Azrieli Group Ltd.

Quarterly Report Q2/2014

Dated 30 June, 2014

Part A Board Report

Part B Update of the Description of the Corporation's Business

Part C Consolidated Financial Statements Dated 30 June, 2014

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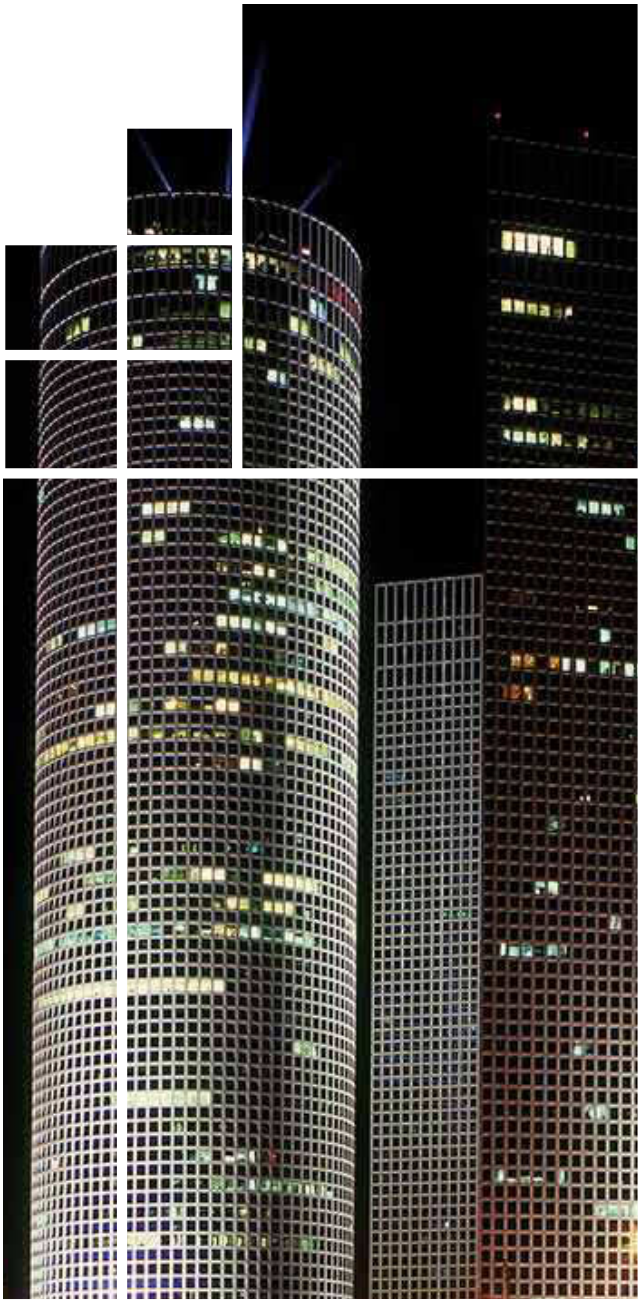

AZRIELI GROUP

CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the quarterly report and financial statements for Q2/2014 (the "**Report**") of the Azrieli Group Limited. Please note that this document should not be regarded as a substitute for the complete, original, Hebrew version of the Report.

This document is a convenience translation into English of the Hebrew language Report and financial statements of the Azrieli Group Limited (the "Company") (the "Report"). The binding version of the Report for all intents and purposes is the original Hebrew version filed by the Company with the Israel Securities Authority through the MAGNA website (www.magna.isa.gov.il). Nothing in this translation constitutes a representation of any kind in relation to the Report nor should it be regarded as a source for interpretation of the Report. In any event of discrepancy or inconsistency between this translation and the Hebrew version of the Report, the provisions of the Hebrew version shall prevail.

This translation was neither performed by the Company, nor checked by it, and accordingly, the Company does not undertake that the translation fully, correctly or accurately reflects the Report and its content. The full and legal version of the Report, in Hebrew, was released by the Company on August 20, 2014, and may be viewed on the MAGNA website.

The translation of the financial statements in the Report (the "**Financial Statements**") was neither performed by Brightman, Almagor, Zohar and Co., Accountants (the "**Company's Auditors**"), nor checked by the Company's Auditors, and accordingly, they do not undertake that the translation of the Financial Statements fully, correctly or accurately reflects their content, and the Company's Auditors' report on the Financial Statements relates solely to the Company's Financial Statements in Hebrew. The full and legal version of the Financial Statements was released by the Company, as part of the Report, on August 20, 2014, and may be viewed on the MAGNA website.

Part A

Board Report

Azrieli Group

Azrieli Group Ltd.

Board of Directors' Report on the State of the Company's Affairs

for the six and three months ended June 30, 2014

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the six and three months ended June 30, 2014 (hereinafter: the "**Report Period**" and the "**Quarter**" respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, the effect of which is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2013, the financial statements and the Board of Directors' Report on the state of the Company's affairs for the year ended on the same date (the "Periodic Report for 2013") and the update to the Corporation's Business Chapter and the financial statements for June 30, 2014.

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held thereby, directly and/or indirectly, will be referred to below as the "**Group**" or "**Azrieli Group**"), engages both itself and through its investee companies, mainly in the income-producing property in Israel segment, while most of the Group's business activity is in the retail centers and malls in Israel segment and in the office and other space for lease in Israel segment. In addition, the Company has income-producing property outside Israel, and mainly office space for lease in the USA. Also, the Company engages, through its (indirect) holding in Sonol Israel Ltd. ("**Sonol**") also in another business segment, which includes oil distillates via direct marketing and fuelling and retail complexes. In addition, the Company has other businesses, such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd. ("**Granite**")). The Company also has minority holdings in financial corporations.

As a result of organizational changes in the Granite group which affect the decision making process of the Chief Operating Decision Makers ("**CODM**"), the reporting format was updated such that from the annual report as of December 31, 2013, and in the quarterly report as of March 31, 2014, the Company reported in its reports to the public on five operating segments, which also constitute reportable operating segments in its financial statements. In the Report Period, according to GAAP, and in view of the closing of a transaction for the sale of the Group's holdings in Tambour Ltd. ("**Tambour**"), Tambour's business operations, which included paint, finishing and construction, were rendered discontinued operations of the Company, and therefore it is no longer reported as an operating segment (see Section 1.1.1 below and note 5 to the financial statement, Chapter C hereto).

Azrieli Group's business has developed, *inter alia*, on the basis of the extensive knowledge and experience that it has accumulated for many years in the income-producing property industry in Israel, while using the experience and expertise of Mr. David Azrieli OBM, who founded and established the Company from the beginning

of its activity.

The data appearing in the Board of Directors' Report are based on the consolidated financial statements as of June 30, 2014. The financial data and the business results of the Company are affected by financial data and business results of the companies held thereby. In some cases, details are presented which review events that occurred after the date of the financial statements and in proximity to the date of releasing the Report, with such fact indicated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included in this Report was examined from the Company's point of view. In some of the cases additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's view, material for the purpose of this Report.

The financial statements attached are prepared according to the International Financial Reporting Standards (IFRS). For further details see Note 2 to the financial statements as of June 30, 2014.

Extended standalone statement – the income-producing property segment

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bond holders and analysts and sees all of these as its partners. Therefore, the Company had decided to adopt a policy according to which in the Company's Board of Directors' Report disclosure shall be made regarding a summary of extended standalone financial statements – i.e. – a summary of the Company's balance sheets and income statements on a consolidated basis, presented according to the IFRS standards, except for the Company's investment in Granite Hacarmel which is presented on the basis of the book value instead of the consolidation of its statements with the Company's statements (the other investments are presented with no change from the statement presented according to the IFRS standards). The Company's management believes that this Report adds a lot of information which helps in understanding the large contribution of the real estate business to the total profit of the Company, while neutralizing material sections of the consolidated financial statements, deriving from the consolidation of Granite Hacarmel, such as trade accounts receivable, inventory, sales, etc. The extended standalone statement is attached hereto as Annex C. This Report is not audited or reviewed by the Company's auditors.

Main emphases for the Quarter ended June 30, 2014 and until the Report Release Date (*)

Comprehensive Income
• Approx. NIS 247 million comprehensive income in the Quarter, compared with comprehensive income of approx. NIS 235 million in the same quarter last year.
Net Profit
Approx. NIS 261 million net profit in the Quarter, compared with a net profit of approx. NIS 278 million in the same quarter last year.
FFO from the income-producing property operations compared with the same quarter
• Approx. 4% growth in the FFO attributed to the income-producing property operations (see Section 1.1.6 of the Report).
Improvement in the NOI in the Quarter compared with the same quarter
• Approx. NIS 281 million in the Quarter compared with approx. NIS 277 million in the same quarter last year, growth of approx. 1.5%.
Improvement in the same-property NOI during the Quarter compared with the same quarter
• Approx. 1.5% additional growth in the same-property NOI compared with the same quarter (see Section 1.1.4 of the Report).
Business Development and Initiation
• In the Report Period, the Company continued the development work on the properties under construction in accordance with the planned timetables. • At the same time, significant progress has been made in the marketing efforts of some of the projects under construction and the Company is in advanced negotiations for the lease of tens of thousands of sqm. • During the Report Period, the Company invested approx. NIS 439 million in the

purchase of properties, improvement of existing properties and initiation.

- For further developments, see Section 1.1 below.

Disposition of Assets in Granite Hacarmel

- Until the Report Release Date, the Company held negotiations for the sale of businesses in Granite Hacarmel, and in this context sold Tambour, signed an agreement for the sale of Via Maris and an agreement for the sale of solar business, for further details see Section 1.1.1 of the report.

(*) In the foregoing emphases the Company included the main issues specified below in this Report. In respect of forward-looking information, including in respect of the progress of the projects under construction, see Section 1.1.2 below.

1. Explanations of the board for the corporation's state of affairs

1.1 General

1.1.1 Summary of developments during and after the Report Period until the date of release thereof

Set forth below is a summary of emphases regarding developments in the Company during the Report Period until the release hereof. Further details are specified in Chapter B (Updates to the Description of the Corporation's Business Chapter) and Chapter C (the Financial Statement) hereof.

David Azrieli, OBM

On July 9, 2014, the Company announced, with great sorrow, the passing of Mr. David Azrieli, OBM, the Chairman of the Board and controlling shareholder of the Company. For details regarding the description of control of the Company and ending of the Company's management agreement with Mr. David Azrieli OBM, see Notes 1 and 9a to the Financial Statements as of June 30, 2014, respectively.

On July 21, 2014, the Company's Board of Directors appointed Ms. Danna Azrieli as Chairwoman of the Board of the Company. Prior thereto, in view of the deterioration of Mr. David Azrieli's health, the Company appointed Ms. Danna Azrieli as his substitute.

Transactions related to Investment Property

Closing of the purchase of land for the construction of senior housing in Modiin

On February 17, 2014, the Company engaged with unaffiliated third parties in an agreement for the purchase of 100% of the shares of a private company which holds the right (subject to payment of long-term rent) to a capitalized long-term lease of approx. 12,000 sqm in Modiin, on which, according to the zoning plan in effect, a senior housing facility may be built, in consideration for the sum of approx. NIS 51.5 million (plus V.A.T) (including by way of provision of a shareholder loan to the company). The closing of the transaction was conditioned on conditions precedent. On May 1, 2014, the Company closed the transaction after fulfillment of all of the conditions precedent determined in the agreement.

Transactions in connection with held properties

Closing of the sale of Tambour

On May 26, 2014, Granite entered into an agreement with third parties which are not affiliated with the Company and/or Granite whereby Granite shall sell all of its rights in Tambour, per Tambour's condition

on the signing date ("as is"), in consideration for the sum total of NIS 500 million (the "**Transaction**"). The closing of the Transaction was conditioned upon conditions precedent. On June 12, 2014, Granite closed the Transaction after fulfillment of all of the conditions precedent set forth in the agreement. For further details, see immediate reports of May 26, 2014 and June 12, 2014 (ref.: 2014-01-073638 and 2014-01-089961, respectively), included herein by way of reference.

In view of the sale of the Tambour operating segment and in accordance with GAAP, Tambour's operations are presented in the financial statements as discontinued operations (see Note 5 to the attached financial statements).

Termination of the engagement in an MOU for the sale of Sonol

In the Report Period, the Company conducted negotiations with S. Shlomo Holdings Ltd. ("**Shlomo Holdings**"), for the sale of Granite's holdings in Sonol Israel Ltd. ("**Sonol**"), a company controlled by Granite. Due to the sudden passing of Mr. Shlomo Shmeltzer, Chairman of the Board and controlling shareholder of Shlomo Holdings, Shlomo Holdings decided to end the negotiations in connection with the acquisition of Sonol's shares as aforesaid. In view of the special circumstances, the Company returned the commitment fee that was paid upon the execution of the MOU, net of the costs incurred by the Company in relation to the transaction up to that stage. For further details, see the Company's immediate reports of June 8, 2014, June 11, 2014 and July 9, 2014 (ref.: 2014-01-084846 and 2014-01-088089 and 2014-01-110676, respectively), included herein by way of reference.

Agreement for the sale of all of the rights in Via Maris Desalination (Holdings) Ltd.

On August 6, 2014, after the Date of the Statement of Financial Position, GES Global Environmental Solutions Ltd. ("**GES**"), a wholly-owned subsidiary of Granite Hacarmel, engaged with a third party, which is an SPV which is not affiliated with the Company and/or any of the companies controlled thereby, in an agreement, whereby GES will sell all of its rights in the Via Maris desalination plant at Palmachim (the "**Desalination Plant**"), in consideration for NIS 429 million, linked to the January 2014 index, subject to adjustments, by way of selling the holdings of GES in Via Maris Desalination (Holdings) Ltd. and Via Maris Desalination - Construction Partnership. Granite Hacarmel provided a full guaranty for all of GES's undertakings in the agreement. In addition, upon the occurrence of certain events set forth in the agreement, the Company has undertaken to guarantee, in lieu of Granite Hacarmel, GES's undertakings in the agreement, as if it was the main debtor in the agreement, or that all of GES's rights and undertakings be transferred to the Company, as the case may be. The closing of the transaction is contingent upon fulfillment of the conditions precedent set forth in the

agreement, which are to be fulfilled by December 31, 2014.

For further details, see the Company's immediate report of August 7, 2014 (ref.: 2014-01-128880) and the amending report of August 18, 2014 (ref.: 2014-01-136566), included herein by way of reference, and Note 6A to Chapter C hereof, the Financial Statements as of June 30, 2014.

Sale of solar business by Supergas

On August 4, 2014, Supergas updated the Company that further to a competitive process conducted thereby, Supergas's board of directors had approved the sale of shares of S.Super Solar Ltd. which is held thereby to a third party, in consideration for the sum total of approx. NIS 170 million (net of the transaction costs). The essence of the transaction is the sale of Supergas' solar business, which includes solar plants with an installed capacity of approx. 18 megawatt. The closing of the transaction is conditioned on the fulfillment of several closing conditions, which mainly include receipt of regulatory approvals. The expected capital gain after tax from the disposition of the holding is estimated at approx. NIS 30 million. For further details, see Note 6B to Chapter C of this Report, the Financial Statements as of June 30, 2014.

Further developments

Senior Officers

On June 1, 2014, the definition of Mr. Arnon Toren's title was changed, and from such date he is Deputy CEO of the Azrieli Group and Head of Azrieli Malls. For further details, see the Company's immediate reports of May 22, 2014 and June 1, 2014 (ref.: 2014-01-070107 and 2014-01-080823 respectively), included herein by way of reference.

On June 11, 2014, the Company updated that Mr. Rafi Wunsh, who serves as Director of Business Development at the Company, had resigned and will end his term of office on September 12, 2014. For further details, see the Company's immediate report of June 11, 2014 (ref.: 2014-01-088776).

Class Actions

On August 8, 2013, the Company received a motion for an appraisal remedy and a motion for cancellation of a tender offer, and a motion for class certification thereof, against the Company and against the subsidiary, in connection with a full tender offer for shares of Granite Hacarmel (even though the six (6)-month period determined in the law for the filing of a claim for an appraisal remedy has lapsed). The Company has filed a motion for summary dismissal of the motion. On March 19, 2014, a hearing was held at which the petitioner withdrew, in view of the Court's comment, his motion for the remedy of

cancellation of the tender offer and the relisting of the shares on TASE. At the Court's request, the Parties filed additional summations in connection with the motion for summary dismissal. For details, see Note 3b1 to the Financial Statements as of June 30, 2014.

Engagement in a loan agreement

In order to finance its current operations and its investments, the Company entered into a loan agreement (the "**Loan Agreement**") with several companies in the group of an institutional body, affiliated neither with the Company nor with its controlling shareholders (the "**Lender**"), to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest of 0.74%. As collateral, the Company pledged Ramla Azrieli mall (under construction) (the "**Mall**"). It was agreed that if the Mall does not open to the public by the end of Q3/2015, the Company will have the option of either paying interest compensation in relation to the period from the end of the said quarter until the date of the opening of the Mall only, or providing the Lender with other collateral at a similar LTV, to the Lender's satisfaction. As of the Report Date, the Company estimates that the Mall will open in or about March 2015.

For further details, see the immediate report of May 21, 2014 (ref.: 2014-01-069621), included in this report by way of reference and Note 4e to the attached financial statements.

Current Operations

As the Company has reported in the past, during the Report Period and until the date of release thereof, the Group has continued to explore business opportunities in Israel and overseas, in connection with the expansion of its business, mainly in the field of real estate, including tangential fields of real estate and the retirement home sector, through the purchase of land reserves, the purchase of additional properties and/or the improvement of the existing properties, some of which have been consummated as stated in the Company's reports. The Company has further begun to identify opportunities for expanding retail/office space as an addition to existing projects and is acting for the promotion of improvement of these properties. In addition, the Company may explore, from time to time, additional options for expanding its fields of business while taking advantage of market situations and/or crisis situations in leading and cash flow generating target companies in other segments. In addition, after Granite's engagements for the sale of its holdings in Tambour and in the Desalination Plant, the Company is continuing to examine, on an ongoing basis, the other holdings which are not in its core business in the field of income producing properties, and in this context is looking into the possibility of selling its holdings in Granite Hacarmel (in whole or its other various parts), at its discretion in connection with the timing, the structure and the consideration in the transaction.

As of the date of the Report, the Company is conducting initial contacts only with several entities in Israel and overseas, which are not certain to mature into negotiations. The Company shall report in the future, insofar as there shall be developments which shall require reporting pursuant to law.

1.1.2 **Developments in Initiation and Development**

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period totaled approx. NIS 439 million. Thus, the Company also continued to pro-actively manage its existing properties, the improvement thereof, maintaining the high occupancy rate unique to the Group and strengthening the cash flow generated from such properties. As of the date of this Report, the Company operates towards the development of several properties under construction that are expected to add marketable space, to the Group, in the aggregate, of 442,500 sqm (approx. 90,000 sqm of which in 2015), as specified below.

Set forth below is a summary of the data regarding properties under construction and expansions as of June 30, 2014[1]

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of March 31, 2014[2] (NIS in millions)	Estimated cost of completion of construction with no expected capitalizations [3] (NIS in millions)
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	2017	737	762-807
Azrieli Rishonim[4]	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	53,000	December 2011 (permit for construction of temporary parking and an excavation and shoring permit)	2016	244	442-472
Azrieli Center Holon[5]	Holon	Jun. 2008	Offices	83%	34,000	57,500	Phase B – beginning of 2014	Phase B – 2015	224	68-98
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	2013	March 2015	146	57-87
Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	March 2015	265	147-167

Clalit Health Fund Land(6)	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	142	809-909
Yedioth Ahronoth House(6)	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Not yet determined	Not yet determined	109	890-910
Modiin Senior Housing Land(7)	Modiin	February 2013	Senior Housing	100%	12,000	35,000	End of 2014	End of 2016	55	210-220
Total						**442,500**			**1,922**	**3,385-3,670**

(1) The data regarding the project's costs and the estimated date of completion are based on the Company's estimates, from its experience and data known thereto as of the Report Date, which may change from one reporting period to another.
(2) The figure reflects the value of the project on the books if a valuation was made or the costs invested without capitalizations and as a shell. Capitalizations in projects presented at cost total approx. NIS 76 million.
(3) Excluding expected capitalizations and an investment budget for the tenants.
(4) For details regarding an appeal that was filed with the National Council, see Section 5 of Chapter B hereof. As of the Report Date, the Company is unable to estimate the implications thereof.
(5)The figures are for 100%.
(6) As of the Report Release Date, the Company has not received possession of this property. With respect to the Clalit Health Fund land, note that the Company is negotiating with Clalit Health Fund, at the request of the latter, regarding a postponement of the handing-over date.
(7) On May 1, 2014, the Company received possession of this property.

