

GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2001

ADJUSTED TO THE NIS OF SEPTEMBER 2001

UNAUDITED

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

Re: Review of unaudited interim consolidated financial statements
for the nine and three months periods ended September 30, 2001

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. as of September 30, 2001, and the consolidated statements of income, statements of changes in shareholders' equity and the consolidated statements of cash flows for the nine and three months periods then ended.

Our review was made in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter-alia, reading the aforementioned financial statements, reading the minutes of meetings of the shareholders and the Board of Directors and its committees, and making inquiries of certain officers responsible for financial and accounting matters.

We did not review the interim financial statements of certain subsidiaries, whose assets constitute approximately 98.6% of total assets included in the interim consolidated balance sheet and whose revenues constitute approximately 99.5% of total revenues included in the interim consolidated statement of operations.

The foregoing procedures do not constitute an examination made in accordance with generally accepted auditing standards in Israel, and are limited in scope. Therefore, we do not express an opinion on the interim consolidated financial statements.

In the course of our review, including the reading of the review reports of other auditors, as referred to above, nothing came to our attention as a result of our review that would indicate that material changes of the financial statements are required in order that they may be considered prepared in accordance with generally accepted accounting principles in Israel and in accordance with the Securities Regulations (Periodic and Immediate Statements), 1970.

Tel-Aviv, Israel
November 29, 2001

KOST FORER & GABBAY
A Member of Ernst & Young International

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of September 2001**

	September 30,		December
	2001	2000	31,
	Unaudited		2000
	Adjusted NIS in thousands		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	281,208	82,952	104,440
Short-term investments	172,720	153,336	172,434
Tenants	35,882	40,884	36,456
Accounts receivable	60,588	30,707	36,087
Loans to a partner in proportionately consolidated subsidiaries	43,202	81,265	89,031
	<u>593,600</u>	<u>389,144</u>	<u>438,448</u>
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	123,403	247,769	155,555
Long-term loans	91,143	35,256	51,012
	<u>214,546</u>	<u>283,025</u>	<u>206,567</u>
FIXED ASSETS:			
Cost	5,583,394	4,146,247	(* 4,421,454)
Less - accumulated depreciation	192,049	79,920	112,871
	<u>5,391,345</u>	<u>4,066,327</u>	<u>4,308,583</u>
OTHER ASSETS AND DEFERRED CHARGES, NET	<u>116,549</u>	<u>141,341</u>	<u>(* 114,792)</u>
	<u><u>6,316,040</u></u>	<u><u>4,879,837</u></u>	<u><u>5,068,390</u></u>

*) Reclassified.

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

CONSOLIDATED BALANCE SHEETS**Adjusted to the NIS of September 2001**

	September 30,		December
	2001	2000	31,
	Unaudited		2000
	Adjusted NIS in thousands		Audited
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	316,747	240,333	301,300
Trade payables	23,378	31,230	(* 29,683
Other accounts payable	127,008	119,691	(* 94,347
Dividend declared	-	-	6,970
	<u>467,133</u>	<u>391,254</u>	<u>432,300</u>
LONG-TERM LIABILITIES:			
Debentures	267,989	218,652	158,544
Liabilities to financial institutions and others	3,496,452	2,633,525	2,678,477
Tenants' security deposits	138,580	15,220	125,163
Accrued severance pay	780	120	615
Deferred taxes	473	3,664	473
	<u>3,904,274</u>	<u>2,871,181</u>	<u>2,963,272</u>
CONVERTIBLE DEBENTURES REDEEMABLE INTO SUBSIDIARY'S SHARES	<u>730,807</u>	<u>978,365</u>	<u>(* 930,835</u>
MINORITY INTEREST	<u>574,516</u>	<u>246,273</u>	<u>276,792</u>
CONVERTIBLE DEBENTURES	<u>-</u>	<u>11,324</u>	<u>1,029</u>
SHAREHOLDERS' EQUITY	<u>639,310</u>	<u>381,440</u>	<u>464,162</u>
	<u><u>6,316,040</u></u>	<u><u>4,879,837</u></u>	<u><u>5,068,390</u></u>

*) Reclassified.

