acquisition of the shares and completion of the issuance, the Company holds 49% of the share capital and 50% control in Mishkenot Clal. In addition, the Company received an option to acquire another 1% of the share capital of Mishkenot Clal.

Mishkenot Clal is engaged, through subsidiaries and related companies, in the development and management of assisted/independent living residences throughout Israel.

The Company’s management views the Mishkenot Clal acquisition as a business opportunity to expand and diversify its income-producing real estate activities, and to begin real activities in Israel in a segment with vast business potential, with a partner that is a leader in the assisted/independent living residence market.

Pursuant to the terms of the agreement, the transaction was closed on October 4, 2000. Beginning from the fourth quarter of the year, the Company consolidated the financial statements of Mishkenot Clal by the proportionate consolidation method (49%). In the fourth quarter of the year, the revenues of Mishkenot Clal totalled NIS 7.2 million.

**I. Public Offering**

On February 13, 2000, the Company published a prospectus that included a public offering by means of a tender of 5,000,000 shares, 1,000,000 option warrants (Series 3) and 2,360,000 option warrants (Series 4). The total proceeds to the Company, net of the wholly-owned subsidiary’s purchase of 1,000,000 shares, 200,000 option warrants (Series 3), and 400,000 options warrants (Series 4) (hereinafter – “treasury shares and options), were NIS 48.5 million, gross (NIS 46.5 million, net).

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

From the date of the offering until the date of the financial statements, the Company's subsidiary and the Company sold most of the treasury shares and options to third parties, in consideration for NIS 20.9 million.

**J. Private Placement of Securities**

1. In March 2000, the Company entered into two agreements for the private placement of a total of 1,500,000 ordinary shares of the Company, NIS 1 par value, 300,000 options warrants (Series 3) of the Company and 600,000 option warrants (Series 4) of the Company, that were issued in the form of 300,000 units (100,000 units were purchased by the parent company). In consideration for the securities offered in the private placement, the offerees paid a total of NIS 17.6 million. The offering was completed in April of this year.
2. On January 9, 2000, the Company's board of directors approved a private placement of 287,000 ordinary shares of the Company, NIS 1 par value, to the Company's President and the Company's Secretary (who serve as directors therein), in consideration for NIS 3 million. The shares were issued on February 9, 2000, after a general meeting of the Company's shareholders on February 8, 2000 had so approved.
3. On June 19, 2000, the Company's board of directors resolved to approved the private placement of 120,000 ordinary shares of the Company, NIS 1 par value, to two employees and to the Company's Secretary, in consideration for NIS 1.3 million.

**K. Issuance of Convertible Bonds**

1. In February 1999, the Company issued to Gmul Investment Company Ltd. (hereinafter – "Gmul"), an interested party in the Company, NIS 16 million in non-marketable debenture, which may be converted to ordinary shares. On September 4, 2000, the Company informed Gmul that pursuant to the terms stipulated in the debenture, they must be converted into shares of the Company. The Company issued Gmul 1,665,000 ordinary shares, par value, in consideration for NIS 16 million par value debenture.
2. On February 8, 2000, the Company issued debentures convertible into shares of the Company (that will not be listed for trading) with total principal value of NIS 11 million to 11 provident funds, in consideration for NIS 11 million. On October 10, 2000, 10 provident funds converted NIS 10 million of the convertible debentures into 768,000 ordinary shares, par value.

**L. Exercise of options (Series 3) of the Company**

During the reported period and until the approval date of the financial statements, the parent company and other parties exercised 3.7 million warrants (Series 3) of the Company. The total sum invested was some NIS 38.2 million.

**M.** On September 27, 2000, the Company announced the distribution of a stock dividend at the rate of 11.11%. Thus, every shareholder holding 9 shares, par value, would receive, for no consideration, one additional share. The record date was October 22, 2000. In total, the Company issued 3.8 million new shares as a stock dividend.

**For the year, the Company raised a total of NIS 153.5 million in share capital.**

**N. Dividend policy**

Pursuant to the Company's annual dividend policy, in which the Company announces at the end of each year the dividend for the subsequent year, the Company announced that the dividend in 2001 would be at least NIS 0.64 per share, compared with NIS 0.53 per share that was paid in 2000. As of the date of the resolution, the dividend yield was 5% (the above dividend amounts have been adjusted for the distribution of a stock dividend in the reported year, as discussed in Par. K above).

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

**O. Acquisition of CFE debentures by the Company in the reported period**

During the fourth quarter, Gazit 1997 acquired on the Toronto Stock Exchange (TSE), NIS 38 million of CFE debentures at a cost of NIS 38 million and 11,783 convertible debentures of CFE at a cost of NIS 20.9 million.