During the Report Period, the Company proceeded with the development and construction work in her aforementioned properties and with obtaining the necessary approvals for the purpose of their continued development, in accordance with the scheduled timetables and without substantial delays. In addition, there has been progress in negotiations for the lease of the areas under construction in the scope of tens of thousands of sqm, mainly in Holon (phase B) and in Rishonim. For further details, see Section 5 of Chapter B of this Report, update of the description of the corporation's business.

The Company's estimates stated in this Section 1.1.2, including the above table, inter alia, in respect of the projected investments and costs for properties under construction, manner of financing the projects, dates for completion of construction, receipt of various regulatory approvals required for the progress of the projects under construction or the results of administrative and legal proceedings are forward-looking information as such term is defined in the Securities Law, based on subjective estimations of the Company as of the Report Date and there is no certainty to their realization, in whole or in part, or they may realize in a materially different manner, inter alia due to causes which are beyond its control, including changes in market conditions, changes in the Company's plans, regulatory changes including in zoning regulation the duration of time required for approval of the construction plan for performance and receipt of permits and in prices of construction inputs.

1.1.3 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2013[1], the NOI figure (which is unaudited) is one of the important parameters in the valuation of income-producing property companies. In addition, the NOI is used for measurement of the free cash flow available to service financial debt taken to finance the acquisition of the property. Current maintenance expenses for property preservation are offset against the total NOI.

Below are the NOI figures regarding income-producing property, from the retail centers and malls in Israel segment, from the office and other space for lease in Israel segment and from the income-producing property in the USA segment:

NIS in millions	For the three months ended		For the six months ended		For the year ended
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**	**Dec. 31, 2013**
Retail centers and malls in Israel	177	177	354	354	705
Rate of increase	-		-		
Office and other space for lease in Israel	78	74	156	148	301
Growth rate	5%		5%		
Income-producing property in the USA	26	26	49	52	99
Rate of increase (decrease)	-		(6%)		
Total NOI	281	277	559	554	1,105
Growth rate	1.5%		1%		
	For explanations pertaining to the increase in NOI, see Sections 1.10.1, 1.10.2 and 1.10.3.				

[1] Details regarding the use made of this figure and the manner of calculation thereof were provided at length in the report of the Company's board of directors for December 31, 2013.

1.1.4 Same property NOI Index[2]

NIS in Millions	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Retail centers and malls in Israel segment	177	177	354	354
Office and other space for lease in Israel segment	77	74	154	148
Income-producing property in the USA segment	26	25	49	50
Total	**280**	**276**	**557**	**552**
Growth rate	**1.5%**		**1%**	

Development of actual same property NOI, per quarters (NIS in millions):

	2014		2013		
	Q2	Q1	Q4	Q3	Q2
Same property NOI in all of the periods(*)	280	280	278	275	276
NOI from acquired (completed) properties	1	-	-	1	-
NOI from properties sold during the period	-	-	-	1	1
Total NOI for the period	**281**	**280**	**278**	**277**	**277**
(*) In all of the Company's operating segments					

1.1.5 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property of the Group as of June 30, 2014**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex D) (*)	17,686
Net of value attributed to construction rights not utilized yet	(5)
Net of value attributed to investment property under construction	(1,697)
Net of value attributed to advance payments on account of land purchase	(252)
Net of the value attributed to land reserves	(78)

[2] Same property NOI – NOI from same properties which were held by the Group throughout all of the reported periods.

Total value of income-producing investment properties (including fair value of the vacant space)	**15,654**
Actual NOI for the quarter ended on June 30, 2014	281
Addition to future quarterly NOI (**)	14
Total standardized NOI	295
Pro-forma annual NOI based on standardized NOI	**1,180**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.5%**

(*) The data are based on the valuations as of June 30, 2014 and include receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure mainly includes estimates for an addition of NOI for vacant space for population for one year for which value was credited in the update to the valuations as of June 30, 2014 and which have not yet been fully populated (mainly Azrieli Center Holon).

This figure does not constitute a forecast of the Company for the NOI of 2014 and all of its purpose is to reflect the NOI under the assumption of full population for a whole year of all of the income-producing property.

(***) Annual standardized NOI rate out of the total income-producing investment property (including vacant space).

1.1.6 The FFO (Funds From Operations) index for the real estate business (Calculated in NIS in millions):

For the purpose of providing further information about the results of operations, following is the FFO Index, which is in common usage around the world and provides an appropriate basis for comparison between income-producing property companies. The index expresses net reported profit net of income and expenses of a capital nature, plus the Company's share in depreciation from real estate and other amortizations. **In this Report the FFO index is presented for the Group's income-producing property only**. The Company's management believes that since the FFO index is an index customary in companies of which all of their business focuses on the income-producing property, therefore an adjustment of that index is required in companies of the Company's kind to better reflect the Group's income-producing property business while neutralizing influences which are not from the real estate business.

The Company's management believes that it is necessary to perform certain adjustments in respect of non-operating items which are affected by revaluation of fair value of assets and liabilities, mainly adjustments of fair value of investment property and property under construction, various capital losses and gains, deferred tax expenses and financing expenses in respect of appreciation of financial

liabilities, as specified in the basic assumptions underlying the table below.

It should be emphasized that the FFO does not represent cash flow from current operations according to GAAP and does not reflect cash held by the Company and its ability to distribute the same and does not substitute the reported net profit. It is further clarified that this index is not a figure which is audited by the Company's auditors.

	For the three months ended		For the six months ended	
NIS in Millions	**June 30, 2014**	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Net profit for the period attributed to shareholders	**258**	**274**	**467**	**468**
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	**(81)**	**(26)**	**(113)**	**(57)**
Adjustments to profit (1):				
Appreciation of investment property	(11)	(123)	(8)	(115)
Depreciation and amortizations	1	1	2	2
Net non-cash flow financing and other revenues (2)	(2)	(1)	(28)	(9)
Tax expenses (3)	18	44	53	54
Adjustments for associated companies		(1)		-
Interest and dividend from financial assets held for trade, net of tax (4)	-	(1)	-	(5)
Impairment of financial assets held for trade, net	-	1	-	-
Plus benefit recorded for employee option plan	-	4	-	7
Net of dividend received from financial assets available for sale	-	-	(10)	(6)
Total adjustments to profit	**6**	**(76)**	**9**	**(72)**
Plus interest paid for real investments - (5)	**10**	**14**	**22**	**31**
Total FFO attributed to the income-producing property segment (6)	**193**	**186**	**385**	**370**

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite HaCarmel since its profits were discounted in full.
2. In order that the FFO index reflect the Company's operations, the Company discounted, in this quarter, in the six-month period ended June 30, 2014 and in comparison figures, fluctuations between the quarters during the year which derive only from the difference in the timing of the payments of interest on the loans, and used the interest expenses included in the income statement on an accrual basis in lieu of the interest actually paid.
3. In order that the FFO index reflect the Company's operations, the Company discounted, in this

quarter, in the six-month period ended June 30, 2014 and in comparison figures, fluctuations between the quarters due to the effect of the changes in the CPI on the current tax results, and calculated the said tax results according to the projected annual index forecast, linearly divided over the quarters.

4. Net of interests and dividends in respect of transactions and actions in securities which were written off from the real estate operations.
5. Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments' cost.
6. Which is attributed to shareholders only.

1.1.7 The EPRA indices: Net Asset Value (EPRA NAV and EPRA NNNAV)

The Company is included in the EPRA index and is also a member of this association (European Public Real Estate Association) which incorporates the large income-producing property companies. In view of the aforesaid, the Company decided to adopt the position statement which was published by the EPRA, the aim of which is to increase the transparency, uniformity and comparativeness of financial information which is released by the real estate companies.

The EPRA NAV reflects the Company's net asset value under the assumption of continued future activity which assumes the non-disposal of the real estate assets and therefore, various adjustments are required such as presentation by fair value of properties which are not so presented in the financial statements and cancellation of deferred taxes deriving from revaluation of investment property.

The EPRA NNNAV index reflects the Company's net asset value of the Company under an immediate liquidation assumption of the "Spot" real estate segment, and therefore certain adjustments are required, such as presentation at fair value of assets and liabilities which are not so presented in the financial statements and adjustments to deferred taxes.

It shall be emphasized that the indices specified above do not include the profit component anticipated due to the projects under construction.

These figures do not constitute a valuation of the Company, are not audited by the Company's auditors and do not replace figures in the financial statements.

EPRA NAV (NIS in millions)	**As of**	
	June 30, 2014	**June 30, 2013**
Equity attributed to the Company's shareholders in the financial statements	12,779	12,029
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,667	2,425
EPRA NAV	**15,446**	**14,454**
EPRA NAV per share (NIS)	**127**	**119**

EPRA NNNAV (NIS in millions)	As of	
	June 30, 2014	June 30, 2013
EPRA NAV	15,446	14,454
Adjustment of assets' value to fair value (net of the minority)	(2)	69
Adjustment of the value of financial liabilities to fair value (net of the minority)	(377)	(381)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,667)	(2,425)
EPRA NNNAV	**12,400**	**11,717**
EPRA NNNAV per share (NIS)	**102**	**97**

1.1.8 Summary of the Company's Results (Consolidated)

a. Analysis of the net profit (consolidated) NIS in millions

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	Dec. 31, 2013
Net profit for the period attributed to the shareholders	**258**	**274**	**467**	**468**	**930**
Net profit attributed to the shareholders and non-controlling interests	**261**	**278**	**472**	**475**	**944**
Basic profit per share from continued operations (in NIS)	**1.62**	**2.18**	**3.25**	**3.69**	**7.38**
Basic profit per share from discontinued operations (in NIS)	**0.50**	**0.08**	**0.60**	**0.17**	**0.28**
Comprehensive income for shareholders and non-controlling interests	**247**	**235**	**429**	**426**	**1,038**

The net profit attributed to the shareholders for the six months ended on June 30, 2014 totaled to an amount of approx. NIS 467 million (in the Quarter NIS 258 million) versus net profit attributed to the shareholders in the amount of approx. NIS 468 million in the same period last year (in the same quarter last year NIS 274 million).

The decrease in profit in Q2 mainly derives from a decrease in the gain from fair value adjustment of investment property, offset against a decrease in the net financing expenses and profit from disposition of the discontinued operations of Tambour, as shall be explained below in Sections 1.3-1.10.

b. The Comprehensive Income

The Company's capital and comprehensive income are also affected by various capital funds, mainly capital funds due to adjustment to the fair value of investments treated as financial assets available for sale.

The comprehensive income for the six months ended June 30, 2014 amounted to the sum of approx. NIS 429 million, compared with a net profit (including non-controlling interests) in the sum of approx. NIS 472 million in the same period. The said difference mainly derives from a decrease in the fair value of financial assets available for sale (mainly a change in the fair value of the investment in Bank Leumi Le-Israel), net of tax in the sum of approx. NIS 37 million.

The comprehensive income for the three months ended June 30, 2014 amounted to the sum of approx. NIS 247 million compared with a net profit (including non-controlling interests) in the sum of approx. NIS 261 million in the same period. The said difference between the comprehensive income and the net profit mainly derives from translation differences from foreign operations in the sum of approx. NIS 10 million and from a decline in the fair value of assets available for sale (mainly a change in the fair value of the investment in Bank Leumi Le-Israel), net of tax in the amount of approx. NIS 5 million.

1.1.9 Main market trends regarding income-producing property segment

The Company's board of directors estimates that no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report for December 31, 2013, except as specified below.

In Israel – the Report Period was characterized by continued stability in the income-producing real estate sector in Israel, both in the level of demand and in the level of rental prices and occupancy rates. The Report Period saw a continuation of the trend of slowdown in general market growth, further to 2013, but stability in income-producing real estate. This slowdown was not apparent in the business environment and/or business and financial results of the Company, but from time to time a more challenging environment is felt in negotiations with tenants when signing new lease agreements or renewing existing contracts, particularly in the Beer Sheva region and in the north of Israel, where changes have occurred in the past year in the competitive balance between the market players, *inter alia* due to the opening of new retail centers and expansion of the supply of retail space in the region, which pose challenges to the sector, including the need, from time to time, to make adjustments to rental prices in Azrieli Hanegev mall and Azrieli Kiryat Ata mall. The (known) consumer price index recorded an increase of 0.49% in the quarter, the Bank of Israel interest

rate remained unchanged in this Quarter at 0.75%, but after the end of the Quarter, the Governor of the Bank of Israel reduced the interest by 25 points to 0.5%. The Report Period was characterized by relative stability in the average turnover[3] at the Group's malls compared with the same period last year (with the exception of Azrieli Hanegev mall which recorded a decline in the average turnover) and the stability continued in the office sector and a rise was also recorded in demand, mainly at the Azrieli Holon Center. The construction work on the second floor in the Azrieli Ayalon mall is at its height. Naturally, some of the work requires construction work and preparations also on the first floor and to this end, some of the tenants are vacating the stores for limited periods.

In addition, after the Report Period, in July 2014, due to the security situation prevailing in Israel following operation "Protective Edge", a certain slowdown was felt in the business of some of the Company's malls, mainly in the Hanegev mall which is located in proximity to the warzone. In view of the aforesaid, the Company initiated payment of a grant to tenants in the Azrieli Hanegev mall for the purpose of promoting their business, which amounted to the sum total of approx. NIS 700 thousand (including V.A.T.). As of the Report Release Date, the scope of the effect of the operation on the entire economy generally and on companies in the income-producing property sector specifically, cannot be estimated, although no significant effect of those is apparent on the results of the Group's operations in the operating segments thereof.

The Company's management estimates that the broad dispersion of the properties portfolio owned thereby, the active current maintenance and management of the properties, their being located mainly in high-demand areas, the high business positioning of the properties, the high occupancy rates, the broad range of businesses existing in the malls and retail centers and the capital structure contribute to reducing the scope of the exposure of the Group's business to the crisis and/or instability.

In the U.S. - the local economy in Houston continues to present good figures, mainly thanks to the strong connection that the local economy has with the energy market. Foreign investors continue to recognize Houston as one of the most attractive investment destinations. The labor market in Houston continues to present strong figures employment figures rose by 182,300 jobs in the year ended April 2014 compared with the 12 months preceding the said date (a rise of 3.3% in the employment rate). This rise continues to lead to a further decline in the unemployment rate in Houston, which continues to be significantly lower than the unemployment rate in the entire U.S., and is, as of Q2/2014, 5.1%[4]. These positive trends have led to significant

[3] The turnover figures are based on figures provided by the tenants. Also, not all of the tenants report to the Group about the turnover figures.

[4] According to figures appearing in Houston, Office, MarketView published by CBRE for Q2/2014.

improvements in the real estate market in Houston during 2013 and the first two quarters of 2014, which are expressed in a large number of new areas that have been leased in new properties whose construction was completed in the quarter and in existing properties, a rise in rent prices and in addition a rise in construction commencements of real estate for offices in view of the improvement in the other parameters.

Q2/2014 saw a continuation of the Q1/2014 trend of a small rise in the rate of vacant space after several years in which the rate of vacant space only decreased. At the end of Q2, the rate of vacant space was 12% (in Q1 the rise was from 11.8% to 11.9%). In an analysis according to the quality of the buildings and the various markets, the picture is more complicated and in a large part of the areas, the occupancy rates continue to rise[5].

[5] According to figures appearing in Houston, Office, MarketView published by CBRE for Q2/2014.

1.2 Main Data from the Description of the Corporation's Business

Summary of the Group's operating segments[6]

- **The Retail Centers and Malls in Israel Segment** – The Company has 14 malls and retail centers in Israel, at a comprehensive leasable area of approx. 267 thousand sqm (consolidated) and 266 thousand sqm (the Company's share) leased to approx. 1,700 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 11 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 353 thousand sqm (consolidated) and 350 thousand sqm (the Company's share) leased to approx. 500 tenants;

- **Income-Producing Property Segment in the USA** – The Company has 5 income-producing properties in this segment at a comprehensive leasable area of approx. 166 thousand sqm (consolidated) and approx. 156 thousand sqm (the Company's share) leased to approx. 270 tenants;

- **Fuelling and Retail Complexes and Direct Marketing (Sonol) Segment** – The Group operates in two sectors, fuelling and retail complexes and direct marketing, through Sonol Israel Ltd.;

1.2.1 The income-producing property segments

The Company's business condition, results of operations, capital and cash flows are affected mainly by the state of the property for lease industry. In this Report, explanations will be presented regarding these effects on the Company for the Report Period.

The Company's strength is affected mainly by the broad dispersion of the income-producing property in Israel (retail centers and office space for lease), the diverse tenant mix, the expertise in development, planning, management and construction of income-producing property and its business positioning. In addition, the Company estimates that it earns significant goodwill due to the fact that the retail centers and malls owned thereby are characterized by high occupancy rates and revenues, so long as the Company manages them. In addition, the Group's financial strength derives, *inter alia*, from the scope of the cash flow from current operations and the rate of the Group's financial liabilities relative to its total assets which is lower than customary in the income-producing property industry.

In this Report, the Company specifies the causes which contributed to the consistent improvement in its business activity, mainly in the

[6] "On a consolidated basis" – excluding Granite Hacarmel; "the Company's share" – net of minority holdings in certain companies.

income-producing property segment which constitutes its main business. In addition, as of the Report Date, the estimated investment scope of the Group, in future growth engines, through the development and construction of new income-producing properties which are expected to add to the Group approx. 443 thousand sqm income-producing properties in Israel, is at approx. NIS 3.4-3.7 billion, in addition to approx. NIS 1.9 billion that was invested until the Report Period. For specification regarding the projects under construction see Section 1.1.2 above.

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is approx. 98% in the retail centers and malls segment and close to 100% in the office and other space for lease segment[7]. The average occupancy rate in the income-producing property in the USA is approx. 93%.

In Q2/2014, the Group maintained stability in its main business activity in the income-producing property sectors compared with the same quarter last year.

The Company's management is acting with the intention of continuing to lead the income-producing property market, *inter alia*, through the acquisition of land reserves and the purchase of additional similar properties as aforesaid, which will cause further growth in the operating cash flow of the Company in the future, insofar as the Company's board of directors shall deem fit. The main considerations of the Company's management in expansion of the real estate business are based on:

a. The potential future demand for the lease of areas in a property which is examined, *inter alia*, based on existing and future data on the geographic region, population density, competing properties in the region, the socio-economic status of the population, access etc.

b. The construction risks which derive from the cost of construction and from the duration of the construction period which derives from regulatory arrangements, the construction period and the costs of the raw materials.

1.2.2 Sonol segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Sonol. In H1/2014 and in Q2/2014, there was improvement in Sonol's results of operations compared with the same periods last year. The improvement

[7] Excluding the Azrieli Center Holon, part of which opened in July 2013 and another part opened in March 2014, and which are in advanced stages of being populated. The occupancy percentage in the retail centers and malls segment, including the Azrieli Center Holon, is approx. 97%. The occupancy percentage in the office and other space for lease segment, including the Azrieli Center Holon, is approx. 95%.

mainly derives as a result of growth in the profitability of the retail complexes in view of growth in the fuel quantities sold and improvement in the results of the convenience stores as well as a decline in the financing expenses, as specified in Section 1.10.4 of this Report below.

1.2.3 Tambour segment – discontinued operations:

On June 12, 2014, Granite closed a transaction for the sale of all of its holdings (100%) in Tambour to a third party. Therefore, and according to GAAP, Tambour is presented in the statements as discontinued operations, and is no longer reported as a separate segment. The consideration for the sale was NIS 500 million (excluding sale expenses) which was received in cash. As a result of the sale, the Company recognized a profit of approx. NIS 55 million, which is carried to the income statement and is presented in a profit from discontinued operations (after tax) item.