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

November 29, 2001

Date of approval of the
financial statementsD. Segal
CEO and DirectorG. Kotler
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of September 2001

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31, 2000
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands (except per share amounts)				
Revenues:					
Rental income	484,172	218,202	171,240	141,944	364,980
Other income	63,738	(* 41,463)	27,933	(* 12,202)	71,964
	<u>547,910</u>	<u>259,665</u>	<u>199,173</u>	<u>154,146</u>	<u>436,944</u>
Costs and expenses:					
Operating properties for rent	165,549	69,836	58,517	48,204	122,264
Depreciation of properties for rent	70,419	28,996	26,134	18,530	48,976
General and administrative	42,164	26,012	14,033	13,185	35,730
Financial, net	100,085	(* 48,862)	59,521	(* 35,138)	105,643
Other expenses	8,045	10,642	1,436	9,153	8,452
	<u>386,262</u>	<u>184,348</u>	<u>159,641</u>	<u>124,210</u>	<u>321,065</u>
Income before taxes on income	161,648	75,317	39,532	29,936	115,879
Taxes on income	20,373	7,472	11,815	4,510	12,418
Income after taxes on income	141,275	67,845	27,717	25,426	103,461
Minority interest in earnings of subsidiaries	(48,312)	(20,461)	(9,647)	(8,895)	(26,458)
Equity of previous shareholders in losses (earnings) of newly consolidated subsidiary	-	354	-	354	(8,514)
Net income for the period	<u>92,963</u>	<u>47,738</u>	<u>18,070</u>	<u>16,885</u>	<u>68,489</u>
Net earning per NIS 1 par value of Common shares (in adjusted NIS):					
Basic earnings	<u>1.96</u>	<u>1.25</u>	<u>0.37</u>	<u>0.45</u>	<u>1.70</u>

*) Reclassified.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2001

Unaudited

Nine months ended September 30, 2001							
Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings (deficit)	Less - shares held by the Company	Total	
Adjusted NIS in thousands							
Balance at the beginning of the period	97,296	363,362	1,638	11,375	(8,874)	(635)	464,162
Issuance of share capital (net of issuance expenses)	4,107	52,403	-	-	-	(17,993)	38,517
Sale of shares held by the Company and subsidiary	-	(419)	-	-	-	12,146	11,727
Exercise of stock options into shares	2,564	20,633	-	-	-	-	23,197
Conversion of debentures into Company shares	88	933	-	-	-	-	1,021
Foreign currency translation adjustments for foreign autonomous units	-	-	-	30,763	-	-	30,763
Net income for the period	-	-	-	-	92,963	-	92,963
Dividend paid	-	-	-	-	(23,040)	-	(23,040)
Balance at the end of the period	<u>104,055</u>	<u>436,912</u>	<u>1,638</u>	<u>42,138</u>	<u>61,049</u>	<u>(6,482)</u>	<u>639,310</u>
Nine months ended September 30, 2000							
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 the beginning of the period	82,879	220,649	1,638	10,240	(57,599)	-	257,807
Issuance of share capital, net	7,064	74,371	-	-	-	(12,439)	68,996
Conversion of debentures into Company shares	1,706	14,778	-	-	-	-	16,484
Exercise of stock options into shares	21	176	-	-	-	-	197
Sale of shares held by subsidiary	-	-	-	-	-	2,487	2,487
Reimbursement of issuance expenses	-	665	-	-	-	-	665
Foreign currency translation adjustments for foreign autonomous units	-	-	-	180	-	-	180
Net income for the period	-	-	-	-	47,738	-	47,738
Dividend paid	-	-	-	-	(13,114)	-	(13,114)
Balance at the end of the period	<u>91,670</u>	<u>310,639</u>	<u>1,638</u>	<u>10,420</u>	<u>(22,975)</u>	<u>(9,952)</u>	<u>381,440</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2001

Unaudited

	Three months ended September 30, 2001						Total
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	
	Adjusted NIS in thousands						
Balance at the beginning of the period	103,342	431,424	1,638	30,570	50,888	(10,808)	607,054
Sale of shares held by the Company and subsidiary	-	(290)	-	-	-	4,326	4,036
Exercise of stock options into shares	713	5,778	-	-	-	-	6,491
Foreign currency translation adjustments for foreign autonomous units	-	-	-	11,568	-	-	11,568
Net income for the period	-	-	-	-	18,070	-	18,070
Dividend paid	-	-	-	-	(7,909)	-	(7,909)
Balance at the end of the period	<u>104,055</u>	<u>436,912</u>	<u>1,638</u>	<u>42,138</u>	<u>61,049</u>	<u>(6,482)</u>	<u>639,310</u>
	Three months ended September 30, 2000						Total
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less - shares held by the Company	
	Adjusted NIS in thousands						
Balance at the beginning of the period	89,822	293,898	1,638	9,780	(34,909)	(9,952)	350,277
Issuance of share capital, net	123	1,121	-	-	-	-	1,244
Conversion of debentures into Company shares	1,706	14,777	-	-	-	-	16,483
Exercise of stock options into shares	19	178	-	-	-	-	197
Reimbursement of issuance expenses	-	665	-	-	-	-	665
Foreign currency translation adjustments for foreign autonomous units	-	-	-	640	-	-	640
Net income for the period	-	-	-	-	16,885	-	16,885
Dividend paid	-	-	-	-	(4,951)	-	(4,951)
Balance at the end of the period	<u>91,670</u>	<u>310,639</u>	<u>1,638</u>	<u>10,420</u>	<u>(22,975)</u>	<u>(9,952)</u>	<u>381,440</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of September 2001