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

In the reported year, the financial statements include a gain from the early redemption of debentures, in respect of the debentures acquired during the reported period, less the share of Alony Hetz in these debentures, and the debentures covered by the option with Bank Leumi (see Par. P below) of NIS 9.5 million. The Company's share in the gain, after the provision for taxes, deduction of the discount on the debentures, and the minority interest is NIS 3.7 million.

**P. Option to Bank Leumi to acquire shares and debentures of CFE from the Company**

As part of the terms of the financing agreement signed between the Company and Bank Leumi Le'Israel, for the acquisition of CFE in the tender offer, as discussed in Par. A above, and for the acquisition of CFE debentures by the Company, the Company furnished Bank Leumi Le'Israel with an option, for two years, to acquire shares and debentures of CFE as follows:

1. Up to 1,537,000 shares of CFE, in consideration for C\$ 13.25 per share.

2. Up to 10% of each series of CFE debentures to be acquired with the bank's financing, at a price of the average cost of acquiring each series of the debenture for the Company.

As of the publication date of the financial statements, the bank had not as yet exercised the option.

### **3. Results of Operations**

Net Income for the year was NIS 67.1 million, compared with NIS 21.2 million in 1999 and NIS 13.6 million in 1998.

In the reported year, revenues totaled NIS 428,503 thousand, compared with NIS 147,197 thousand in 1999 and NIS 111,065 thousand in 1998. The revenues item includes revenues from rent, investments in securities, dividend income, gains on the sale of land, capital gains and other revenues, as follows:

The Company's rental income in the above years totaled NIS 357,929 thousand, compared with NIS 129,728 thousand and NIS 99,251 thousand in 1999 and 1998, respectively.

Beginning in the third quarter this year, the Company has consolidated the activities of C.F.E., contributing NIS 196,486 thousand to rental income.

Furthermore, beginning in the fourth quarter of the year, the Company has consolidated by the proportionate consolidation method the financial statements of Mishkenot Clal, which contributed NIS 3,625 thousand to rental income.

Income from dividends and investments in marketable securities, namely long-term investments in Supersol Ltd. and other public companies, totaled NIS 65,011 thousand in the reported period, compared with NIS 4,652 thousand in 1999 and NIS 665 thousand in 1998. The increase in this income stems from the dividends from Supersol and other dividends on the above investments, as discussed in Item. 2.F, of NIS 29,403 thousand, as well as from the gain on the sale of the shares of Supersol and other marketable shares, totaling NIS 35,608 thousand.

Gains on the sale of properties totaled NIS 2,921 thousand in the reported year, generated by the sale of 2 properties by CFE. In 1999 and 1998, the gains from the sale of properties (NIS 12,572 thousand and NIS 8,819 thousand, respectively) were generated by the sale of properties by EQ1.

The operations of EQ1 were characterized by growth in revenues as a result of the increase in the number of properties and moderate growth in the occupancy rates of existing properties. Net income of EQ1 for the year was US\$ 11.3 million, compared with US\$ 13.6 million in 1999 (which included a gain of US\$ 3.8 million on the sale of a property), reflecting (after deducting non-recurring income and expenses) growth of 15.3%.

The operations of F.C.I. were characterized by growth in rental income on buildings, attributable to the acquisition of new properties during 1999, of which the full effect is reflected in the reported period, from the acquisition of 2 properties in the fourth quarter of the reported year, and from an increase in the occupancy rates of the properties.

The increase in general and administrative expenses in the reported period stems from the increase in wage expenses that are a function of the Company's results of operations. The increase is also due to non-recurring expenses related to the evaluation of additional investments, which, as policy, are provided for in full when the evaluation is completed,

as well as to the first-time consolidation of CFE. The increase in net financing expenses stems from the first-time consolidation of CFE, from the increase in interest expenses on loans used to finance additional investment in fixed assets and long-term investments, and the acquisition of the minority interests in consolidated subsidiaries, offset by inflationary effects in the USA and Canada.

In the reported year, the Company wrote off its investments in technology ventures, as discussed previously, in the amount of NIS 8,290 thousand. In the years 1999 and 1998, the Company did not have similar investments.