1.2.4 Additional Businesses

In addition, the Group has additional businesses, which include, *inter alia*, through Granite Hacarmel, Supergas – which mainly engages in marketing and the supply of LPG[8], GES – which mainly engages in water and waste infrastructures[9] and investments in corporations in the banking and financing segment, investments in venture capital companies, start-ups and investment funds.

Following are the changes in the main financial investments during the Report Period: (NIS in millions)

	Investment value in the financial statements as of Dec. 31, 2013	Investments during the six months ended June 30, 2014	Total investment as of June 30, 2014 before adjustment for changes in the fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of June 30, 2014	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	**1,002**	**-**	**1,002**	**946**	**(56)**	**-**
Investment in Leumi Card Ltd. (**)	**588**	**-**	**588**	**588**	**-**	**10**
Total	**1,590**	**-**	**1,590**	**1,534**	**(56)**	**10**

* The fair value of the investment in Bank Leumi le-Israel was determined according

[8] For details on the sale of solar business by Supergas see Section 1.1.1 of this board report above.
[9] For details regarding GES's engagement in an agreement for the sale of the Desalination Plant, see Section 1.1.1 hereof above.

to the value of the share at the TASE as of June 30, 2014;

** The fair value of the investment in Leumi Card was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2013.

1.3 The Business Results and the Total Assets

Following is the contribution of the Group's operating segments to the business results: (NIS in millions)

	Segment profit for the three months ended:		Segment profit for the six months ended:		Rate of the segment's profit from the total consolidated net profit in the three months ended:		Rate of the segment's profit from the total consolidated net profit in the six months ended:	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Retail centers and malls in Israel	177	177	354	354	68%	64%	75%	75%
Office and other space for lease in Israel	78	74	156	148	30%	27%	33%	31%
Income-producing property in the USA	26	26	49	52	10%	9%	11%	11%
Sonol	36	27	53	50	14%	10%	11%	11%
Others	17	35	52	74	6%	12%	11%	15%
Total attributed profit	334	339	664	678	128%	122%	141%	143%
Changes in fair value	8	124	5	115	3%	44%	1%	24%
Net financing expenses	(66)	(92)	(99)	(171)	(25%)	(33%)	(21%)	(36%)
Tax expenses	(62)	(76)	(146)	(124)	(24%)	(27%)	(31%)	(26%)
G&A expenses, net	(14)	(27)	(26)	(45)	(5%)	(10%)	(6%)	(10%)
Profit for the period from continued operations	200	268	398	453	77%	96%	84%	95%
Profit from discontinued operations after tax	61	10	74	22	23%	4%	16%	5%
Net profit per period	261	278	472	475	100%	100%	100%	100%

The Group's revenues from the business segments for the six-month period ended June 30, 2014 amounted to approx. NIS 3,625 million, compared with approx. NIS 3,930 million in the same period last year, a decrease of approx. NIS 305 million, deriving mainly from a decrease of approx. NIS 165 million in the revenues of Sonol mainly from a decline in the quantities of fuel sold in the direct marketing segment (mainly low profit black fuels) which was offset in part against a rise in the quantities sold at the fuelling complexes and a decline in the revenues of GES (mainly revenues from performance of contract work in view of completion of the expansion of the desalination plant and from a decline in the revenues of the projects) and Supergas (mainly from revenues from construction in the solar sector) in the sum of approx. NIS 148 million, offset against an increase of approx. NIS 11 million in the income-producing property for office and other space for lease in Israel segment (mainly due to an increase in revenues from existing properties). As of June 30, 2014, the total assets on the balance sheet were approx. NIS 25.1 billion compared with approx. NIS 25.6 billion as of December 31, 2013, which decline is attributed mainly to the sale of the Tambour segment.

Following is the share of the assets of the operating segments from the total assets of the Group:

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	June 30, 2014	**Dec. 31, 2013**	**June 30, 2014**	**Dec. 31, 2013**
Retail centers and malls in Israel	10,328	10,123	41%	40%
Office and other space for lease in Israel	5,789	5,608	23%	22%
Income-producing property in the USA	1,514	1,518	6%	6%
Sonol	2,354	2,333	9%	9%
Others	5,110	5,970	21%	23%
Total	**25,095**	**25,552**	**100%**	**100%**

1.4 Summary of Balance Sheet Data from the Consolidated Statement: (NIS in millions)

	As of June 30, 2014	As of June 30, 2013	As of Dec. 31, 2013
Current assets	4,025	2,820	4,029
Non-current assets	21,070	21,491	21,523
Current liabilities	5,072	5,069	4,972
Non-current liabilities	7,150	7,125	7,850
Capital attributed to the Company's shareholders	**12,779**	**12,029**	**12,635**
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**51%**	**49%**	**49%**

The Group finances its business activity mostly by its equity, cash and by using non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial securities. The Group's financial solidity, which is characterised by low leverage and significant non-mortgaged properties, provides the Group with available sources for obtaining finance under convenient terms.

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of June 30, 2014, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to approx. NIS 714 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 14.3 billion in addition to approx. NIS 714 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods. Regarding additional possible liquid sources, the Company estimates that the Group is able to raise financing under favorable terms, even under the currently prevailing financial conditions.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit[10]:

Assets	Value of assets as of June 30, 2014 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**7,691**
Properties in the office and other space for lease in Israel segment	**3,820**
Other Properties	**100**
Company's holdings in Leumi Card	**588**
Company's holdings in Granite Hacarmel	**1,173**
Company's holdings in Bank Leumi	**946**
Total	**14,318**

In addition, the Company holds pledged income-producing properties, the loan rate for which is lower than their fair value.

(b) Dividends:

The Company: On March 18, 2014, the Company's board of directors approved a cash distribution in a total sum of NIS 280 million (approx. NIS 2.3 per share) which constitutes approx. 36% of the net profit to the shareholders in 2013 (net of real estate revaluation profits, non-cash financing expenses and the tax effect thereon and net of a one-time effect of the increased corporate tax) and approx. 37% of the FFO for the properties business (for the manner of calculation, see Section 1.1.6 above) for 2013. On May 7, 2014, the Company paid the dividend to its shareholders. According to the Company's financial statements as of June 30, 2014, the Company has surplus of approx. NIS 10.3 billion (including revaluation fund of financial assets

[10] The assets in the table do not include income-producing properties held by Granite.

available for sale).

For further details, see the immediate report of March 19, 2014 (ref.: 2014-01-017451) included herein by way of reference.

Granite: After the balance sheet date, on August 10, 2014, the board of directors of Granite (100% held) approved the distribution of a cash dividend in the sum of NIS 280 million.

Leumi Card: To the best of the Company's knowledge, on May 24, 2010, the Leumi Card's board of directors adopted annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed, subject to the instructions of the Supervisor on the Banks, regulatory provisions and the requirements of the Companies Law. This policy was updated on May 22, 2011 so as to allow the dividend distribution subject to limitations of a "risk appetite" and the requirements of the Office of the Supervisor of Banks. Accordingly, Leumi Card's board of directors approved, on February 26, 2014, the distribution of a dividend to Leumi Card's shareholders in the total sum of NIS 50 million, which was distributed on March 2, 2014. During the Report Period, the Company received a dividend in the sum of NIS 10 million from Leumi Card.

Bank Leumi: During the Report period the Company received no dividend from Bank Leumi.

(c) Cash flows

Net cash flows generated for the Group from current operations in the six months ended June 30, 2014, amounted to the sum of approx. NIS 547 million, which mainly derived from the operating profit of the income-producing property in the sum of approx. NIS 559 million which was offset against income taxes paid, compared with the sum of approx. NIS 1,018 million in the same period last year (a decline of approx. NIS 471 million).

The decline in cash flow from current operations in the six months ended June 30, 2014 compared with the same period last year mainly resulted from a difference created as a result of marginal cash flow from the sale of financial assets held for trade in the Report Period compared with approx. NIS 467 million in the same period last year.

The cash flow derived by the Group from current operations in the six months ended June 30, 2014 were used by the Group mainly for financing investments required for projects under construction and the purchase of land, the payment of long-term liabilities and the distribution of a dividend.

Net cash flows generated to the Group from current operations in the quarter ended June 30, 2014 amounted to approx. NIS 391

million, which mainly derived from the operating profit of the income-producing properties in the amount of approx. NIS 281 million; compared with an amount of approx. NIS 596 million in the same period last year (a decrease of approx. NIS 205 million).

The decrease in cash flow from current operations in the quarter ended June 30, 2014, in comparison with the same quarter last year, mainly derived from the difference created as a result of marginal cash flow from the sale of financial assets held for trading in the Report Period, compared with the sum of approx. NIS 304 million in the same quarter last year, offset against an increase in cash flow from a financial asset of receivables due to a franchise arrangement in the amount of approx. NIS 106 million compared with the same quarter.

Net cash flows used by the Group for investment activity in the six months ended June 30, 2014 amounted to approx. NIS 285 million compared with approx. NIS 534 million in the same period last year.

The difference in the total cash flow used by the Group for investment activity in the Report Period, compared with the cash flow in the same period last year, mainly derives from the purchase of and investment in investment property and investment property under construction and advance payments on account of investment property in the sum of approx. NIS 388 million in the Report Period compared with NIS 447 million in the same period last year, and from consideration received from the disposition of the Tambour business in the sum of approx. NIS 488 million, offset against an increase in short-term deposits in the sum of NIS 298 million.

Net cash flows used by the Group for investment operations in the quarter ended June 30, 2014 amounted to approx. NIS 11 million, compared with an amount of approx. NIS 360 million in the same quarter last year.

The difference in the amount of cash flow used by the Group for investment activity in the Quarter compared with the same quarter mainly derives from the acquisition of and investment in investment property and investment property under construction and down payments on account of investment property in the amount of approx. NIS 194 million in the Report Period compared with approx. NIS 323 million in the same quarter last year, and from consideration due to the disposition of Tambour's business in the amount of approx. NIS 488 million, offset against an increase in short-term deposits in the amount of NIS 307 million.

Net cash flows used by the Group for financing activity in the six months ended June 30, 2014 amounted to approx. NIS 310 million compared with approx. NIS 469 million in the same period last year. The decline mainly derived from the increase in short- and long-term loans received (net of loans repaid) consolidated in the sum of approx. NIS 140 million, compared with the same period last year.

Net cash flows used by the Group for financing activities in the quarter ended June 30, 2014 amounted to approx. NIS 198 million, compared with an amount of approx. NIS 232 million in the same quarter last year. The decrease mainly derived from an increase of approx. NIS 32 million in short-term and long-term loans received (net of loans repaid) on a consolidated basis, compared with the same quarter last year.

Following is the composition of the Group's financing sources

	June 30, 2014		December 31, 2013	
	NIS in millions	% of total balance sheet	NIS in millions	% of total balance sheet
Short-term credit and current maturities of loans from banks and other credit providers	2,792	11%	2,567	10%
Long-term credit from banks and other credit providers	3,395	13%	3,563	14%
Long-term bonds	972	4%	1,441	6%
Total	**7,159**	**28%**	**7,571**	**30%**

The decrease in the sum of approx. NIS 412 million in the Report Period mainly derives from the sale of Tambour's business.

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1 billion, resulting mainly from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits. The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the said deficit in the working capital may not affect its ability to repay its liabilities on time.

(d) Rating

Following are details regarding the rating of the Company's bonds, the commercial paper and private loan:

The Security	The Rating Company	The Rating	The Rating Date
Series A Bonds of the Company	Midroog	Aa2 with a stable outlook	June 25, 2013
	Maalot	AA stable	October 16, 2013
Commercial paper*	Maalot	A-1+	June 23, 2014

Private loan	Midroog	Aa2	August 19, 2013

For further details, see Note 21 to the financial statements as of December 31, 2013. To review Midroog's annual monitoring report, see the Company's immediate reports of June 25, 2013 (ref.: 2013-01-073392). To review Maalot's annual follow-up report, see the Company's immediate report of October 16, 2013 (ref.: 2013-01-167901). To review Midroog's private loan report see the Company's immediate report dated August 19, 2013 (ref.: 2013-01-120351). For the rating of the commercial paper by Maalot, see the Company's immediate report of June 23, 2014 (ref.: 2014-01-096798).

* For details regarding a private placement of a new series of commercial paper, see Section 10 of Chapter B of this report, the Update to the Description of the Corporation's Business.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of June 30, 2014, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	25	635	-	660	660
Long Term Loans	3,616	805	16	-	-	4,437	-	4,437
Total	**3,616**	**805**	**16**	**25**	**635**	**4,437**	**660**	**5,097**

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of June 30, 2014, in NIS in millions:

Year	Principal	Interest	Total
1	1,358	155	1,513
2	683	117	800
3	1,720	94	1,814
4	212	44	256
5 forth	1,124	100	1,224
Total	5,097	510	5,607

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and current assets, mainly by long-term loans, index-linked with a fixed interest, in order to

minimize market risks resulting from changes in the interest rates in the economy and neutralize the market risk resulting from changes in the CPI, while using the fact that most of the Company's revenues are index-linked.

Nonetheless, in light of the low interest rates for short-term loans with variable interest, the Company decided to finance its activity also by using short-term loans as specified above.

As of June 30, 2014, short-term loans accounted for approx. 13% of the Group's total financial liabilities (except for Granite Hacarmel). In the Company's estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

According to the Company's policy, from time to time, it considers the opportunities for converting the short-term debt to a long-term debt with fixed interest. The Company's management considers on an on-going basis the payment sources for financing the existing and expected liabilities as they become due, including with respect to the cash flow and the sum of the non-pledged assets.

In the Report Period, the sources for financing the financial liabilities are mainly the following:

- The Group has a positive cash flow from current operations for many years (excluding consideration or investment in financial assets held for trade). This cash flow amounted to the sum of approx. NIS 547 million in the six months ended June 30, 2014, similarly to the sum of approx. NIS 551 million in the same period last year. The liquid means and the non-pledged assets as specified in Section 1.5(a) above.

- In addition, the Group has income-producing pledged properties, the amount of the loan for which is significantly lower than their fair value.

1.6 Quality of Profit

No changes occurred in the Report Period in the description that the Company included in the Board of Directors' Report for December 31, 2013, with the exception of the discontinuation of the Tambour business following the sale of the business.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) amounted to approx. NIS 42 million in the Report Period, compared with approx. NIS 50 million in the same period last year. In the Report Period, there was a decrease in share-based payment expenses in the

sum of approx. NIS 7 million and a decrease of approx. NIS 6 million in consideration in respect of the management services paid to Canadian companies wholly owned and controlled by Mr. David Azrieli, OBM (as stated in Note 38c1 to the consolidated financial statements as of December 31, 2013). Conversely, there was an increase of approx. NIS 3 million in donations and an increase of approx. NIS 2 million in marketing expenses. The Company's marketing and administrative expenses in the quarter (excluding Granite Hacarmel) amounted to approx. NIS 20 million, compared with approx. NIS 27 million in the same quarter last year. The quarter saw a decrease of approx. NIS 4 million in share-based payment expenses and a decrease of approx. NIS 2 million in the consideration for management services paid to Canadian companies wholly controlled and owned by Mr. David Azrieli, OBM.

1.8 The Net Financing Expenses

The Group's net financing expenses in the Report Period amounted to the sum of approx. NIS 99 million, compared with approx. NIS 171 million in the same period last year (a decrease of approx. NIS 72 million). The decrease in the net financing expenses results mainly from a decrease in interest and linkage expenses for loans and bonds during the Report Period, compared with the same period last year. The decrease in interest expenses for loans and bonds as aforesaid resulted from the refinancing of loans for the Azrieli Center at considerably lower interest rates than before, from a decrease in the rate of the interest on short-term loans and from a decrease in expenses which derived from a decrease of approx. 0.2% in the rate of the rise in the index known in the Report Period compared with a rise of approx. 0.71% in the same period last year.

The Group's net financing expenses in the Q2/2014 amounted to approx. NIS 66 million, compared with approx. NIS 92 million in the same quarter last year (a decrease of approx. NIS 26 million). The decrease in net financing expenses mainly stems from a decrease in interest and linkage expenses in respect of loans and bonds in the quarter, compared with the same quarter last year. The decrease in interest expenses in respect of loans and bonds, as aforesaid, derived both from the refinancing of loans in respect of the Azrieli Center at significantly lower interest rates than before, and a decrease in the interest rate on short-term loans, as well as a decrease in expenses, which stemmed from an increase of approx. 0.5% in the increase rate of the known Index in the current quarter, compared with an increase of approx. 0.7% in the same quarter last year.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 146 million, compared with tax expenses in the sum of approx. NIS 124 million in the same period last year. The increase in tax expenses in the Report Period and in Q2 mainly derives from a rise in the corporate tax rate, from an increase in the current taxes as a result of an increase in the current profit (primarily pursuant to the decrease in the financing expenses,

due to both a reduction in the interest expenses and the decrease in the index), offset against a decrease in the deferred taxes as a result of a decrease in the profit from fair value adjustment of investment property.

1.10 Contribution to the Company's Results According to Operating Segments

The Company implemented in its financial statements the International Financial Reporting Standard 8 concerning Operating Segments (IFRS8). The Company's division into segments is based on the managerial and internal reports of the Company. In addition, the contribution to the results takes into account the Company's share in the results of the company held by the Company (indirectly), Sonol, which constitutes an operating segment.

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**	**Dec. 31, 2013**
	NIS in millions				
Revenues	**216**	**218**	**434**	**436**	**873**
% change	**(0.9%)**		**(0.5%)**		
NOI	**177**	**177**	**354**	**353**	**705**
% change	**-**		**0.3%**		

The NOI figure is one of the important parameters in valuations of income-producing property companies. For details concerning the manner of calculation of this figure, see Section 1.1.3 above.

Following is the development of the segment's NOI (NIS in millions)

	For the three-month period ended		**For the six-month period ended**	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
For the segment's assets owned by the Company as of the beginning of the period[11]	**177**	**177**	**354**	**353**
For assets that were purchased or whose construction was completed in 2013	**-**	**-**	**-**	**-**
For assets that were purchased or whose construction was completed in 2014	**-**	**-**	**-**	**-**
Total	**177**	**177**	**354**	**353**

[11] Same property NOI – NOI from similar properties that were held by the Group throughout all of the reported periods.

In the Company's estimation, the same property NOI in the malls and retail centers in Israel segment was favorably affected primarily by:

- Most lease contracts are linked to the CPI, most of which rose in the Report Period, as compared to the same period last year, by approx. 1% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).
- Operational streamlining in the management companies.

In the Company's estimation, the same property NOI in the retail centers and malls in Israel segment was negatively affected primarily by:

- Space left vacant in periods of tenant replacement in some of the malls.
- A real decrease in the rent at the time of renewal of contracts in some of the properties due to increased competition mainly in the Beer Sheva region and the north.
- An extension order in the cleaning industry which took effect in March 2014, increased the cleaning costs in the Group's properties and offset part of the increase in the revenues from rent.

The balance of the assets of retail centers and malls in Israel segment – amounted as of June 30, 2014, to the sum of approx. NIS 10.3 billion, compared with approx. NIS 10.1 billion on December 31, 2013. The change mainly derives from investments in the segment's properties.

Change due to the adjustment of fair value of investment property and investment property under construction of the segment –

The loss due to fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to approx. NIS 24 million, compared with a profit of approx. NIS 99 million in the same period last year. The assets are presented according to an update to the valuations performed by an independent appraiser as of June 30, 2014.

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three months ended		For the six months ended		For the year ended
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**	**Dec. 31, 2013**
	NIS in millions				
Revenues	**95**	**89**	**188**	**177**	**365**
% change	**7%**		**6%**		
NOI	**78**	**74**	**156**	**148**	**301**
% change	**5%**		**5%**		

The increase in revenues and in the NOI derives mainly from growth in revenues from existing office space for lease.

Following is the development of the segment's NOI (NIS in millions):

	For the three-month period ended		For the six-month period ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Due to the segment's assets owned by the Company at the beginning of the period[12]	**77**	**74**	**154**	**148**
Due to assets whose construction was completed in 2013	**1**	**-**	**2**	**-**
Due to assets which were purchased or whose construction was completed in 2014	**-**	**-**	**-**	**-**
Total	**78**	**74**	**156**	**148**

The NOI figure is one of the important parameters in valuations of income-producing property companies. For details regarding the manner of calculation of the figure, see Section 1.1.3 above.