Audited

	Year ended December 31, 2000						Total
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Accumulated deficit	Less - shares held by the Company	
	Adjusted NIS in thousands						
Balance at the beginning of the year	82,879	220,649	1,638	10,240	(57,599)	-	257,807
Issuance of share capital, net	7,064	74,371	-	-	-	(12,439)	68,996
Conversion of debentures into Company shares	2,490	24,190	-	-	-	-	26,680
Exercise of stock options into shares	4,863	40,109	-	-	-	(6,111)	38,861
Sale of shares held by subsidiary	-	3,378	-	-	-	17,915	21,293
Reimbursement of issuance expenses	-	665	-	-	-	-	665
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,135	-	-	1,135
Net income for the year	-	-	-	-	68,489	-	68,489
Dividend paid	-	-	-	-	(12,794)	-	(12,794)
Dividend declared	-	-	-	-	(6,970)	-	(6,970)
Balance at the end of the year	<u>97,296</u>	<u>363,362</u>	<u>1,638</u>	<u>11,375</u>	<u>(8,874)</u>	<u>(635)</u>	<u>464,162</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2001**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands				
Cash flows from operating activities:					
Net income for the period	92,963	47,738	18,070	16,885	68,489
Adjustments to reconcile net income to net cash provided by operating activities (a)	(23,243)	24,103	6,305	9,033	12,660
Net cash provided by operating activities	69,720	71,841	24,375	25,918	81,149
Cash flows from investing activities:					
Investment in newly consolidated subsidiaries (b)	(139,085)	(332,341)	(139,085)	(332,341)	(458,503)
Investment in subsidiary and in jointly controlled entity	(18,950)	(14,506)	-	(83)	(22,358)
Investments in fixed assets	(237,358)	(107,241)	(36,794)	(67,009)	(222,169)
Proceeds from sale of fixed assets	245	59	-	-	-
Proceeds from sale of real estate	33,748	2,401	32,450	-	61,687
Granting of long-term loans	-	-	-	-	(61,516)
Repayment of long-term loans granted	6,549	302	4,558	302	56,882
Short-term investments, net	66,213	(114,420)	6,366	(111,755)	(60,505)
Purchase of marketable securities and long-term investments	(60,746)	(174,311)	(17,891)	(3,418)	(188,651)
Proceeds from sale of long-term investments	96,571	112,351	5,371	67,427	221,876
Proceeds from sale of real estate to former minority in subsidiary	-	-	-	-	2,594
Repayment of loan granted to a partner in jointly controlled entities	(1,388)	-	-	-	-
Net cash used in investing activities	(254,201)	(627,706)	(145,025)	(446,877)	(670,663)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2001**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands				
<u>Cash flows from financing activities:</u>					
Issuance of share capital, net	38,517	68,996	-	1,244	68,996
Exercise of stock options into shares	23,197	197	6,491	197	38,862
Sale of company's shares by the Company and subsidiary	11,727	2,487	4,036	-	21,293
Reimbursement of issuance expenses	-	665	-	665	665
Issuance to minorities in subsidiary, net	91,341	-	91,341	-	44,823
Deferred charges in respect of raising loans and debentures	(12,300)	(4,198)	(1,350)	(1,269)	(18,651)
Dividend paid	(30,010)	(13,114)	(15,642)	(4,951)	(12,794)
Dividend paid to minorities in subsidiary	(18,731)	(15,527)	(2,094)	(7,197)	(20,625)
Receipt of long-term loans	717,998	674,946	288,916	561,094	736,416
Early redemption of debentures and convertible debentures of subsidiary	(165,882)	-	(17,449)	-	(46,865)
Sale of Company debentures by subsidiaries	-	6,690	-	711	7,366
Repayment of long-term loans	(410,565)	(127,243)	(73,816)	(69,417)	(157,288)
Short-term bank credit, net	11,974	8,289	2,335	(9,969)	(3,176)
Treasury shares	-	-	-	-	-
Issuance of convertible debentures	-	11,270	-	-	11,317
Issuance of debentures	97,707	-	-	-	-
Net cash provided by financing activities	354,973	613,458	282,768	471,108	670,339
<u>Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents</u>					
	6,276	151	2,166	178	(1,593)
Increase in cash and cash equivalents	176,768	57,744	164,284	50,327	79,232
Cash and cash equivalents at the beginning of period	104,440	25,208	116,924	32,625	25,208
Cash and cash equivalents at the end of period	281,208	82,952	281,208	82,952	104,440