An analysis of the key results of operations items for the year 2000, on a quarterly basis, are presented below (in NIS thousands of December 2000):

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year 2000
Rental income	37,664	37,120	139,202	143,943	357,929
Other revenues	20,469	9,630	12,171	28,304	70,574
<b>Total revenues</b>	<b>58,133</b>	<b>46,750</b>	<b>151,373</b>	<b>172,247</b>	<b>428,503</b>
<b>Expenses and costs</b>					
Operation of rental properties	10,793	10,422	47,273	51,414	119,902
Depreciation of rental properties	5,048	5,216	18,172	19,593	48,029
General and administrative	6,707	5,872	12,931	9,530	35,040
Financing, net	7,349	7,987	35,061	53,204	103,601
Other expenses	97	887	1,159	6,147	8,290
<b>Total expenses</b>	<b>29,994</b>	<b>30,384</b>	<b>114,596</b>	<b>139,888</b>	<b>314,862</b>
Income before taxes on income	28,139	16,366	36,777	32,359	113,641
Taxes on income	890	2,015	4,423	4,850	12,178
Income after taxes on income	27,249	14,351	32,354	27,509	101,463
Minority interest in earnings of consolidated company	(6,412)	(4,931)	(8,723)	(5,881)	(25,947)
Share of previous shareholders in earnings of company consolidated for the first time	-	-	(7,075)	(1,275)	(8,350)
<b>Net income</b>	<b>20,837</b>	<b>9,420</b>	<b>16,556</b>	<b>20,353</b>	<b>67,166</b>

#### 4. Liquidity and Financing Sources

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

- A. The Company's shareholders' equity, together with minority interest and convertible debentures in CFE, which may be redeemed by CFE issuance of shares, totaling NIS 1,628 million, financed 32.8% of total assets, compared with NIS 410 million, that financed 31.3% of total assets in 1999.
- B. The current ratio of current assets to current liabilities reached 1.01, compared with 1.89 in 1999.
- C. Cash flows from operating activities for the reported year totaled NIS 79.6 million, compared with NIS 54 million and NIS 38.8 million, in 1999 and 1998, respectively.

## **5. Financial Status**

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

As of December 31, 2000, the liquidity available to the Company and its subsidiaries, including cash and short-term investments, total NIS 271.5 million, compared with NIS 51.5 million as of December 31, 1999. The increase in the reported period stems mainly from an increase of NIS 77.7 million in cash and cash equivalents and of NIS 142.3 million in short-term investments. The increase in liquid balances stems namely from the first-time consolidation of CFE, from the receipts from offerings of capital and debt to the public and other parties effected by the Company, from the sale of properties in CFE, plus the increase in the Company's working capital, less the amounts used by the Company to acquire shares in CFE and EQ1 and to acquire long-term investments.

The increase of NIS 252.8 million in shareholders' equity to NIS 455.2 million stems from the net offering of shares amounting to NIS 89.2 million, from the conversion of convertible debentures and options into shares in the amount of NIS 64.3 million, from the NIS 1.1 million increase in the item "translation adjustments deriving from translation of financial statements" in respect of CFE, EQ1 and F.C.I., plus the Company's net earnings for the reported period of NIS 67.2 million, less a dividend paid of NIS 19.4 million.

## **6. Additional Information and Subsequent Events**

### **A. Private placement of debentures**

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

### **B. Private placement of shares in February 2001**

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

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

The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.4 million. In addition, the Company issued another 250,000 units to a subsidiary it controls. The securities to be held by the subsidiary will be dormant until their sale to third parties.

The total immediate capital raised amounted to NIS 28.4 million, net. Assuming full exercise of the options warrants, the capital offering is expected to total NIS 50.4 million.

**C. Acquisition of CFE debentures subsequent to the balance sheet date**

Subsequent to the reported period, through the TSE and in response to the tender offer it made, the Company acquired \$C20,239 thousand bonds at a net amount of NIS 41.6 million after Alony Hetz acquired its share,. The gain on these acquisitions will be recorded in the financial statements of the first quarter of 2001.

**D. Acquisition of a property in CFE**

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

**E. Expected changes in accounting standards**

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

**7. Reporting of Exposures to Market Risks and their Management**

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

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

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

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

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

2. Changes in the exchange rate of the U.S. dollar and the Canadian dollar relative to the shekel will have an effect, mainly on the Company's adjusted shareholders' equity. An increase in the exchange rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity, while a decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.
3. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.
4. Occasional foreign currency exposure of the U.S. dollar against the Canadian dollar due to CFE's activities in Canada and the USA.

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

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

D. Means of implementing and monitoring policies:

1. The Company's management, supervised by the board of directors, regularly monitors the management of risks and ways in which to minimize the Company's exposure to these risks.
2. The Chairman of the board of directors, Mr. Chaim Katzman, who is also the Chairman of the board of directors of EQ1 and CFE, and the Company's President, Mr. Dori Segal, who is also the President of CFE and F.C.I., reside permanently in the countries in which the Company's subsidiaries operate.

---

Dori Segal  
President

---

Varda Zuntz  
Director