The same property NOI in the office and others in Israel segment was favorably affected primarily by:

- Most lease contracts are linked to the CPI, most of which rose in the Report Period, as compared to the same period last year, by 1% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).
- Operational streamlining of the management companies.

The same property NOI in the office and other space in Israel segment was negatively affected primarily by:

- An extension order in the cleaning industry which took effect in March 2014, increased the cleaning costs in the Group's properties and offset part of the increase in the revenues from rent.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on June 30, 2014 to the sum of approx. NIS 5.8 billion compared with approx. NIS 5.6 billion on December 31, 2013. The change mainly derives from investments in the segment's properties.

Change from adjustment of fair value of investment property and investment property under construction, of the segment –

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in

[12] Same property NOI – NOI from similar properties that were held by the Group throughout the reported periods.

the Report Period, to the sum of approx. NIS 33 million, compared with a profit of approx. NIS 24 million in the same period last year. The assets are presented according to an update to the valuations carried out by an independent appraiser as of June 30, 2014.

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three-month period ended		For the six-month period ended		For the year ended on
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	December 31, 2013
	NIS in millions				
Revenues	**44**	**44**	**88**	**89**	**179**
Percentage of change	**-**		**(1%)**		
NOI	**26**	**26**	**49**	**52**	**99**
Percentage of change	**-**		**(6%)**		

Following is the development of the segment's NOI (NIS in millions):

	For the three-month period ended on		For the six-month period ended on	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Due to the segment's assets owned by the Company at the beginning of the period[13]	**26**	**25**	**49**	**50**
Due to assets sold in 2013	**-**	**1**	**-**	**2**
Due to assets that were purchased or whose construction was completed in 2014	**-**	**-**	**-**	**-**
Total	**26**	**26**	**49**	**52**

The NOI figure is one of the important parameters in valuations of income-producing property companies. For details regarding the manner of calculation of the figure, see Section 1.1.3 above.

The same property NOI in the income-producing property in the USA segment was favorably affected mainly from:

- Increase in revenues from tenants.
- Population of vacant space.

The same property NOI in the income-producing property in the USA segment was adversely affected mainly from:

- The average US Dollar exchange rate in the Report Period is approx. 5% lower than the average exchange rate of the US Dollar

[13] Same property NOI – NOI from similar properties that were held by the Group throughout the reported periods.

in the same period last year.

The investment properties balance of the Group in the segment – amounted on June 30, 2014 to the sum of approx. NIS 1.5 billion similarly to the balance on December 31, 2013.

Change from the adjustment of fair value of investment properties of the segment -

In the Report Period, there was almost no change due to fair value adjustment of investment property of the segment, compared with a loss in the sum of approx. NIS 7 million in the same period last year, which mainly resulted from changes in the exchange rate.

1.10.4 Sonol segment

The Company's share in the Sonol segment results amounted, in the Report Period, to a profit of approx. NIS 53 million, compared with a profit of approx. NIS 51 million in the same period last year.

Following is a summary of data from Sonol's consolidated statement: (NIS in millions)

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	Dec. 31, 2013
	NIS in millions				
Revenues	1,280	1,298	2,476	2,641	5,309
Gross Profit	179	167	340	333	694
Operating Profit	41	27	58	50	108
Pre-Tax Profit	29	5	34	10	31

Summary of Sonol's business results:

The decline in Sonol's revenues during the Report Period compared with the same period last year mainly derived from a decline in the quantity of black fuels sold in the direct marketing segment (mainly low profit black fuels), which was partly offset against an increase in the quantity of white fuels sold at the fuelling complexes and through direct marketing.

Gross profit

Sonol's gross profit amounted in the Report Period to approx. NIS 340 million compared with approx. NIS 333 million in the same period last year, a rise of approx. 2% in the Report Period. Sonol's gross profit in

the current quarter amounted to approx. NIS 179 million, compared with approx. NIS 167 million in the same quarter last year; an increase of approx. 7% in the Report Period.

The increase in the Report Period and in the present quarter compared with the same periods last year mainly stems from the following factors:

- An increase in the quantities sold at the fuelling complexes and through direct marketing as well as in the results of the convenience stores.

- A decrease in inventory losses in the Report Periods, compared with the same periods last year

Operating profit:

Sonol's operating profit in the Report Period was approx. NIS 58 million compared with approx. NIS 50 million in the same period last year, a rise of approx. 16%, deriving mainly from an increase in the gross profit as aforesaid and offset against increased G&A expenses.

Sonol's operating profit in the present quarter was approx. NIS 41 million compared with approx. NIS 27 million in the same quarter last year, a rise of approx. 52% deriving from an increase in the gross profit as aforesaid as well as from other income.

Pre-tax profit:

Sonol's pre-tax profit in the Report Period was approx. NIS 34 million compared with approx. NIS 10 million in the same period last year. The pre-tax profit in the present quarter was approx. NIS 29 million compared with approx. NIS 5 million in the same quarter last year. The rise in profit in the reported periods derives from an increase in the operating profit as aforesaid and from a decrease in the financing expenses (mainly due to the recording of higher losses from dollar hedging transactions in the same periods and a real decrease in interest in the reported periods).

1.10.5 Profit from Discontinued Operations - Tambour

On June 12, 2014, Granite closed the sale of all of its holdings (100%) in Tambour to a third party in consideration for NIS 500 million, in accordance with an agreement signed on May 26, 2014. In consequence of the sale, the Company recognized a profit of approx. NIS 55 million, which was carried to the income statement and is presented under the "Profit from Discontinued Operations (after tax)" item. Under the provisions of IFRS 5, Tambour's results are presented as operations that were discontinued. Tambour's results were presented separately from the results of the continued operations in the income statement and comparison figures in the income statement have been

restated. For further details, see Note 5 to the attached financial statements.

1.11 Note with Regard to Forward-Looking Information

The Company's intentions mentioned in the introduction of the Board of Directors' Report, the main emphases to the Report and in Sections 1.1 through 1.10 of the Board of Director's Report, inter alia, in connection with taking advantage of business opportunities and expansion of the activity, liquidity, sources of financing, rate of progress of the projects under construction, the projected costs for the construction thereof, effects of the economic condition on the Company's operating segments, and pertaining to the possibility of conversion of the short-term debt into long-term debt and/or debt raising; are forward looking information, as defined in the Securities Law, 5728-1968, which is based on the Company's plans as of the Report Date, the Company's estimates in respect of market developments, levels of inflation and the anticipated cash flows, and on the conditions of and possibilities for raising credit on the Report Date.

Such estimates may not be realized, in whole or in part, or may be realized in a materially different manner than such which the Company estimated. The main factors which may affect the same are: changes in the capital market which will affect the conditions of and possibilities for raising credit, changes in the Company's plans, including use of liquid balances which will exist, for purposes of taking advantage of business opportunities, changes in the merit of holding various investment channels or in the merit of using various financing channels, delays in the granting of permits or approvals required to promote the projects under construction, changes in regulation relating to the Company's business, including in zoning regulation, a rise in the cost of raw materials used for construction, worsening of the economic condition in Israel or in the USA and the entering into a severe recession, and the Company or any of the Group's members encountering financing or other difficulties, in the manner which will have an effect on the Company's cash flow.

2. Qualitative Report on the Exposure to and Management of Market Risks

2.1 General

The person in charge of market risk management in the Company is the CFO. As of May 1, 2013, Irit Sekler-Pilosof serves as the Company's CFO, having taken the position *in lieu* of Mr. Bronstein, who serves as the Company's CEO, as of the Report Date. In the quarter ended June 30, 2014, no material changes occurred in the risk factors, in the Company's policy on the management of market risks, in the means of supervision or in the implementation of policy, compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2013 and in the notes to the financial statements for such year. It is noted that in the Report Period, the Company sold its CAD cash balance and therefore there is no longer exposure to fluctuations in the exchange rates of the CAD.

2.2 Positions in derivatives

For details see Annex A of the Board of Directors' Report.

2.3 Analysis of sensitivity tests and fair value effects of protection transactions, exchange rates, interest and financial instruments

In the quarter ended June 30, 2014, no material changes occurred in the analysis of sensitivity tests and the effects on the fair value compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2013, with the exception of an analysis of the sensitivity to changes in the cap rate on the investment property, as specified in Annex C to the Board of Directors' Report below.

Linkage bases table

See Annex C to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

The Company's Board of Directors, which is the organ responsible for the overall control of the Company, appointed a Financial Statements Review Committee (the "**Committee**") whose members are Prof. Niv Ahituv (Chairman of the Committee and an outside director, with an expertise in finance and accounting), Mr. Efraim Halevy (an outside director with a professional qualification), Mr. Joseph Ciechanover (an independent director with an expertise in finance and accounting) and Ms. Tzipa Carmon (an independent director with an expertise in finance and accounting). Prior to their appointment, the four members of the Committee provided the Company with a statement regarding their education and experience, and pursuant to the provisions of Section 3 of the Companies Regulations (Instructions and Conditions regarding the Process of Approval of the Financial Statements) 5770-2010, whereby the Company considers them to have accounting and financial skills or an ability to read and understand financial statements, as the case may be. For further details regarding the Financial Statements Review Committee, see the Corporate Governance Report which is attached to the Company's Periodic Report for 2013.

Financial Statement Approval Procedure

The Committee convened on August 17, 2014 to review the financial statements for June 30, 2014 and to formulate its recommendations to the Board of Directors regarding approval of the statements. An advanced draft of the quarterly report, including all parts thereof, including the Company's financial statements and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

All of the Committee's members participated in the Committee's meeting of August 17, 2014, with the exception of Prof. Niv Ahituv, Chairman of the Committee. Mr. Joseph Ciechanover acted as his substitute as Chairman of the Committee. In addition, Ms. Danna Azrieli, Chairperson of the Board, Mr. Yuval Bronstein, the Company's CEO, Ms. Irit Sekler-Pilosof, the CFO, the internal auditor Mr. Gali Gana, General Counsel Ms. Michal Kamir, representatives of the Company's auditor and relevant position holders at the Company such as the Company's comptroller, were present at the meeting, at the request of the Committee's chairperson. During the meeting, the Company's CEO and the CFO reviewed the statements and additional issues and answered the Committee members' questions, as necessary.

At the meeting, the Committee discussed, *inter alia*, the financial results, including assessments and estimates made in connection with the financial statements, the internal controls relating to the financial reporting, the integrity and fairness of the disclosure in the financial statements and the manner of presentation of data and comparison thereof with corresponding data in the

previous reporting year as well as the deficit in the working capital and the reasons for it not constituting a warning sign, as well as estimates and assessments made as of June 30, 2014. The Committee further discussed the accounting policy adopted in the framework of its financial statements and whether there were changes therein, the accounting treatment that was implemented on the corporation's material affairs, on which data in the financial statements are based.

During the discussion, the Committee's members raised issues requiring clarifications and received answers and clarifications from the Company's CEO and the CFO and the officers of the Company who were present at the meeting as well as from the auditors who were also present at the meeting.

After a discussion was held at the Committee as aforesaid, the Committee's chairperson put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's financial statements for June 30, 2014. The Committee's recommendations were forwarded to the Board members, in preparation for the Board meeting which was held on August 19, 2014.

On August 19, 2014, the Company's Board of Directors, which is the organ responsible for overall control of the Company, approved the Company's financial statements for June 30, 2014. For details regarding the members of the Board of Directors, see Section 26 of Chapter D. of the Company's Periodic Report for 2013. Advanced drafts of the financial statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

The persons invited to the Committee's meeting as specified above were also present at the Board meeting of August 19, 2014. The Board members who were present at the said meeting (including via any media) are: Ms. Danna Azrieli, Chairman of the Board, Mr. Menachem Einan, Active Deputy Chairman of the Board, Dr. Sharon Azrieli, Director, Dr. Naomi Azrieli, Director, Mr. Joseph Ciechanover, Independent Director, Ms. Tzippa Carmon, Independent Director, Prof. Niv Ahituv (Outside Director) and Mr. Efraim Halevy (Outside Director).

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the financial statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. At the end of the discussion at the Board of Directors, a vote was held during which the Company's financial statements for June 30, 2014 were approved.

3.2 **Independent Authorized Signatory**

From July 9, 2014, with the passing of Mr. David Azrieli, OBM, there is no longer an independent authorized signatory at the Company whose sole signature can bind the Company.

4. Provisions on Disclosure in connection with the Company's Financial Report

4.1 Description of the Company's business in the Report Period and update of the description of the corporation's business for the Report Period pursuant to Section 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

For events and developments in the Report Period and updates to the Description of the Corporation's Business Chapter as of December 31, 2013, see Note 4 to the financial statements as of June 30, 2014 and Chapter B hereof.

4.2 Report on the Group's liabilities

A report on the Group's liabilities pursuant to Sections 38E and 9D of the regulations is attached on a separate reporting form concurrently with the release of this Report.

4.3 Lawsuits

For details see Note 3 to the consolidated financial statement for June 30, 2014.

4.4 Critical accounting estimates

In the quarter ended June 30, 2014, no changes occurred compared with the description in the Board of Directors' Report for the year ended December 31, 2013.

4.5 Disclosure pertaining to Very Material Valuations

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2013. The Company updated the valuations of its assets in Israel as of June 30, 2014. (For details regarding the parameters for the update of the valuations in the quarterly statements, see Note 3C1 to the Periodic Report as of December 31, 2013).

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely – including the Azrieli Mall) only. This valuation as of June 30, 2014, is attached hereto as **Annex E**.

As of June 30, 2014, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2014) was in the sum of approx. NIS 4.8 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall), out of a fair value of investment properties in the sum of approx. NIS 17.8 billion (approx. 27% of the Company's total

investment properties).

4.6 Subsequent events

See Note 9 to the financial statements.

4.7 Financial figures attributed to the Company as a parent company

Pursuant to Regulation 9C of the Periodic Reports Regulations, financial figures from the consolidated financial statements attributed to the Company as a parent company are hereby attached in Chapter C, together with an auditor's opinion.

4.8 Issues to which the Company's auditors drew attention in their opinion on the financial statements

Without qualifying their opinion, the auditors drew attention to the provisions of Note 3 pertaining to legal actions in material amounts, cumulatively, against the Company and consolidated companies, regarding which a motion was filed to recognize the same as class actions.

The Company's board of directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, on their blessed contribution to the Group's achievements in the quarter ended June 30, 2014.

Danna Azrieli	**Yuval Bronstein**
Chairman of the Board of Directors	**CEO**

Date: August 19, 2014

Annex A

The Group's Derivative Positions

As of June 30, 2014

Annex A
The Group's Derivative Positions
As of June 30, 2014

The Group's derivative positions as of June 30, 2014

Granite Hacarmel and consolidated companies sometimes enter into financial hedging against the rise of the index, due to the difference between index-linked, NIS-denominated assets and liabilities.

As of June 30, 2014, Granite Hacarmel does not have open hedging transactions:

The maximum holding of derivatives, during the Report Period, of all of the NIS purchase positions was NIS 175,000 thousand.

During the year, consolidated companies of Granite Hacarmel entered into future currency transactions for hedging purposes.

Below is a specification of the engagements as of June 30, 2014:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
197,500	Dollar	NIS	July-August 2014	(3,823)

The maximum holding of derivatives, during the Report Period, of all of the purchase positions for purposes of hedging the dollar-NIS exchange rate was US$203,500 thousand, and of all purchase positions for purposes of hedging the Euro-NIS exchange rate was €1,000 thousand.

Collection of the figures for purposes of the aforesaid measurements was based on their par value upon measurement. The measurement is tracked at least once a month.

<u>Annex B</u>

Sensitivity Tests

As of June 30, 2014

Annex B – Sensitivity Tests

Sensitivity to Changes in Interests on the Capitalization Rates of Investment Property as of June 30, 2014

	Loss from changes in market factor			Fair value of property	Profit from changes in market factor			Manner of determining value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Change Rate	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Capitalization Rate								
6% - 7%	(364,045)	(142,224)	(74,498)	1,509,860	82,340	173,830	683,955	Income approach
7.01% - 7.5%	(1,949,423)	(865,020)	(452,841)	9,474,744	501,127	1,052,965	3,614,961	Income approach
7.51% - 8%	(406,754)	(179,213)	(93,788)	1,981,492	103,885	219,098	691,404	Income approach
8.01% - 8.5%	(395,279)	(181,705)	(95,180)	2,045,423	105,195	222,070	651,366	Income approach
8.51% - 9%	(180,139)	(85,836)	(45,369)	794,013	49,842	105,072	291,266	Income approach
11%	(1,843)	(1,107)	(565)	30,508	592	1,211	2,096	Income approach
Investment property and investment property under construction	(3,297,483)	(1,455,105)	(762,241)	15,836,040	842,981	1,774,246	5,935,048	

Annex C

Reporting According to Linkage Bases

As of June 30, 2014
(IFRS 7)

Annex C

Reporting According to Linkage Bases as of June 30, 2014 (IFRS 7)

(NIS thousands)

	As of June 30, 2014					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	339,320	-	59,308	2,286	-	400,914
Financial assets held for trading	849	159	-	-	-	1,008
Short-term deposits and investments	302,566	-	9,786	-	-	312,352
Trade accounts receivable	1,335,205	4,326	45,381	-	-	1,384,912
Other receivables	41,956	13,068	40,520	-	80,866	176,410
Inventory	-	-	-	-	232,280	232,280
Current tax assets	-	-	-	-	10,990	10,990
Assets of a disposal group held for sale	355,492	802,006	60,479	143,146	144,974	1,506,097
Total Current Assets	2,375,388	819,559	215,474	145,432	469,110	4,024,963
Investments and loans in associated companies	18,558	12,258	-	-	-	30,816
Investments, loans and receivables	46,112	68,738	1,992	-	66,620	183,462
Financial assets	1,645,380	-	20,267	2,813	-	1,668,460
Long-term receivables in respect of a franchise arrangement	-	29,136	-	-	-	29,136
Investment property and investment property under construction	-	-	-	-	17,703,569	17,703,569
Fixed assets	-	-	-	-	966,460	966,460
Intangible assets	-	-	-	-	395,581	395,581
Pre-paid long-term rent	-	-	-	-	39,458	39,458
Deferred tax assets	-	-	-	-	53,245	53,245
Total Non-Current Assets	1,710,050	110,132	22,259	2,813	19,224,933	21,070,187
Total Assets	4,085,438	929,691	237,733	148,245	19,694,043	25,095,150

(1) Mainly Euro

Annex C

Reporting According to Linkage Bases as of June 30, 2014 (IFRS 7)

(NIS thousands)

(Contd.)

	As of June 30, 2014					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	1,996,569	660,472	109,694	24,784	-	2,791,519
Trade payables	235,633	12,112	406,042	782	-	654,569
Payables and other current liabilities	123,429	6,762	26,086	302	256,462	413,041
Deposits from customers	-	108,763	-	-	-	108,763
Provisions	-	-	-	-	48,939	48,939
Current tax liabilities	-	-	-	-	65,313	65,313
Liabilities of a disposal group held for sale	249,555	526,758	51,370	126,561	36,089	990,333
Total Current Liabilities	2,605,186	1,314,867	593,192	152,429	406,803	5,072,477
Non-Current Liabilities						
Loans from banks and other credit providers	175,710	2,459,949	759,207	-	-	3,394,866
Bonds	-	972,318	-	-	-	972,318
Employee benefits	-	-	-	-	33,684	33,684
Other liabilities	8,506	35,678	6,090	-	177	50,451
Deferred tax liabilities	-	-	-	-	2,698,338	2,698,338
Total Non-Current Liabilities	184,216	3,467,945	765,297	-	2,732,199	7,149,657
Total Liabilities	2,789,402	4,782,812	1,358,489	152,429	3,139,002	12,222,134
Total Exposure in the Statement of Financial Position	1,296,036	(3,853,121)	(1,120,756)	(4,184)	16,555,041	12,873,016

(1) Mainly Euro and Pounds Sterling.

Annex D

Extended Standalone Financial Statement

As of June 30, 2014 (Unaudited and Unreviewed)

Annex D

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS, except for the investment in Granite which is presented on the basis of the equity method *in lieu* of consolidation of its reports with the Company's reports (all other investments are presented with no change to the report presented pursuant to the IFRS). These statements do not constitute separate financial statements within the meaning thereof in the IAS 27, nor separate financial statements pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The statements are not part of the information that is required to be published according to securities laws. However, the Company's management believes that analysts, investors, shareholders and bond holders may obtain valuable information from the presentation of such figures.