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Adjusted to the NIS of September 2001**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2001	2000	2001	2000	2000
	Unaudited				Audited
	Adjusted NIS in thousands				

(a) Adjustments to reconcile net income to net cash provided by operating activities:

Income and expenses not involving cash flows:

Gain from realization and revaluation of marketable securities, net	(39,954)	(15,560)	(16,112)	(9,475)	(36,310)
Minority interest in earnings of subsidiaries	48,312	20,461	9,647	8,895	26,458
Depreciation	70,419	28,996	25,938	18,530	48,976
Deferred taxes, net	(8,133)	(1,725)	(5,181)	(1,509)	(841)
Gain from early redemption of debentures and convertible debentures of subsidiary	(35,458)	-	(1,209)	-	(9,693)
Adjustment differences on monetary assets and long-term liabilities, net	(81,183)	(40,180)	(1,969)	(26,795)	(53,478)
Amortization of other assets and deferred charges	13,200	9,211	8,172	8,306	22,988
Gain from sale of fixed assets	(478)	(27)	-	-	(2,989)
Increase in accrued severance pay	151	-	3	-	28
Loss (gain) from issuance to third party and related party	(4,909)	861	(5,451)	403	(2,495)

Changes in asset and liability items:

Decrease (increase) in tenants and accounts receivable	(728)	(2,995)	(14,850)	(7,721)	16,280
Increase in trade payables and other accounts payable	15,732	24,473	12,731	18,254	3,442
Increase (decrease) in tenants' security deposits	(214)	588	(5,414)	145	294
	<u>(23,243)</u>	<u>24,103</u>	<u>6,305</u>	<u>9,033</u>	<u>12,660</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 1:- GENERAL**

These financial statements have been prepared as of September 30, 2001 and for the nine and three months periods then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 2000 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 2000 are applied consistently in these financial statements.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS according to the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of September 2001.

The following are details in respect of the changes in the CPI of Israel, U.S. and Canada and the exchanges rate of the U.S. dollar and the Canadian dollar:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2001	2000	2001	2000	2000
			%		
CPI - Israel	2.0	(0.5)	0.8	(0.8)	-
CPI - U.S.	2.5	3.2	0.2	0.8	3.4
CPI - Canada	2.0	2.6	(0.1)	0.6	3.2
Exchange rate of U.S. \$ 1	7.8	(3.1)	4.6	(1.5)	(2.7)
Exchange rate of CD \$ 1	2.7	(6)	1.0	(2.6)	(5.8)

NOTE 4:- ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS AND THEIR IMPACT ON THE FINANCIAL STATEMENTS

- a. 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 and in October 2001, Accounting Standard No. 12 regarding the discontinuance of adjusting of financial statements for inflation (see b. below), and Accounting Standard No. 13 regarding the effects of changes in foreign exchange rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Regulation No. 31 to the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993 was not yet eliminated, the treatment of dividend that was declared after the balance sheet date will be in accordance with these regulations and will be disclosed as short-term liability and deducted 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.

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.

Management 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.

- b. Discontinuance of adjusting financial statements and principles regarding the translation of financial statements of investees that are prepared in foreign currency:

During October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 which deals with the discontinuance of adjusting financial statements. According to this Standard, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management is of the opinion that the discontinuance of adjusting financial statements to the Israeli CPI and the application of the Standards 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 properties, will have a significant effect on the reported accounting results of the Company beginning with the year of change.

NOTE 5:- ADDITIONAL INFORMATION

- a. In January 2001, the Company issued debentures in the amount of NIS 96 million to two provident funds. The debentures are linked to the Israeli CPI and bear interest which reflects a gross annual yield of 8.25%. The debentures are redeemable in the years 2006 - 2015.