The figures in this annex have not been audited nor reviewed by the Company's auditors.

Balance sheet:

	As of June 30		As of December 31
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	352,318	124,473	376,442
Financial assets held for trading	1,008	2,404	1,211
Trade accounts receivable	26,755	32,625	35,818
Other receivables	50,373	79,619	63,495
Current tax assets	5,086	6,276	6,819
Total Current Assets	435,540	245,397	483,785
Non-Current Assets			
Investment in investee companies	1,430,666	1,252,798	1,311,666
Loans and receivables	68,726	58,049	63,915
Financial assets	1,556,461	1,392,639	1,612,492
Investment property and investment property under construction	17,624,994	16,421,884	17,190,757
Fixed assets	43,465	42,808	42,449
Deferred tax assets	1,349	1,946	1,340
Total Non-Current Assets	20,725,661	19,170,124	20,222,619
Total Assets	21,161,201	19,415,521	20,706,404

Annex D

Extended Standalone Financial Statements

Balance Sheet: (Contd.)

	As of June 30		As of December 31
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	1,358,194	1,951,877	1,024,679
Trade payables	89,262	63,026	109,054
Payables and other current liabilities	356,036	81,530	119,133
Current tax liabilities	53,135	24,878	24,321
Total Current Liabilities	1,856,627	2,121,311	1,277,187
Non-Current Liabilities			
Loans from banks and other credit providers	3,200,404	1,890,331	3,119,643
Bonds	537,958	931,353	914,937
Other liabilities	38,370	38,584	38,553
Employee benefits	12,994	24,523	15,956
Deferred tax liabilities	2,654,680	2,306,683	2,627,195
Total Non-Current Liabilities	6,444,406	5,191,474	6,716,284
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	297,981	196,885	341,181
Retained earnings	9,944,578	9,296,073	9,757,867
Total equity attributable to shareholders of the Parent Company	12,778,797	12,029,196	12,635,286
Not-controlling interests	81,371	73,540	77,647
Total Capital	12,860,168	12,102,736	12,712,933
Total Liabilities and Capital	21,161,201	19,415,521	20,706,404

Annex D

Extended Standalone Financial Statements

Income Statement:

	For the six months period ended June 30		For the three months period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS in thousands	NIS in Thousands	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues					
From rent, management and maintenance fees	712,080	703,570	355,956	351,943	1,421,171
Net gain from fair value adjustment of investment property and investment property under construction	8,709	116,273	10,936	124,061	427,899
Financing	2,855	9,835	-	1,735	9,392
Share in results of held companies, net of tax	40,782	38,956	20,249	19,592	78,565
Other	10,029	6,000	29	-	6,004
Total Revenues	774,455	874,634	387,170	497,331	1,943,031
Costs and Expenses					
Cost of revenues from rent, management and maintenance fees	151,041	149,198	75,202	74,579	312,449
Sales and Marketing	5,899	3,370	2,273	2,256	10,509
General and Administrative	36,181	46,583	17,255	24,747	82,509
Financing	58,871	111,143	40,183	57,351	207,375
Other	43	-	2	-	12
Total Costs and Expenses	252,035	310,294	134,915	158,933	612,854
Income before income taxes	522,420	564,340	252,255	338,398	1,330,177
Expenses for taxes on income	(124,240)	(111,631)	(52,772)	(70,418)	(424,241)
Income from continued operations, including minority	398,180	452,709	199,483	267,980	905,936
Income from discontinued operations, including the minority (*)	73,573	22,745	61,450	10,099	37,866
Net Profit for the period, including the minority	471,753	475,454	260,933	278,079	943,802

(*) On June 12, 2014, the transaction for the sale of Tambour was closed, and it is presented in the financial statements as discontinued operations. (For further details see Note 5 to the consolidated financial statements).

Annex E

Update to Azrieli Center Valuation

As of June 30, 2014

[Letterhead of Greenberg Olpiner & Co.]

August 18, 2014
Our reference: 3415-11

Canit Hashalom Investments Ltd.
1 Azrieli Center, Tel Aviv

Updated Comprehensive Land Valuation - "Azrieli Center"

1 Azrieli Center, Tel Aviv

As per your request, further to our opinion no. 3415-10, which was prepared as of effective date December 31, 2013, we have examined the value of the property as of effective date June 30, 2014.

We agree to our opinion being published in the framework of the financial statements

The update is prepared due to changes in income at the property, and subject to a statement from the owners of the rights that no change has occurred in the rights in the property (sale) and no planning changes have occurred (approvals of urban zoning plans, relaxations, court rulings, etc.).

The undersigned visited the property on July 8, 2014.

Since the date of preparation of the opinion to date, several changes have occurred in the property:

- Changes have occurred in the rent received from the mall areas and the office spaces, which stem from an inherent increase in rent, due to the renewal of existing agreements and the execution of new lease agreements.

- As of the effective date, occupancy of the premises is full, with the exception of an office space of approx. 210 sqm in the Triangular Tower (we have been informed that negotiations are conducted in respect of the lease of such space).

The methodology of the valuation has not changed in comparison with the previous revaluation.

1. Calculation

Item	Area for Marketing in sqm	Annual Income	Cap Rate	Value
Mall - retail areas	32,883	NIS 119,390,000	7.00%	NIS 1,705,500,000
Mall – Additional income from revenues and walk-in customers		NIS 1,800,000	8.00%	NIS 22,500 000
Long-time contracts, including Bezeq	77,186	NIS 85,970,000	7. 0%	NIS 1,228,100,000
Other contracts	54,211	NIS 75,390,000	7.75%	NIS 972,700,000
Vacant space in the Triangular Tower	210	NIS 277,000	8.25%	NIS 3,300,000
Hotel	18,000	NIS 14,160,000	7.25%	NIS 195,300,000
Storerooms		NIS 2,200,000	7.75%	NIS 28,300,000
Car park		NIS 36,840,000	7.50%	NIS 491,200,000
Total		**NIS 336,027,000**		NIS **4,646,900,000**
Net income from electricity		NIS 6,170,000	10%	NIS 61,700,000
Net income from management		NIS 13,370,000	9.2%	NIS 144,800,000
Future investments in the property				- NIS 64,400,000
Deduction of transportation task				- NIS 7,000,000
Total, rounded off				NIS **4,782,000,000**

The total value indicates an average value of approx. NIS 52,000 per sqm of retail areas, an average value of approx. NIS 16,700 per sqm of offices, and a value of approx. NIS 150,000 per parking space. These figures are consistent with market data.

Sensitivity analysis

Sensitivity analysis to changes in cap rate:

	6.50%	**7.00%**	**7.50%**
Value of the Property	NIS 5,095,200,000	NIS 4,782,000,000	NIS 4,509,400,000

Sensitivity analysis to changes in rent:

	+5%	**Current Rent**	**-5%**
	NIS 125,360,000	NIS 119,390,000	NIS 113,420,000
Value of the Property	**NIS 4,867,300,000**	**NIS 4,782,000,000**	**NIS 4,696,600,000**

2. Valuation

In light of the aforesaid, our estimate of the market value of the Company's rights in the property (excluding the area used by Azrieli Group itself), on the free market, under the criterion of a willing buyer from a willing seller, free and clear of any debt, charge, mortgage, including third party rights, is around **NIS 4,782,000,000**.

3. General

- Value is exclusive of V.A.T.
- We have not addressed taxation, if any, which may apply when the property is sold.
- We have valuated the property in the past for the purpose of inclusion thereof in the Company's financial statements:

Effective Date	**Value of the Company's Rights**
December 31, 2010	NIS 4,014,000,000
December 31, 2011	NIS 4,306,400,000
December 31, 2012	NIS 4,473,300,000
June 30, 2013	NIS 4,577,900,000
December 31, 2013	NIS 4,731,600,000

Sincerely,

Part B

Update of the Description of the Corporation's Business

Azrieli Group

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2013 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is description of material developments which have occurred in the Company's business during the six months ended June 30, 2014 and until the Report Release Date, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided. In this chapter: the "**Report Release Date**" – August 20, 2014; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – June 30, 2014. "**Board of Directors' Report**" – the board of directors' report on the state of the Company's affairs for the six and three months ended June 30, 2014

On July 9, 2014, with deep sorrow, the Company notified of the passing of Mr. David Azrieli OBM, Chairman of the Board and controlling shareholder of the Company. For details regarding the description of control of the Company and ending of the management agreement between the Company and Mr. David Azrieli OBM, see Notes 1 and 9A to the financial statements as of June 30, 2014, respectively.

On July 21, 2014, the Company's board of directors appointed Ms. Danna Azrieli as Chairman of the Board. Due to the deterioration in the health of Mr. David Azrieli OBM, the Company's board earlier appointed Ms. Danna Azrieli to act as his substitute.

1. Developments that occurred in the Group's structure and business until the Report Release Date

Update to Section 1.3.1 of the Description of the Corporation's Business chapter:

Acquisition of Income-Producing Properties

Acquisition of Land for Senior Housing: On May 1, 2014, further to the Company's engagement in an agreement dated February 17, 2014, the Company closed the transaction for the purchase of 100% of the shares of a

[1] As released on March 23, 2014 (Ref. no. 2014-01-021204).

private company, which has the right to a capitalized long-term lease of land spanning approx. 12,000 sqm at the city of Modi'in, on which land a senior housing home may be built, under the currently effective zoning plan. The closing of the transaction was achieved following the satisfaction of all of the conditions precedent set forth in the agreement. See immediate report of May 1, 2014 (Ref. no. 2014-01-055626).

Update to Section 1.3.2 of the Description of the Corporation's Business chapter:

Class Action regarding the Granite Tender Offer: On March 19, 2014, a hearing took place, wherein, in view of the Court's comments, the Petitioner withdrew his petition for a remedy of revocation of the tender offer and return of the shares to trade on TASE. As per the Court's request, the parties have filed additional summations in connection with the motion for summary dismissal. As of the Report Date, a ruling has not yet been rendered. For further details, see the Company's immediate report of August 8, 2013 (Ref. no.: 2013-01-113148) which is incorporated herein by reference and Note 3B1 to Chapter C of this report, the financial statements as of June 30, 2014.

Agreement for sale of all the rights in Via Maris Desalination (Holdings) Ltd.: For details with respect to GES's engagement in an agreement for the sale of all of its rights in the Via Maris desalination plant at Palmachim, see Section 1.1.1 of Chapter A of the Board of Directors' Report.

2. The Group's Principal Operating Segments

Update to Section 2 of the Description of the Corporation's Business Chapter

The Tambour Segment – On June 12, 2014 the Company closed a transaction for the sale of all of its rights in Tambour Ltd. ("**Tambour**"), a wholly-owned subsidiary of Granite, per Tambour's condition on the signing date ("as is"), in consideration for a total amount of NIS 500 million (the "**Transaction**"). The Transaction was closed following the fulfillment of all of the conditions precedent set forth in the agreement.

As a result of the closing of the transaction as aforesaid, the Company recognized a profit in the amount of approx. NIS 55 million, which was carried to the income statement and is presented under the "Profit from Discontinued Operations (net of tax)" item. Under the provisions of IFRS 5, Tambour's results are presented as discontinued operations. Tambour's results were presented separately from the results of the continued operations in the income statement and comparison figures in the income statement have been restated. For further details, see Section 1.1.1 of Chapter A of the Board of Directors' Report and Note 5 to the financial statements as of June 30, 2014.

The Sonol Segment – during the Report Period, the Company conducted negotiations with S. Shlomo Holdings Ltd. ("**Shlomo Holdings**"), for the sale of Granite's holdings in Sonol Israel Ltd. ("**Sonol**"), a company controlled by Granite. Due to the sudden passing of Shlomo Shmeltzer, Chairman of the

Board and controlling shareholder of Shlomo Holdings, Shlomo Holdings decided to end the negotiations with respect to the aforesaid acquisition of Sonol shares. The commitment fee paid by Shlomo Holdings was returned thereto, less the Company's costs in connection with the transaction. For further details, see the Company's immediate reports of June 8, 2014, June 11, 2014 and July 9, 2014 (Ref. no. 2014-01-084846, 2014-01-088089 and 2014-01-110676, respectively), which are incorporated herein by reference.

3. Investments in the Company's Capital and Transactions in its Shares

Update to Section 3 of the Description of the Corporation's Business chapter:

On March 24, 2014, Azrieli Holdings transferred to the Azrieli Foundation, a registered charitable foundation, which is domiciled in Canada and whose assets are designated for donations and for financing of philanthropic activity in Israel and in Canada (the "**Azrieli Canada Foundation**"), 460,000 Company shares as a donation and for no consideration. Therefore, as of the Report Release Date, Azrieli Holdings holds 55.62% of the Company's share capital (directly and/or indirectly) and approx. 61.31% of the voting rights, the Azrieli Canada Foundation holds 13.68% of the Company's share capital, and the Azrieli Israel Foundation holds 5.69% of the Company's share capital and no voting rights.

For further details, see the Company's immediate reports of March 25, 2014 and May 8, 2014 (Ref. no.: 2014-01-023739, 2014-01-023736 and 2014-01-058983).

4. Dividends

Update to Section 4 of the Description of the Corporation's Business Chapter:

On May 7, 2014, the Company paid a dividend to its shareholders. For details, see Section 1.5 of Chapter A of this Report.

5. Properties under Construction

Update to Section 7.7 of the Description of the Corporation's Business chapter:

Azrieli Sarona Center, Tel Aviv

As of the Report Release Date, an amended basement permit has been obtained, including plans for the construction of an underground road and a permit for the commercial areas. The Company is acting to obtain an office permit. It is further noted that the administrative petitions filed by a third party in respect of an application filed by the Company for a change of the zoning plan under the jurisdiction of the local committee have been rejected.

Azrieli Holon Center

The Company is in advanced negotiations with various entities for lease of tens of thousands of sqm in Phase B of the project, which is currently under construction.

Ramla Mall

As of the Report Release Date, a zoning plan concerning the addition of service areas to the car park and arrangements for the unloading and loading zone has been approved by the District Zoning Committee, including publication of the plan in the Official Publications (*Reshumot*). Furthermore, a permit for the construction of parking levels has been obtained, and the Company is preparing for submission of an application for an additional permit, for the purpose of regulation of the additional rights received in the framework of the district zoning plan. The Company has engaged with numerous retail chains with respect to lease of a large part of the areas at the Mall, which is scheduled for opening in March 2015.

Azrieli Rishonim Mall

As of the Report Release Date, an amended basement permit has been obtained. Furthermore, the permit for aboveground construction has been conditionally approved and the Company is acting to fulfill the conditions. The Company concurrently filed an application to split the basement permit, in order to bring forward the opening of the underground car parks to the public and remove the temporary aboveground parking area.

The Company is in advanced negotiations with various entities for lease of tens of thousands of sqm in the project. On May 25, 2014, a judgment was rendered by the Court, which rejected the Petitioners' petition to revoke the approval of the plan. However, the Court allowed the Petitioners to appeal to the National Council on the issue of whether the project is in keeping with the national zoning policy, and left the issuance of new permits until the decision of the National Council to the municipality's discretion. On July 3, 2014, the Petitioners filed such appeal. As of the Report Release Date, the Company has filed its response to the appeal.

Azrieli North Center

The Company has completed demolition work at the Clalit Health Fund complex to clear out the premises, for the purpose of shoring work on the eastern side of the project. Although possession of the site has not yet been handed over to the Company, and in order to preserve the possibility of building underground parking spaces beneath a service road on which the city is carrying out work, during the next weeks, the Company will finish an engagement with a contractor for the performance of shoring work, in accordance with the permit obtained. The Company is negotiating with Clalit Health Fund, as per the latter's request, in connection with a postponement of the handover date.

For further details regarding the above projects and in respect of the total investments during the Report Period, which the Group continued to invest in the development and construction of new properties and in the expansion and renovation of existing properties, see Section 1.1.2 of the Board of Directors' Report in Chapter A hereof.

6. Developments pertaining to the Azrieli Center in Tel Aviv

Update to Section 9.2 of the Description of the Corporation's Business Chapter:

Azrieli Towers in Tel Aviv

(Data according to 100%) (*)	For the Quarter Ended June 30, 2014	For the Quarter Ended March 31, 2014	For the Year Ended December 31, 2013
Value of property (NIS in thousands)	2,742,274	2,718,246	2,718,246
NOI in the period (NIS in thousands)	49,913	50,555	196,703
Revaluation profits in the period (NIS in thousands)	17,312	-	128,440
Average occupancy rate in the period (%)	~100%	~100%	~100%
Rate of return (%)	7.3%	7.4%	7.2%
Average rent per sqm per month (NIS) (**)	98	97	96
Average rent per sqm per month in contracts signed during the period (NIS)	121	120	114

(*) The corporation's share in the property – 99.1%. The remaining rights in the property are held by the Azrieli Foundation (Israel) R.A.;
(**) The figure does not include the rent of the hotel which is located at the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month would have amounted to approx. NIS 94 per sqm in Q2/2014, approx. NIS 93 per sqm in Q1/2014, and approx. NIS 93 per sqm in 2013.

An updated valuation for this property as of June 30, 2014 is attached as Annex E to Chapter A hereof.

Details of the Updated Valuation

	June 30, 2014	Y2013
Value determined (NIS in thousands)	2,742,274	**2,718,246**
Identity of the appraiser	Greenberg Olpiner & Co.	**Greenberg Olpiner & Co.**
Is the appraiser independent?	Yes	**Yes**
Is there an indemnification agreement?	Yes	**Yes**
Effective date of the valuation (the date to which the valuation pertains)	June 30, 2014	December 31, 2013
Valuation model	DCF	**DCF**
	Main Parameters Used for purposes of the Valuation	

Valuation under the Income Approach	**Gross leasable area** taken into account in the calculation (sqm)[2]	149,607	**149,489**
	Representative occupancy rate out of the gross leasable area for purposes of the valuation	100%	**100%**
	Average representative monthly rent per leased sqm for purposes of the valuation	97.8	**97.2**
	Representative **NOI** for purposes of the valuation (NIS in thousands)[3]	208,822	**207,455**
	Annual average periodic preservation expenses	**See "Other Key Parameters" hereunder**	
	Weighted cap rate used for purposes of the valuation	7.44%	**7.43%**
	Other key parameters	Projected investments in the property were depreciated, as were investments due to contractual obligations to the City of Tel Aviv. Overall depreciation in the property's value due to the aforesaid amounted to approx. NIS 60 million.	**Projected investments in the property were depreciated, as were investments due to contractual obligations to the City of Tel Aviv. Overall depreciation in the property's value due to the aforesaid amounted to approx. NIS 67 million.**
Value Sensitivity Analyses		**Change in Value (NIS in thousands)**	
Cap rates	Increase of 0.25%	(90,974)	**(90,466)**
	Decrease of 0.25%	97,291	**96,750**
Average rent per sqm	Increase of 5%	120,689	**117,842**
	Decrease of 5%	**(120,689)**	**(117,842)**

7. The Tambour Segment

Update to Section 12 – the Tambour Segment

As of May 26, 2014, upon Granite's engagement in an agreement for the sale of Tambour, Tambour has ceased to constitute an operating segment of the Company's and a reportable segment in its financial statements, and it is recorded as "Discontinued Operations" in the Company's financial statements.

8. Additional Business

Update to Section 13.1.1 – Supergas

Negotiations for the sale of solar operations – for details with respect to the approval of the sale of Supergas's holdings in a company holding solar facilities in the framework of a bidding contest conducted by Supergas, see Section 1.1.1 of Chapter A of the Board of Directors' Report.

[2] Excluding the area used by the Company itself, approx. 1,520 sqm on the top office floor of the Round Tower.

[3] Including 50% of the car park's representative NOI which is included in the value of the property (the remaining 50% were included in the valuation of the mall).

Update to Section 13.1.2 – the GES Segment

Via Maris – for details with respect to engagement in an agreement for the sale of all of the rights in Via Maris Desalination (Holdings) Ltd. - see Section 1.1.1 of Chapter A of the Board of Directors' Report.

9. Reportable credit extended to the Company during the Report Date

Update to Sections 18.3 and 18.4 of the Description of the Corporation's Business chapter

Engagement in a Loan Agreement – Financing of the Ramla Mall

On May 21, 2014, for the purpose of financing its current operations and its investments, the Company entered into a loan agreement with several companies of the group of an institutional body, which is not related to the Company or to the controlling shareholders thereof, for receipt of a loan in the amount of NIS 300 million. For further details, see Section 1.1.1 of Chapter A of the Board of Directors' Report.

10. Commercial Paper

Update to Section 18.5 of the Description of the Corporation's Business chapter:

The end of June 2014 saw the expiration of a series of rated commercial paper issued by the Company in 2009 in the amount of approx. NIS 200 million, and repayment by the Company of the balance of the unrated series in the amount of NIS 280 million. The Company acted to refinance such series through a private placement of a new series of commercial paper. On June 24, 2014, the Company raised a new (rated) series of commercial paper for investors listed in the First Schedule to the Securities Law, 5728-1968, totaling at NIS 480 million nominal value, which refinanced all three of the Company's present series of commercial paper (rated and unrated). The principal of the commercial paper shall carry variable Shekel interest, which shall consist of the prime rate less 1.2% (*in lieu* of the interest in series that were repaid, which amounted to the prime rate less 0.7%-0.9%) and shall be paid at the end of 20 periods of 90 days or upon repayment or at an exit point, whichever is earlier. The commercial paper will not be listed on Tel Aviv Stock Exchange Ltd. For details with respect to the rating of commercial paper, see Section 1.5(d) of Chapter A of the Board of Director's Report.

11. Series A Bonds of the Company (Non-Negotiable)

Update to Section 18.5 of the Description of the Corporation's Business chapter:

During the Report Period, principal and interest payments were made, in accordance with their payment schedules. As of the Report Date, the balance of nominal value of the Company's Series A Bonds which are in circulation is NIS 481 million.

12. Series A Bonds of Canit Hashalom (Non-Negotiable)

Update to Section 18.6 of the Description of the Corporation's Business chapter:

During the Report Period, principal and interest payments were made in accordance with their payment schedules. As of the Report Date, the balance of nominal value of Canit Hashalom's Series A Bonds which are in circulation is approx. NIS 290 million.

13. Financing of the Granite Group – Bonds Issued by Supergas

Update to Section 18.16.4 of the Description of the Corporation's Business Chapter:

In June 2014, Supergas completed a process for the amendment of bonds that had been issued thereby in 2007, which process included the acceleration and leveling of certain principal payments. In this framework, Supergas repaid 51,829,380 par value in the sum total of approx. 75 million par value, which include the sum of approx. NIS 12.3 million paid for bringing forward the payment date. In addition, Granite Hacarmel has undertaken that, in the event that Canit Hashalom Investments Ltd. ceases to be a controlling shareholder of Supergas, Granite will extend to Supergas the amount required for the purpose of performing a tender offer by Supergas to the bondholders of no less than NIS 45 million par value, at a price reflecting the adjusted value of the bonds at such time.

14. Legal Proceedings

For an update in connection with the legal proceedings being conducted against the Group's companies, see Note 3 to the financial statements as of June 30, 2014 and this report.

Part C

Consolidated Financial Statements
Dated 30 June, 2014

Azrieli Group

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of June 30, 2014

(Unaudited)

Azrieli Group Ltd.

Contents

Deloitte.
Brightman Almagor Zohar

Review report of the Auditors to the shareholders of Azrieli Group Ltd.

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "Group") which includes the Condensed Consolidated Statements of Financial Position as of June 30, 2014 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the six and three month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of interim financial information under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the interim financial information, based on our review.

We did not review the condensed interim financial information of a consolidated company whose consolidated assets constitute approx. 21.2% of all the consolidated assets as of June 30, 2014, and whose revenues of continued operations constitute approx. 71.1% and approx. 71.5% of all the consolidated revenues for the six and three month periods then ended, respectively, and whose revenues of discontinued operations constitute approx. 11.4% and approx. 11.1% of all the consolidated revenues for the six and three month periods then ended, respectively. The condensed interim financial information of such company was reviewed by other auditors whose review report was furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review report of the other auditors**.**

Scope of the review

We performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Auditor of the Entity". A review of interim financial information consists of clarifications, mainly with the persons responsible for financial and accounting matters, and applies analytical and other review procedures. A review is considerably more limited in scope than an audit which is performed in accordance with Generally Accepted Auditing Standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an audit opinion.

Conclusion

Based on our review, and on the review reports of the other auditors, nothing has come to our attention which would lead us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS34.

In addition to the statements in the previous paragraph, based on our review and on the review reports of the other auditors, nothing has come to our attention which would lead us to believe that the above financial information does not meet, in all material respects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our above conclusion, we refer to Note 3 regarding legal claims of significant amounts, in the aggregate, against the Company and consolidated companies, in respect of which a motion for class certification has been filed.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, August 19, 2014

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Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of June 30		As of December 31
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	400,914	196,105	460,984
Financial assets held for trading	1,008	15,522	5,988
Short-term deposits and investments	312,352	57,843	50,294
Trade accounts receivable	1,384,912	1,803,266	1,739,160
Other receivables	176,410	264,021	195,702
Inventory	232,280	464,645	424,201
Current tax assets	10,990	19,557	17,000
	2,518,866	2,820,959	2,893,329
Assets of disposal group held for sale	1,506,097	-	1,135,682
Total Current Assets	4,024,963	2,820,959	4,029,011
Non-current Assets			
Investments and loans in associated companies	30,816	41,547	48,009
Investments, loans and receivables	183,462	253,180	189,004
Financial assets	1,668,460	1,486,884	1,714,568
Long-term receivables in respect of franchise arrangement	29,136	1,000,606	260,178
The Fuel Administration	-	125,273	-
Investment property and investment property under construction	17,703,569	16,510,941	17,273,315
Fixed assets	966,460	1,412,250	1,424,219
Intangible assets	395,581	530,309	484,797
Pre-paid long-tern rent	39,458	75,231	72,751
Deferred tax assets	53,245	55,211	56,572
Total Non-current Assets	21,070,187	21,491,432	21,523,413
Total Assets	25,095,150	24,312,391	25,552,424

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As of June 30		As of Dec. 31
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current Liabilities			
Credit from banks and other credit providers	2,791,519	3,554,724	2,566,712
Trade payables	654,569	872,090	890,379
Payables and other current liabilities	413,041	453,626	517,217
Deposits from customers	108,763	108,237	109,289
Provisions	48,939	38,955	58,940
Current tax liabilities	65,313	41,820	35,025
	4,082,144	5,069,452	4,177,562
Assets of disposal group held for sale	990,333	-	794,615
Total Current Liabilities	5,072,477	5,069,452	4,972,177
Non-current Liabilities			
Loans from banks and other credit providers	3,394,866	3,093,870	3,563,352
Bonds	972,318	1,468,942	1,440,967
Employee benefits	33,684	56,145	41,155
Other liabilities	50,451	60,521	58,210
Deferred tax liabilities	2,698,338	2,445,056	2,746,544
Total Non-current Liabilities	7,149,657	7,124,534	7,850,228
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	297,981	196,885	341,181
Retained earnings	9,944,578	9,296,073	9,757,867
Total Equity Attributable to the Shareholders of the Parent Company	12,778,797	12,029,196	12,635,286
Non-controlling Interests	94,219	89,209	94,733
Total Capital	12,873,016	12,118,405	12,730,019
Total Liabilities and Capital	25,095,150	24,312,391	25,552,424

August 19, 2014			
Date of approval of the financial statements	**Danna Azrieli** **Chairman of the Board**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **CFO**

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	(Unaudited)		(Unaudited)		
Revenues					
From sales, labor and services	2,906,572	3,220,382	1,463,174	1,573,045	6,442,947
From rent and management and maintenance fees	717,970	709,467	358,874	354,901	1,433,324
Net gain from fair value adjustment of investment property and investment property under construction	4,536	115,210	8,151	124,109	424,657
Financing	34,155	46,054	18,060	23,175	92,535
Other	23,661	8,652	7,565	2,407	20,190
Total revenues	3,686,894	4,099,765	1,855,824	2,077,637	8,413,653
Costs and Expenses					
Cost of revenues from sales, labor and services	2,435,180	2,731,462	1,227,131	1,326,623	5,442,462
Cost of revenues from rent, management and maintenance fees	154,842	152,846	77,107	76,430	320,472
Sales and marketing	321,172	317,096	160,251	159,070	649,363
General and administrative	90,930	101,279	43,584	54,459	211,724
Share of results of associated companies, net of tax	3,083	2,881	1,356	1,142	6,299
Financing	133,443	217,005	83,602	115,346	426,197
Other	4,376	427	1,299	237	3,033
Total Costs and Expenses	3,143,026	3,522,996	1,594,330	1,733,307	7,059,550
Income before income taxes	543,868	576,769	261,494	344,330	1,354,103
Taxes on income	(145,688)	(124,060)	(62,011)	(76,350)	(448,167)
Profit from Continued operations	398,180	452,709	199,483	267,980	905,936
Profit from discontinued operations (net of tax)	73,573	22,745	61,450	10,099	37,866
Net profit for the period	471,753	475,454	260,933	278,079	943,802
Other comprehensive income:					
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial gain due to defined benefit plan, net of tax	-	-	-	-	177
Amounts that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	(36,880)	(30,345)	(4,513)	(38,338)	138,114
Effective portion of change in fair value of cash flow hedge, net of tax	(270)	(573)	(141)	(97)	(555)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	265	1,127	6	306	1,386
Change in fair value of cash flow hedge carried to the income statement as a result of disposition of subsidiary, net of tax	102		102		
Translation differences from foreign operations	(6,383)	(19,594)	(9,760)	(5,144)	(45,249)
Total	(43,166)	(49,385)	(14,306)	(43,273)	93,696
Other comprehensive income (loss) for the period, net of tax	(43,166)	(49,385)	(14,306)	(43,273)	93,873
Total Comprehensive Income for the Period	428,587	426,069	246,627	234,806	1,037,675

The notes to the condensed consolidated financial statements form an integral part thereof.

The Azrieli Group Ltd.

Condensed Consolidated Statements of the Profit or Loss and of Other Comprehensive Income (Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	(Unaudited)		(Unaudited)		
Net income for the period attributable to:					
Shareholders of the parent company	466,711	467,925	257,706	273,803	929,549
Non-controlling interests	5,042	7,529	3,227	4,276	14,253
	471,753	475,454	260,933	278,079	943,802
Total comprehensive income for the period attributable to:					
Shareholders of the parent company	423,770	419,471	243,763	230,784	1,025,515
Non-controlling interests	4,817	6,598	2,864	4,022	12,160
	428,587	426,069	246,627	234,806	1,037,675
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributable to shareholders of the parent company from continued operations	3.25	3.69	1.62	2.18	7.38
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributed to shareholders of the parent company from discontinued operations	0.60	0.17	0.50	0.08	0.28
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the six-month period ended June 30, 2014										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2014	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019
Net profit for the period	-	-	-	-	-	-	-	466,711	466,711	5,042	471,753
Change in fair value of financial assets available for sale, net of tax	-	-	(36,922)	-	-	-	-	-	(36,922)	42	(36,880)
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(269)	-	(269)	(1)	(270)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	263	-	263	2	265
Change in fair value of cash flow hedge carried to the income statement as a result of disposition of subsidiary, net of tax	-	-	-	-	-	-	101	-	101	1	102
Translation differences from foreign operations	-	-	-	(6,114)	-	-	-	-	(6,114)	(269)	(6,383)
Total comprehensive income for the period	-	-	(36,922)	(6,114)	-	-	95	466,711	423,770	4,817	428,587
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(280,000)	(280,000)	-	(280,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,077)	(1,077)
Capital reserve for transactions with related parties	-	-	-	-	(3)	-	-	-	(3)	3	-
Write-off of non-controlling interests due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(4,255)	(4,255)
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(256)	-	-	(256)	(2)	(258)
Total transactions with shareholders of the Company	-	-	-	-	(3)	(256)	-	(280,000)	(280,259)	(5,331)	(285,590)
Balance as of June 30, 2014	18,223	2,518,015	374,811	(64,869)	(30,984)	21,119	(2,096)	9,944,578	12,778,797	94,219	12,873,016

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the six-month period ended June 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital Reserves	Retained earnings	Total attributable to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net profit for the period	-	-	-	-	-	-	-	467,925	467,925	7,529	475,454
Change in fair value of financial assets available for sale, net of tax	-	-	(30,334)	-	-	-	-	-	(30,334)	(11)	(30,345)
Effective portion of the change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(568)	-	(568)	(5)	(573)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	1,117	-	1,117	10	1,127
Translation differences from foreign operations	-	-	-	(18,669)	-	-	-	-	(18,669)	(925)	(19,594)
Total comprehensive income for the period	-	-	(30,334)	(18,669)	-	-	549	467,925	419,471	6,598	426,069
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Capital reserve for transactions with related parties	-	-	-	-	(115)	-	-	-	(115)	115	-
Total transactions with shareholders of the Company	-	-	-	-	(115)	-	-	(265,000)	(265,115)	115	(265,000)
Balance as of June 30, 2013	18,223	2,518,015	243,309	(34,306)	(31,027)	21,375	(2,466)	9,296,073	12,029,196	89,209	12,118,405

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the three-month period ended June 30, 2014										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital Reserves	Retained earnings	Total attributable to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of April 1, 2014	18,223	2,518,015	379,366	(55,515)	(30,982)	21,375	(2,062)	9,686,872	12,535,292	95,610	12,630,902
Net profit for the period	-	-	-	-	-	-	-	257,706	257,706	3,227	260,933
Change in fair value of financial assets available for sale, net of tax	-	-	(4,555)	-	-	-	-	-	(4,555)	42	(4,513)
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(141)	-	(141)	-	(141)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	6	-	6	-	6
Change in fair value of cash flow hedge carried to the income statement as a result of disposition of subsidiary, net of tax	-	-	-	-	-	-	101	-	101	1	102
Translation differences from foreign operations	-	-	-	(9,354)	-	-	-	-	(9,354)	(406)	(9,760)
Total comprehensive income for the period	-	-	(4,555)	(9,354)	-	-	(34)	257,706	243,763	2,864	246,627
	-	-									
Capital reserve for transactions with related parties	-	-	-	-	(2)	-	-	-	(2)	2	-
Write-off of non-controlling interests due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(4,255)	(4,255)
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	-	(256)	-	(256)	(2)	(258)
Total transactions with shareholders of the Company	-	-	-	-	(2)	-	(256)	-	(258)	(4,255)	(4,513)
Balance as of June 30, 2014	18,223	2,518,015	374,811	(64,869)	(30,984)	21,375	(2,352)	9,944,578	12,778,797	94,219	12,873,016

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the three-month period ended June 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital reserves	Retained earnings	Total attributable to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands (Unaudited)										
Balance as of April 1, 2013	18,223	2,518,015	281,636	(29,407)	(31,008)	21,375	(2,673)	9,022,270	11,798,431	85,168	11,883,599
Net profit for the period	-	-	-	-	-	-	-	273,803	273,803	4,276	278,079
Change in fair value of financial assets available for sale, net of tax	-	-	(38,327)	-	-	-	-	-	(38,327)	(11)	(38,338)
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(96)	-	(96)	(1)	(97)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	303	-	303	3	306
Translation differences from foreign operations	-	-	-	(4,899)	-	-	-	-	(4,899)	(245)	(5,144)
Total comprehensive income for the period	-	-	(38,327)	(4,899)	-	-	207	273,803	230,784	4,022	234,806
Capital reserve for transactions with related parties	-	-	-	-	(19)	-	-	-	(19)	19	-
Total transactions with shareholders of the Company	-	-	-	-	(19)	-	-	-	(19)	19	-
Balance as of June 30, 2013	18,223	2,518,015	243,309	(34,306)	(31,027)	21,375	(2,466)	9,296,073	12,029,196	89,209	12,118,405

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the year ended December 31, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net income for the year	-	-	-	-	-	-	-	929,549	929,549	14,253	943,802
Change in fair value of financial assets available for sale, net of tax	-	-	138,090	-	-	-	-	-	138,090	24	138,114
Actuarial profit due to defined benefit plan, net of tax	-	-	-	-	-	-	-	170	170	7	177
Translation differences from foreign operations	-	-	-	(43,118)	-	-	-	-	(43,118)	(2,131)	(45,249)
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(550)	-	(550)	(5)	(555)
Change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	1,374	-	1,374	12	1,386
Total comprehensive income for the year	-	-	138,090	(43,118)	-	-	824	929,719	1,025,515	12,160	1,037,675
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Issuance of warrants for shares in a consolidated company	-	-	-	-	-	-	-	-	-	8	8
Capital reserve for transactions with related parties	-	-	-	-	(69)	-	-	-	(69)	69	-
Total transactions with shareholders of the Company	-	-	-	-	(69)	-	-	(265,000)	(265,069)	77	(264,992)
Balance as of Dec. 31, 2013	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net profit for the period	471,753	475,454	260,933	278,079	943,802
Depreciation and amortization	70,540	68,811	35,581	34,535	139,348
Impairment of intangible assets	765	-	765	-	-
Impairment of financial assets available for sale	253	-	-	-	-
Net gain from fair value adjustment of investment property and investment property under construction	(4,536)	(115,210)	(8,151)	(124,109)	(424,657)
Financing and other expenses, net	84,167	169,660	67,567	96,769	359,858
Loss (gain) from liquidation of fixed assets, investment property and intangible assets, net	(6,308)	244	(3,896)	82	(2,227)
Share of losses of associated companies accounted for by the equity method	3,083	2,761	1,356	1,073	6,179
Change in recording of benefit in respect of share-based payment	339	6,775	231	3,832	11,605
Tax expenses recognized in the income statement	153,183	130,888	64,661	79,535	465,254
Change in financial assets	96	467,167	229	303,684	460,181
Profit from realizing investment in subsidiary (Annex A)	(54,883)		(54,883)		
Profit from realizing investments in financial assets available for sale	-	(1,748)	-	(1,748)	(1,878)
Income taxes paid, net	(63,284)	(68,480)	(42,932)	(49,370)	(136,930)
Burnout of balance of the Fuel Administration	-	3,857	-	1,006	7,745
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(1,639)	(164)	357	-	124
Change in inventory	18,985	33,259	18,141	(2,576)	73,631
Change in trade and other receivables	(41,558)	(73,766)	64,242	4,798	(34,168)
Change in receivables in respect of franchise arrangement	15,531	(153,607)	15,623	(89,838)	(286,253)
Change in trade and other payables	(90,516)	71,879	(24,161)	61,946	108,653
Change in employee provisions and benefits	(8,654)	291	(4,919)	(1,696)	(1,051)
Net cash - current operations	547,317	1,018,071	390,744	596,002	1,689,216

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
	(Unaudited)		(Unaudited)		
Cash flows - Investment Activities					
Proceeds from liquidation of fixed and intangible assets	17,262	1,254	10,955	694	16,586
Proceeds from liquidation of investment property	2,174	1,980	-	-	44,683
Decrease in balance of the Fuel Administration	-	-	-	-	117,455
Down payments on account of investment property	(1,823)	(162,753)	(1,461)	(151,081)	(202,017)
Purchase of and investment in investment property and investment property under construction	(381,471)	(274,038)	(187,449)	(145,495)	(665,755)
Purchase of fixed and intangible assets	(90,045)	(127,920)	(40,214)	(78,968)	(245,491)
Investment in and granting of loans to associated companies	(4,847)	(1,027)	(1,971)	-	(8,997)
Change in short-term deposits	(265,121)	32,625	(268,899)	38,551	39,759
Change in restricted investments	(26,168)	(3,695)	(1,886)	(3,685)	(3,743)
Payment for settlement of derivative financial instruments, net	(12,934)	(28,318)	(9,929)	(10,512)	(58,843)
Investment in financial assets available for sale	(3,476)	(235)	(3,476)	(235)	(2,005)
Change in financial assets designated at fair value through profit and loss	180	(218)	145	(835)	1,157
Change in marketable securities, net	1,823	-	(3,000)	-	-
Granting of long-term loans	(6,756)	(1,700)	(5,437)	(800)	(11,333)
Collection of long-term loans (including from associated companies)	16,121	7,797	6,397	2,219	13,848
Interest and dividend received	40,016	27,687	15,324	13,561	59,934
Proceeds from liquidation of financial assets available for sale	1,688	4,713	-	2,946	5,024
Acquisitions of companies consolidated for the first time (Annex B)	(54,589)	-	(3,089)	-	-
Proceeds from realizing investment in subsidiary, net (Annex A)	488,380	-	488,380	-	-
Institutions for purchase of property	(5,100)	(9,730)	(5,100)	(26,276)	5,638
Net cash - investment activities	(284,686)	(533,578)	(10,710)	(359,916)	(894,100)

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
	(Unaudited)		(Unaudited)		
Cash flows - Financing Activity					
Acquisition of non-controlling interests	(258)	-	(258)	-	-
Dividend distribution to shareholders	(280,000)	(265,000)	(280,000)	(265,000)	(265,000)
Repayment of bonds	(170,543)	(120,693)	(102,912)	(54,562)	(187,086)
Receipt of long-term loans from banks and others	435,662	141,628	328,771	91,648	1,683,482
Repayment of long-term loans from banks	(230,913)	(274,529)	(89,766)	(146,319)	(1,500,070)
Short-term credit from banks and others, net	86,099	233,521	23,215	236,158	131,121
Repayment of deposits from customers	(3,033)	(2,025)	(2,687)	(1,124)	(2,915)
Deposits from customers that were received	3,049	696	2,218	285	1,350
Payment for settlement of derivatives used for cash flow hedging	(54)	(357)	(21)	(178)	(709)
Dividend to holders of non-controlling interests	(1,077)	(1,470)	-	-	(1,470)
Interest paid	(148,916)	(180,644)	(76,676)	(93,289)	(345,530)
Cash, net - Financing Activity	(309,984)	(468,873)	(198,116)	(232,381)	(486,827)
Increase (decrease) in cash and cash equivalents	(47,353)	15,620	181,918	3,705	308,289
Cash and cash equivalents at beginning of period	460,984	182,818	232,542	193,640	182,818
Change in net cash classified into disposal group held for sale	(13,728)	-	(14,511)	-	(27,895)
Effect of exchange rate changes on cash balances held in foreign currency	1,011	(2,333)	965	(1,240)	(2,228)
Cash and cash equivalents at end of period	400,914	196,105	400,914	196,105	460,984

(*) Non-cash transactions include other payables for purchase on credit of non-current assets in the sum of NIS 51,672 thousands (June 30, 2013 – NIS 44,218 thousands, December 31, 2013 – NIS 71,115 thousands) and other liabilities for work in the sum of NIS 41,000 thousands (December 31, 2013 – NIS 55,000 thousands).