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

- b. 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). Each stock option (series 4) is exercisable into 1.111 shares of the Company in exchange for NIS 13.6, linked to the U.S. dollar (base exchange rate of \$ 1 = NIS 4.15) until February 20, 2004. In any case, the exercise price will not be below NIS 13.6. The securities were issued in 403,260 units which contain 5 Common shares and 4 sock options (series 4) at NIS 70.25 per unit.

The parent company acquired at the issuance 120,000 units, representing an immediate investment of NIS 8.7 million. In addition, the Company offered additional 250,000 units to a wholly owned subsidiary. The securities to be held by the subsidiary will be dormant until sold to third parties.

The total net immediate capital raising amounts to NIS 29.1 million. Assuming that the options are fully exercised, the total capital raising is expected to amount to approximately NIS 52.1 million.

- c. 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 in order to buy the shares. The loans are linked to the Israeli CPI, bear interest of 2% and are repayable in nine years or upon the sale of shares or upon the termination of the optionee's employment at the Company, whichever is earlier.
- d. During September 2001, the subsidiary, CFE, (68.08%) resolved to change its name to First Capital Reality Inc. (FCR).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- e. During the reported period, a subsidiary published two tender offers for three series of FCR convertible debentures. In the tender offers, about CD \$ 12 million of convertible debentures (which bear interest of 7.875%) were acquired at 80% of their par value, about CD \$ 22.4 million 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 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 Properties and Investments Ltd. ("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, during the reported period, a subsidiary acquired additional convertible debentures of FCR during trade on the stock exchange. In respect of the acquisition of said debentures, during the reported period, the Company derived a net gain from early redemption of approximately NIS 17 million.

As of the date of the financial statements, the subsidiary holds in CD \$ 84 million par value of FCR convertible debentures (23.7% 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.

Subsequent to the balance sheet date, a subsidiary acquired, during trade on the stock exchange, additional CD \$ 6.3 million par value of FCR convertible debentures.

- f. In August 2001, EQ1 issued 1,300 thousand shares to Alony-Hetz in consideration of \$ 14 million, pursuant to an agreement which was signed in October 2000. In September 2001, EQ1 issued additional 650 thousand shares to Alony-Hetz in consideration of \$ 7 million, and thus completed its commitment under said agreement. Following the above issuances, the Company's holdings in EQ1 decreased from 63.8% to 55.5% in respect of which the Company derived a gain of NIS 6.5 million.
- g. On May 18, 2001, Globe's subsidiaries, EQ1 and FCR, announced that they entered into a binding agreement, according to which EQ1 will acquire FCR wholly owned subsidiary, which is the owner of properties in the U.S., in exchange for the issuance of 10.5 million of EQ1 shares. In September 2001, the transaction was closed after all the required approvals were received.
- h. In June 2001, EQ1 signed an agreement for the acquisition of United Investors Realty Trust ("UIRT"), (an income producing real estate company type REIT which is listed for trade on the New York stock exchange) in shares and cash transaction. The net value of the transaction is at \$ 66 million, of which half is payable in cash and the remaining half by EQ1 shares. In September 2001, the transaction was closed after all the required approvals were received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- i. During the reported period, 2,226 thousand stock options (series 3) were exercised into 2,564 thousand shares for the total consideration of NIS 23.2 million. In addition, convertible debentures in the amount of NIS 1 million were converted into 84.5 thousand shares.
- j. During May 2001, the Company acquired additional 1% of the shares of Mishkanot Clal in consideration of NIS 2 million, thereby increasing its holdings rate in Mishkanot Clal to 50%.

NOTE 6:- SUBSEQUENT EVENTS TO THE BALANCE SHEET DATE

- a. In October 2001, FCR has entered into an employment agreement with the Company's CEO (who acts also as FCR president), whereby beginning this month, the CEO is entitled to an annual basic salary of CD 400 thousand. The CEO is entitled to annual grants and participation in the Company's equity compensation plans, at the discretion of FCR Board.

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

The agreements with the above related parties contain certain instructions in the event that their employment at FCR is terminated.

In view of said agreements, the basic salary of the Company's CEO and the chairman of the Board was reduced in the Company by 35%.

- b. In November 2001, the Company issued to institutional bodies, to Gmul and to the parent company, 1,220 thousand shares, 375 thousand shares and 1,800 thousand shares, respectively, at NIS 13.3 per share. At that date, the Company has also sold to the institutional bodies 202 thousand shares which it held at same price. Total capital raising amounted to NIS 47.8 million.