(**) See note 5 in respect of cash flows from discontinued operations.

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
	(Unaudited)		(Unaudited)		
Annex A - Proceeds from sale of investment in previously-consolidated company, net:					
Working capital (excluding cash and cash equivalents)	213,783	-	213,783	-	-
Investments and loans	7,582	-	7,582	-	-
Fixed assets and intangible assets, net	491,095	-	491,095	-	-
Employee benefits and provisions	(7,834)		(7,834)	-	-
Long-term liabilities including current maturities	(199,485)	-	(199,485)	-	-
Reserve for deferred taxes, net	(67,389)	-	(67,389)	-	-
Non-controlling interests	(4,255)	-	(4,255)	-	-
Profit from realizing investment in subsidiary	54,883	-	54,833	-	-
	488,380	-	488,380	-	-
Annex B - Acquisitions of companies consolidated for the first time:					
Working capital (excluding cash and cash equivalents)	9	-	9	-	-
Down payments on account of purchase	-	-	51,500	-	-
Fixed assets, net	(54,598)	-	(54,598)	-	-
	(54,589)	-	(3,089)	-	-

The notes to the condensed consolidated financial statements form an integral part thereof.

Note 1 - General

Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 25 Index. The Group's consolidated financial statements as of June 30, 2014 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associated companies and in jointly-controlled entities.

As of the Report Release Date, Azrieli Holdings directly and/or indirectly holds (through its holding of the entire share capital of Nadav Investments Inc. (the "Parent Company")) (both private companies registered in Canada), approx. 55.62% of the Company's share capital and approx. 61.31% of the Company's voting rights (until the Company's IPO, the Company was 100% held).

On July 9, 2014, Mr. David Azrieli of Blessed Memory, the Company's Chairman of the Board and controlling shareholder, passed away, and his office as Chairman of the Board came to an end. For further details, see Note 9A.

Until his death, Mr. David Azrieli OBM held directly and indirectly, approximately 44.77% of the shares of Azrieli Holdings and all of the voting rights in Azrieli Holdings (in person and in trust for his children).

Following the death of Mr. David Azrieli OBM, the shares of Azrieli Holdings previously held by him were transferred to his estate, and Sharon Azrieli, Naomi Azrieli and Danna Azrieli were appointed as the 3 directors of Azrieli Holdings and of Nadav Investments.

As the Company has been informed, after the estate of Mr. Azrieli OBM is settled, it is expected that Azrieli Holdings will continue to hold, directly and indirectly, more than 50% of the Company's share capital, and the majority voting rights in Azrieli Holdings will be held by Sharon Azrieli, Naomi Azrieli and Danna Azrieli. In addition, pursuant to the agreement among the shareholders of Azrieli Holdings, each of Sharon Azrieli, Naomi Azrieli and Danna Azrieli will have the right to nominate one of three directors to the board of directors of Azrieli Holdings and of Nadav Investments.

As a consequence of the above, at the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling shareholders of the Company.

During the Report period, Azrieli Holdings Inc., the controlling shareholder of the Company ("Azrieli Holdings"), contributed 7,362,000 ordinary shares of par value NIS 0.1 each, constituting approx. 6.07% of the Company's issued capital, to two different bodies as stated in Notes 4B and 4C.

These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2013, and for the year then ended, and the notes accompanied thereto.

Note 2 - Significant Accounting Policies

a. The basis for the preparation of the financial statements:

The Group's condensed consolidated financial statements ("Interim Consolidated Statements") were prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34").

In the preparation of these Interim Financial Statements the Group has applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2013 and for the year then ended, except for changes in the accounting policy deriving from discontinued operations as specified in Note 2C and from the application of new standards, amendments to standards and interpretations, which took effect in the reporting period, as specified in Note 2D.

The condensed consolidated financial statements were prepared in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

b. Use of estimates and discretion:

(1) In the preparation of the condensed financial statements in accordance with IFRS, the Group's managements are required to use discretion, evaluations, estimates and assumptions which affect the application of the policy and the amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results may differ from such estimates.

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2013.

(2) Pursuant to Note 3(C)1 to the annual financial statements, on June 30, 2014, the Group updated the valuations for part of its investment properties in Israel (which are attributed to the retail centers and malls segment and to the office and other space for lease segment).

The valuations were performed by an independent external valuator with suitable professional qualifications.

The valuations were performed mainly by discounting the expected cash flows from the properties.

The discounting rates that were used by the valuator range mainly between 7%-9%. The discounting rates were determined considering the property type and designation, the location of the property, the rent level vis-à-vis the market price and the quality of the tenants.

Note 2 - Significant Accounting Policies (Cont.)

b. Use of estimates and discretion:

Regarding the other properties, the Company estimates that no significant changes occurred in the property value versus the last date on which a valuation was performed.

c. Discontinued Operations

Operations that were realized or are classified as held for sale, constitute discontinued operations when representing a business operating segment or an operations' geographic region which is significant and separate, or when they constitute part of a single and adjusted planning for the disposal of a business operating segment or of an operations' geographic region which is significant and separate. Revenues and expenses which belong to discontinued operations are presented in the Statements of Profit or Loss and Other Comprehensive Income, Net, net of taxes on income during all of the periods presented as part of the "profit from discontinued operations (net of tax)" item. The cash flows in respect to discontinued operations are jointly presented in the discontinued operations note in all of the report periods presented, according to the classification of current operations, investment activity and financing activity.

The comparison figures in Statements of Profit or Loss and Other Comprehensive Income in respect to the results of the discontinued operations, are retroactively adjusted.

d. New standards, amendments to standards and interpretations that affect the current period and/or previous reporting periods:

- **Amendment IAS 32 "Financial Instruments: Presentation" (regarding offsetting financial assets and financial liabilities)**

  The amendment provides that in order to comply with the offsetting terms of a financial asset and a financial liability, the offsetting right cannot be contingent upon a future event and must be enforceable within the ordinary course of business, in case of bankruptcy, insolvency or credit failure. Furthermore, the net settlement condition may be fulfilled also when the settlement is actually carried out in gross, but in a manner which does not leave significant credit or liquidity risks, when the receivable amounts and the payable amounts are part of a single settlement process. The amendment is retroactively applied to annual reporting periods starting on January 1, 2014 or thereafter.

  The application of the amendment had no material effect on the financial statements.

- **Amendment to IAS 36 "Impairment of Assets" (regarding disclosures as to a recoverable amount)**

  The amendment clarifies the applicability and extent of the required disclosures for assets (including goodwill) or cash-generating units, for which impairment was recognized (or reversed), and provides that the required disclosures for such assets or cash-generating units, whose recoverable amount was determined based on their fair value, shall be similar in nature to the disclosures required for fair value measurements according to IFRS 13 "Fair Value Measurement".

  In the financial statements as of December 31, 2013, the Amendment to IAS 36 was applied through early application.

- **IFRIC 21 "Levies"**

  The interpretation provides the date of recognition of a liability due to a levy imposed by legislation (with the exception of taxes on income or fines). A levy payment liability shall only be recognized at the time of occurrence of the "Obligating Event", in accordance with the provisions of the relevant legislation. The "Obligating Event" is the activity that causes the payment of the levy. When the Obligating Event takes place over a certain period of time, the liability shall be recognized gradually over the same period. The interpretation is retroactively implemented with respect to reporting periods starting on January 1, 2014.

  The application of the interpretation had no material effect on the financial statements.

e. New standards, amendments to standards and interpretations which have been published and are not in effect, and have not been adopted by the Group:

- **IFRS 15 – "Revenue from Contracts with Customers"**

  The Standard replaces the currently existing guidelines with regard to the recognition of revenues and presents a new model for recognizing revenues from contracts with customers. The Standard sets forth two approaches for recognizing revenues: at one point in time or over time. The model includes five stages for the analysis of transactions in order to determine the timing of the recognition of the revenue and the amount thereof. In addition, the Standard sets forth new disclosure requirements that are more extensive that the current ones.

  The Standard will be applied for annual periods starting on January 1, 2017, with the possibility of early adoption. The Standard includes various alternatives for the transition provisions, such that companies will be able to choose one of the following alternatives upon application for the first time: full retrospective application, full retrospective application which includes practical relaxations; or application of the Standard starting on the date of application for the first time, while adjusting the balance of the retained earnings to such date in respect of transactions that are yet to end.

  The Group has not yet begun to examine the implications of the adoption of the Standard on the financial statements.

- **IFRS 9 (2014) "Financial Instruments"**

General

IFRS 9 (2014) "Financial Instruments" (the "**Standard**") is the final standard of the financial instruments project. The Standard cancels IFRIC 9 "Reassessment of Embedded Derivatives" and the previous stages of IFRS 9 which were published in 2009, 2010 and 2013. This Standard includes the provisions for classification and measurement of financial assets, as published at the first stage in 2009 and amended in this version, and also includes the provisions for classification and measurement of financial liabilities, offers a more updated and principal-based model regarding hedge accounting and presents a new model for assessment of projected loss from impairment as specified below.

Financial Assets

The Standard determines that all of the financial assets will be treated as follows:

- Debt instruments will be classified and measured after the recognition for the first time under one of the following alternatives: depreciated cost, fair value through profit or loss, or fair value through other comprehensive income. Setting the measurement model will take into consideration the business model of the entity pertaining to the management of financial assets and according to the characteristics of the contractual cash flows deriving from the same financial assets.

- A debt instrument which is measured at depreciated cost or at fair value through other comprehensive income according to the tests, may be designated to fair value through profit or loss, only if the designation cancels inconsistency in the recognition and measurement that would have been created had the asset been measured at depreciated cost or fair value through other comprehensive income.

- Capital instruments will be measured at fair value through profit or loss.

- Capital instruments may be designated on the date of recognition for the first time to fair value through other comprehensive income. Instruments so designated, will not be subject anymore to assessment for impairment and profit or loss in respect thereto will not be carried to profit or loss, including upon the disposal.

- Embedded derivatives will not be separated from a host contract which is within the application of the Standard. Instead, hybrid contracts will be measured in their entirety at depreciated cost or at fair value, according to the business model tests and contractual cash flows.

- Debt instruments will be reclassified only when the entity changes its business model to financial assets management.

- Investments in capital instruments which have no quoted price on an active market including derivatives of such instruments will always be measured according to the fair value. The alternative of measuring by cost under certain circumstances was cancelled. However, the Standard states that under specific circumstances, cost might be a proper estimate for fair value.

Financial Liabilities

The Standard also sets forth the following provisions regarding financial liabilities:

- The change in the fair value of a financial liability designated upon the recognition for the first time to fair value through profit or loss, and which is attributed to changes in the credit risk of the liability, will be directly carried to other comprehensive income, unless doing so, creates or enlarges an accounting mismatch.

- When the financial liability is paid or discharged, amounts carried to other comprehensive income will not be classified to profit or loss.

- All of the derivatives whether assets or liabilities, will be measured at fair value through profit or loss, including a derivative financial instrument which constitutes a liability and is related to an unquoted capital instrument whose fair value cannot be reliably measured.

Hedging

The Standard sets forth new hedging provisions and provides the option to elect, as an accounting policy, whether to apply the new hedging provisions which will be briefly specified below, or alternatively, those existing according to IAS 39. When the hedging project will be completed in the future, the aforesaid option of policy election will be examined again by the IASB.

The three types of hedge accounting remained unchanged within the Standard: Cash flow hedging, fair value and net investment in foreign business. However, material changes were carried out regarding the types of transactions qualified for hedge accounting. Especially the expansion of the risks qualified for hedge accounting of non-financial items. Also, changes occurred in the manner in which forward contracts and derivative options will be treated, when constituting hedging instruments.

In addition, some of the hedge effectiveness tests were replaced by a more principals-based test, based on "economic relations". Estimation of the hedge effectiveness retroactively will not be required anymore.

The disclosure requirements regarding the risk management activity of the Company have been expanded within the new Standard.

Impairment

The Standard sets forth a new model for assessing impairment. According to the new model, provision for expected credit loss may be recognized, independently of the occurrence of a loss event. The provision will be updated during each reporting period in order to reflect changes in the credit risk from the date of recognition for the first time. Accordingly, the disclosure required in respect of expected credit losses was expanded.

Provision for expected credit losses will be measured by the amount weighing the probabilities of the range of possible results and will reflect the money time value.

Commencement date and early adoption possibilities

The Standard will take binding effect in respect to annual reporting periods commencing

on January 1, 2018 or thereafter.

In general, the provisions of the Standard regarding financial assets and liabilities will be applied retroactively, except for certain exceptions which were set forth in the Standard's transition provisions. It was further determined, that despite the retroactive application, companies applying the Standard for the first time, will not be forced to amend their comparison figures for previous periods. Moreover, the comparison figures will be amendable only when the amendment as aforesaid will not use hindsight information. Provisions referring to hedging will be applied, as a general rule, by way of prospective application, with limited retroactive application.

Early application is possible. According to the transition provisions, any of the previous versions published may be applied through early application, if the date of application for the first time is prior to February 1, 2015.

At this stage, the Company's management cannot estimate the effect of the Standard's application on the financial position and business results thereof.

a. Rates of exchange and linkage basis:

(1) Balances that are stated in foreign currency or linked thereto are recorded in the financial statements according to the representative exchange rates published by the Bank of Israel and which were in force on the end of the reporting period.

(2) Balances that are linked to the CPI are presented according to the last known index at the end of the reporting period (the index for the month preceding the month of the date of the financial statements) or according to the index for the last month of the period of report (the index for the month of the month of the date of the financial statements) according to the terms of the transaction.

(3) The following is data on the significant exchange rates and the Index:

	Representative exchange rate of the			**Israeli Index**
	The Euro	**The USD**	**"Due"**	**"Known"**
	(1 Euro – NIS)	**(1 USD = NIS)**	**Basis 1993**	**Basis 1993**
Date of the financial statements:				
As of June 30, 2014	4.694	3.438	223.80	223.14
As of June 30, 2013	4.720	3.618	222.70	220.95
As of December 31, 2013	4.782	3.471	223.80	223.58
Rates of change:	**%**	**%**	**%**	**%**
For the six-month period				
ended June 30, 2014	(1.84)	(0.95)	-	(0.20)
ended June 30, 2013	(4.08)	(3.08)	1.32	0.71
For the three-month period				
ended June 30, 2014	(2.46)	(1.41)	0.49	0.49
ended June 30, 2013	1.27	(0.82)	1.29	0.70
For the year ended				
December 31, 2013	(2.82)	(7.02)	1.82	1.91

Note 3 – Contingent liabilities

Following are details regarding material claims, new claims received, claims which have ended and significant changes in claims, if any. In the remainder of the claims there was no significant change since the audited financial statements as of December 31, 2013 (see Note 34 to the annual financial statements).

a. Claims against Sonol by IDF disabled veterans who operate gasoline stations as part of an arrangement between the disabled veterans and the Ministry of Defense, the Israel Land Administration and the fuel companies:

The parties	Amount of claim	Nature of claim	Prospects of claim
5 claims against Sonol	The claims are for declaratory relief and a monetary remedy amounting to approx. NIS 80 million.	5 claims by IDF disabled veterans (one of which by the heirs of an IDF disabled veteran) who received operating rights for gasoline stations as part of an arrangement between the disabled veterans and the Rehabilitation Department of the Ministry of Defense, the Israel Land Administration/ a local authority and the fuel companies (the "Plaintiffs"), for termination of the agreements between the Plaintiffs and Sonol, alleging that they involve a restrictive arrangement, which is prohibited under the Restrictive Trade Practices Law. Furthermore, in some of the said claims, it is alleged that the series of agreements between the parties includes discriminatory conditions in a standard form contract, bad faith and discrimination against the Plaintiffs relative to other gasoline stations. Monetary compensation is also claimed in respect of alleged overcharging as a result of restrictive arrangements and/or overpricing and price discrimination and discrimination in commercial conditions.	In the Company's estimation, based on the estimation of Granite's management, based on Sonol's legal counsel, the chances of the claims are higher than 50%. With respect to one claim, during the Report Period a judgment (from which the plaintiff filed an appeal with the Supreme Court) was awarded, pursuant to which Sonol paid an insignificant amount, and with respect to the remaining claims, the Company estimates, based on the estimation of Granite's management, based on Sonol's legal counsel, that the court will not award the Plaintiffs the full monetary remedy requested. In the Company's estimation, based on the estimation of Granite's management, the financial statements include sufficient provision.

Note 3 – Contingent liabilities (Contd.)

b. Class actions

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company	In case it is not certified as class action – NIS 4,561. Should it be certified as class action only in relation to the class of offerees whose shares were force purchased – approx. NIS 18 million. Should it be certified as class action in relation to the class of all the offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Division in the Tel Aviv District Court by a petitioner alleging to have been an offeree as part of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the Tender Offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the Tender Offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion to summarily dismiss the motion as well as its response to the motion and the hearing was scheduled for March 2014. At the hearing, in light of the Court's comment, the Petitioner withdrew his request for the remedy of revocation of the tender offer and re-listing of the shares. As per the Court's request, the parties were required to file additional summations regarding the motion for summary dismissal, which were filed in April 2014 and in May 2014. In the Company's management estimation, based on its legal counsel, the probability that the motion for class certification will be granted, and the claim granted, is lower than 50%.

Note 3 – Contingent liabilities (Contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and other fuel companies	Claim in a total sum of approx. NIS 30 million (without indicating the defendant's share).	In April 2014 a claim and a motion for class certification were filed against Sonol and other fuel companies alleging that the companies do not indicate the prices of the ice cream products on their packages in the convenience stores and thus violated their duty pursuant to the Consumer Protection Law requiring price labeling on goods.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.
3. Claim against Sonol, other fuel companies and credit card companies	Claim and motion for its certification as a class action in an unlimited amount	Claim and motion for its certification as a class action from October 2013 in the argument of misleading under the Consumer Protection Law and violation of disclosure obligations in credit cards under the Consumer Protection Law. In the context of the motion, the petitioners are arguing, *inter alia*, that there is an arrangement between the credit card companies and the fuel companies in an agreement whereby upon credit cards fueling, the credit companies charge the customer, without notifying him in advance, an additional amount over and above the fuel purchase cost. The additional charge is for a fixed period of time through holding of the customer's credit facility or by charging the customer for a purchase that was not made, until the customer is charged with the actual fueling amount.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the chances of the claim being granted are lower than 50%.
4. Proceeding against Sonol	Claim and motion for its certification	Claim and motion for its certification as a class action from June 2014. The subject matter of the	In the Company's estimation, based on the estimation of Granite's management, in view of the

The parties	Amount of claim	Nature of claim	Prospects of claim
	as a class action in the amount of NIS 50 million.	claim is the argument that Sonol placed security cameras in its branches, in contravention of the Privacy Protection Law, 5741-1981, while committing the tort of negligence pursuant to the Torts Ordinance.	preliminary stage of the proceeding, the chances thereof cannot be estimated at this stage.
5. Claim against Supergas	Claim in a total sum of approx. NIS 40 million.	In March 2014, a claim and a motion for class certification were filed against Supergas. The amount of claim is NIS 40 million. The claim concerns an alleged unlawful and/or contrary to agreement collection of monies by Supergas, whereby Supergas increases gas the rates per cubic meter and the fixed usage fees, without detailing the manner of calculation and/or informing the customers of such price rise. Furthermore, it was alleged in the claim that Supergas increases prices to which it committed in the context of discount agreements with the petitioners, contrary to the agreements and without informing the petitioners of the price rise in advance and/or retroactively.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.
6. Claim against Supergas and other gas companies	Claim in a total amount of approx. NIS 372 million (without stating the share of each defendant)	Claim and motion for its certification as a class action from October 2013. The subject matter of the claim is, *inter alia*, the argument that the companies collect from their customers, in the context of the usage fees set forth in an order, payment for services that are not actually rendered thereby, such as participation in the cost of obtaining building permits for gas containers, while according to the petitioners, the companies	In the context of the pre-trial, the court recommended to the petitioners to withdraw the motion for class certification, and the petitioners accepted this recommendation – their personal claim was dismissed with prejudice and they withdrew the motion for class certification, with no order for costs. To emphasize, the respondents' consent to the withdrawal being with no order for costs was given subject to the petitioners and their attorneys not

The parties	Amount of claim	Nature of claim	Prospects of claim
		bury gas containers without receiving lawful building permits.	filing another claim contemplating building permits for containers.
7. Claim against Supergas	Claim in a total amount of approx. NIS 10 million	Claim and motion for its certification as a class action from June 2014. The subject matter of the claim is, *inter alia*, that Supergas collects amounts in excess in the context of the bi-monthly invoice by unlawfully rounding-up the *Agorot* in the amounts stated in the invoice.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.

Note 3 – Contingent liabilities (Contd.)

c. Other claims:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol	A claim in the sum of approx. NIS 6 million.	In April 2012, a monetary claim was filed against Sonol, alleging that Sonol breached the lease agreement entered into between Sonol and the plaintiff and in order to reduce the damages the plaintiff was forced to engage with another company on terms that are less favorable.	In the framework of a mediation agreement that was sanctioned as a judgment, Sonol was ordered to pay the plaintiff an insignificant amount.
2. Proceeding against a subsidiary of Sonol	A claim for liquidation of a subsidiary of Sonol.	Petition for liquidation and a petition for appointment of a provisional liquidator against a subsidiary of Sonol due to a monetary charge that was determined in a judgement from which Sonol's subsidiary filed an appeal with the Supreme Court.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, in view of the preliminary stage of the proceeding, the chances cannot be estimated at this stage.
3. Indictments against Supergas and third parties	Criminal.	In October 2013, the Ministry of National Infrastructures, Energy and Water Resources filed three indictments against Supergas and other parties alleging violation of laws and deficiencies.	In the framework of an arrangement between Supergas and the State, one of the indictments was omitted; in the second indictment a fine in an insignificant amount was determined without a conviction of Supergas; and in third indictment Supergas will be convicted and pay an insignificant fine.

Note 3 – Contingent liabilities (Contd.)

4. City against Supergas	City demands in the amount of approx. NIS 126 million, from March 2011.	Supergas filed a building permit application by virtue of Zoning Plan 32C, for upper burial of gas containers. As a condition to the issuance of the permit, the local committee and the city sent payment demands on three issues: usage fees in the amount of approx. NIS 4.5 million; fees and development levies in the amount of approx. NIS 4 million; a betterment levy in the amount of approx. NIS 59 million (in this section, the "First Levy Payment Demand"). In view of the decision of the National Zoning Council, dated February 2012, with regard to the duration of the operation of the company's gas site in Kiryat Ata, the city issued a new betterment assessment to the company in the amount of approx. NIS 58 million (in this section, the "Second Levy Payment Demand"), in addition to the proceeding that is being conducted due to the First Levy Payment Demand.	In November 2012, the appeals committee ruled that Supergas is not liable for any betterment levy in respect of the First Levy Payment Demand. In December 2012, the local committee filed an administrative appeal from such ruling. The district court rejected the administrative appeal and ruled that Supergas is not liable for the payment of a betterment levy and charged the city with the payment of damages to Supergas. In respect of the other demands, there has been no change since the annual financial statements.
5. 2 consolidated companies of the Company	Claim for bodily injury totalling NIS 10 million.	An argument of alleged liability of the companies in relation to acts of suicide.	On April 8, 2014, the Supreme Court dismissed the appeal from the judgement of the District Court which had also dismissed the claim against the companies.

d. Additional claims (mostly legal and in insignificant amounts) arising from the ordinary course of business have been filed against the Group's companies.

e. In the estimation of the Company's management (and in relation to companies in Granite's Group, based on estimations of Granite's management), the provisions that were recorded to settle the outcome of the abovementioned claims are fair.

Note 4 – Material events during the Report Period

a. On March 18, 2014, the Company's Board of Directors decided upon the dividend distribution in the sum of NIS 280 million (reflecting NIS 2.31 per share), which was distributed on May 7, 2014.

b. On March 13, 2014, a contribution agreement (the "Contribution Agreement") was executed between Azrieli Holdings and the Azrieli Foundation (Israel) R.A., a non-profit association registered in Israel, which operates *inter alia* for the advancement of education and culture through cultural, welfare and science projects (the "Azrieli Foundation Israel").

Pursuant to the terms and conditions of the Contribution Agreement, Azrieli Holdings gave a contribution to the Azrieli Foundation Israel, without consideration, which includes 6,902,000 ordinary shares of NIS 0.1 par value each of the Company (the "Contribution Shares"), constituting about 5.69% of the Company's issued capital.

In accordance with the provisions of the Contribution Agreement, the contribution of the Contribution Shares to the Azrieli Foundation Israel was made subject to the following 3 conditions:

1. The Azrieli Foundation Israel must hold the Contribution Shares, not transfer them and not affect any other disposition therewith for a period of at least 10 years from the date of execution of the Contribution Agreement (the "Restriction Period"); At the end of such Restriction Period, any transfer of the Contribution Shares by the Azrieli Foundation Israel shall require a resolution passed by a special majority of at least 75% of the members of the Committee (or any other organ, as required), who are entitled to participate in the vote on this resolution ("Special Approval").

2. At the end of the Restriction Period and subject to receipt of such Special Approval, any future transfer of the Contribution Shares shall be subject to a right of first refusal in favor of Azrieli Holdings.

3. All the voting rights by virtue of the Contribution Shares shall remain held by Azrieli Holdings and the Azrieli Foundation Israel to such end signed the necessary powers of attorney. In the event of a future sale of the Contribution Shares by the Azrieli Foundation Israel, the voting rights in the Contribution Shares shall be transferred to the purchaser.

In consequence of the Contribution Shares' receipt, the Azrieli Foundation Israel had become an Interested Party, as such term is defined in the Securities Law, 5728-1968 (the "Securities Law"), in the Company.

Note 4 – Material events during the Report Period (Contd.)

c. On March 24, 2014, Azrieli Holdings transferred to The Azrieli Foundation, a foundation registered for charitable purposes, whose residence is in Canada and whose assets are designated to donations and funding philanthropic activity in Israel and Canada (the "Azrieli Foundation Canada"), 460,000 shares of the Company, as a contribution and without consideration, constituting about 0.38% of the Company's issued capital. After the shares' transfer, the Azrieli Foundation Canada holds 13.68% of the Company's share capital.

d. On February 17, 2014 the Company entered into an agreement with unrelated third parties (the "Agreement" or the "Transaction") for the purchase of 100% of the shares of a private company (the **"**Acquired Company**"**), which has the right (subject to payment of lease fees) to a capitalized lease of about 12 thousand sqm situated in the town of Modi'in, on which, pursuant to the valid zoning plan, a senior housing facility may be constructed.

In consideration for the Acquired Company's shares, the Company has paid (including by way of providing a shareholder loan to the Company) overall consideration in a sum of about NIS 51.5 million (plus VAT). Part of the consideration is designated for use by the Acquired Company to make various payments required by the Acquired Company in the scope of the land's lease by the Acquired Company from the Israel Land Authority.

The closing of the Transaction was subject to conditions precedent. On May 1, 2014, the Transaction was closed after all the conditions precedent stipulated in the Agreement were fulfilled.

e. On May 21, 2014, the Company entered into a loan agreement with several companies in the group of an institutional body, affiliated neither with the Company nor with its controlling shareholders, to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest at the rate of 0.74%. The loan (principal and interest) will be repaid in 36 equal quarterly installments linked to the rate of increase in the Index from the end of three months from the date of granting of the loan. To secure repayment of the loan, a consolidated company has pledged, in favor of the lender, its rights in the land on which the Azrieli Ramla Mall is currently being built, including its rights to receive rent from tenants in the Mall, and the Company's rights by virtue of the insurance policy in connection with the Mall will also be pledged. It was agreed that if Azrieli Ramla Mall does not open to the public by the end of Q3/2015, the Company will have the option of either paying interest compensation in relation to the period from the end of the said quarter until the date of the opening of the Mall only, or providing the lender with other collateral at a similar LTV, to the lender's satisfaction. The lender will be entitled to accelerate the loan on accepted grounds that are set forth in the loan agreement, including, *inter alia* - upon the occurrence of a change of control, the acceleration of a debt of the Company to other financial institutions, or the imposition of an attachment in such amounts and conditions as are defined in the loan agreement, and also if after the population of the Mall and opening it to the wide public, the LTV will be higher than the ratio set forth in the loan

agreement and no other or complementary collateral was provided. It was further determined that if the Company grants a floating charge to another entity in the future, it shall grant the Lender, on the same date, a floating charge of identical ranking and scope (*pari passu*).

f. On June 24, 2014, the Company raised a new (rated) series of commercial paper for investors listed in the First Schedule to the Securities Law, 5728-1968, with a total par value of NIS 480 million, which replaces all three existing series of commercial paper of the Company (both rated and non-rated). The commercial paper principal are bearing variable NIS interest, comprising Prime interest less 1.2%, due after the earlier of twenty 90-day terms or at maturity or at an exit point. The commercial paper will not be listed on the TASE.

The commercial paper received an “ilA-1+” rating from Maalot.

For details regarding the paid-up commercial paper, see Note 21A to the annual financial statements.

Note 5 – Discontinued Operations

On June 12, 2014 a consolidated company of the Company, Granite Hacarmel Investments Ltd., closed the transaction for the sale of all of its holdings (100%) in Tambour Ltd. to a third party, in accordance with an agreement signed on May 26, 2014.

The consideration for the sale is NIS 500 million before transaction expenses. As a result of the sale, the Company recognized a profit in the sum of approx. NIS 55 million, which was carried to the income statement and is presented under the "Profit from discontinued operations (net of tax)" item.

In accordance with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", Tambour’s results are presented separately in the income statement as discontinued operations and comparative figures in the income statement have been re-presented according to Section 34 of IFRS 5.

Note 5 – Discontinued Operations (Contd.)

Below are the results attributable to the discontinued operations:

	For the six-month Period ended June 30		For the three-month Period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	(Unaudited)		(Unaudited)		
Results of the discontinued operations					
Revenues	472,482	465,426	230,828	232,886	923,684
Expenses	446,296	435,215	221,611	219,283	867,700
Profit before income taxes	26,186	30,211	9,217	13,603	55,984
Income taxes	7,496	7,466	2,650	3,504	18,118
	18,690	22,745	6,567	10,099	37,866
Sales costs and expenses	(10,836)	-	(10,836)	-	-
Profit from sale of discontinued operations, net of tax	65,719	-	65,719	-	-
Profit for the period	73,573	22,745	61,450	10,099	37,866
Cash flow from discontinued operations					
Net cash (used for operations) deriving from current operations	38,075	29,355	(1,451)	9,125	93,104
Net cash (used for operations) deriving from investment activities	472,249	(20,595)	484,522	(6,122)	(40,168)
Net cash (used for operations) deriving from financing activity	(21,484)	(4,374)	4,530	1,258	(54,447)
Effect of exchange rate fluctuations on cash balances and cash equivalents	(206)	(144)	(91)	(74)	(217)
Net cash deriving from (used for) discontinued operations	488,634	4,242	487,510	4,187	(1,728)

Note 5 – Discontinued Operations (Contd.)

Effect of disposal on the Group's Statements of Financial Position:

	As of disposal date (Unaudited) NIS thousands
Cash and cash equivalents	784
Trade accounts receivable	389,805
Trade and other receivables, including derivatives	12,877
Inventory	172,918
Current tax assets	3,195
Long-term investments and loans	7,582
Fixed assets, net	456,752
Intangible assets, net, including realized long-term rent	34,343
Deferred tax assets	3,174
Credit from banks and other credit providers	240,111
Trade payables	149,293
Other payables, including derivatives	54,730
Current tax liabilities	878
Provisions	5,026
Long-term liabilities to banks and other credit providers	114,516
Other long-term liabilities	4,969
Employee benefits	2,808
Deferred tax liabilities	70,563
Non-controlling interests	4,255
Assets and liabilities, net	434,281
Proceeds received in cash and cash equivalents (net of sale costs)	489,164
Cash and cash equivalents balance written off	784
Positive cash flow, net	488,380

(*) Inter-company transactions (between Granite Group and Tambour) were written off from the results of the selling/service-providing company, as the case may be. In addition, an asset or a liability referring to an inter-company transaction was written-off from the assets or liabilities of the discontinued operations, as the case may be.

Note 6 - Disposal group classified as held for sale

a. Pursuant to Note 9 to the annual financial statements, after the Date of the Statement of Financial Position, on August 6, 2014, the consolidated company, GES, entered into an agreement with a third party SPV, unaffiliated with the Company or with any of the companies controlled thereby (the "Buyer"), whereby GES shall sell its entire rights in the Via Maris desalination facility in Palmachim (the "Desalination Facility"), in consideration for approx. NIS 429 million, linked to the January 2014 index, subject to adjustments from changes which shall be created during the period until the closing date of the transaction, by way of sale of the holdings of GES in Via Maris Desalination (Holdings) Ltd. and Via Maris Desalination – Establishment Partnership.

The closing of the transaction is dependent on the fulfillment of the conditions precedent set forth in the agreement, which are to be fulfilled until December 31, 2014 (with an option for an extension in certain cases), including, *inter alia*: (1) approval of the Antitrust Commissioner; (2) approval of the Desalination Administration; (3) approval of the financing entities; (4) completion of the extension of the brine pipe within the second expansion of the Desalination facility; (5) lack of a material adverse effect and more.

Within the transaction, GES undertook certain indemnities for warranties and for specific exposures specified in the agreement, and in addition GES or the Company, as the case may be, shall remain responsible, after the closing date, (under certain conditions), for certain guarantees and undertakings with respect to the Desalination Facility and/or the Via Maris Corporations, including the responsibility of the Establishment Partnership for the construction of the facility, all subject to and in accordance with the provisions of the agreement.

Granite provided full guarantee for the total liabilities of GES under the agreement. Furthermore, upon the occurrence of certain events stipulated in the agreement, the Company, undertook to guarantee the liabilities of GES under the agreement *in lieu* of Granite.

Insofar as the transaction shall be closed and the full consideration is received, with no adjustments whatsoever, the profit (after tax) expected to be recorded from the sale is approx. NIS 15 million (as of the Report Date).

The assets and liabilities of Via Maris are presented in the financial statements as a disposal group held for sale.

Note 6 - Disposal group classified as held for sale (Contd.)

(1) Assets and liabilities of a disposal group held for sale:

	As of June 30 2014 NIS in thousands	As of December 31 2013 NIS in thousands
Assets:		
Cash and cash equivalents	29,509	27,895
Marketable securities	19,585	16,524
Short-term deposits and investments	413	418
Trade accounts receivable	38,063	39,236
Other receivables	8,825	13,266
Current tax assets	214	4,654
Long-term investments and loans	3,828	3,926
Restricted investments	79,744	53,332
Receivables in respect of a franchise arrangement	885,143	911,467
Fixed assets, net	14,805	14,583
Intangible assets, net	100,436	49,482
Deferred tax assets	881	899
	1,181,446	1,135,682
Liabilities:		
Trade payables	7,717	14,282
Other payables	11,114	15,324
Liabilities to banks	743,386	727,619
Other long-term liabilities	1,859	1,723
Deferred tax liabilities	35,946	35,667
	800,022	794,615
Assets of disposal group classified as held for sale, net	381,424	341,067

Note 6 - Disposal group classified as held for sale (Contd.)

(2) Fair value:

The book value of financial assets and liabilities matches or is close to their fair value, other than as speccified below:

Financial instruments that are measured at fair value for disclosure purposes only:

	As of June 30, 2014		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of a franchise arrangement	885,143	1,038,108	Cap rate of 2.70%
Liabilities to banks	743,386	789,437	Cap rate of 2.60%

	As of December 31, 2013		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of a franchise arrangement	911,467	1,033,671	Cap rate of 3.61%
Liabilities to banks	727,619	761,761	Cap rate of 3.51%

b. During recent months, Supergas Israel Gas Distribution Co. Ltd. ("**Supergas**") negotiated with potential bodies which made financial offers to purchase its holdings in a company that holds solar facilities, with a total capacity of approx. 18 megawatts. As of the date of signing of the financial statements, Supergas notified a third party of its winning, and it is expected to execute the sale agreement over the coming days. The consideration Supergas expects to receive (net of transaction costs) in the winning bid in the sale process is approx. NIS 170 million. The capital gain, net (after tax) expected from the disposition of the holding as aforesaid, is estimated at approx. NIS 30 million. The sale closing process is contingent on conditions precedent including the receipt of regulatory and other approvals that are required by any law. In the estimation of Supergas' management, it is expected at a high level of certainty that in the course of next year, all of the approvals will be obtained and the sale transaction will be closed. Therefore, the solar companies' assets and liabilities are presented on the financial statements as a disposal group held for sale.

(1) Assets and liabilities of a disposal group held for sale

	As of June 30
	2014
	NIS in thousands
Assets of disposal group classified as held for sale	
Cash and cash equivalents	12,114
Short-term deposits and investments	3,063
Trade accounts receivable	3,672
Other receivables	2,933
Investments in associated companies	12,961
Fixed assets, net	3,846
Intangible assets, bet	383
Pre-paid long-term rent	33,235
Receivables in respect of franchise arrangement	252,444
	324,651
Liabilities of disposal group classified as held for sale	
Trade payables	25,945
Other payables	91
Liabilities to banks	147,583
Deferred tax liabilities	16,692
	190,311
Assets of disposal group classified as held for sale, net	134,340

Note 6 - Disposal group classified as held for sale (Contd.)

(2) Financial instruments measured at fair value for disclosure purpose only

The book value of financial assets and liabilities matches or is close to their fair value, other than as specified below:

	As of June 30, 2014		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of franchise arrangement	252,444	288,426	4.15%

Note 7 - Fair value

a. Fair value vs. Book value

Other than as specified in the following table, the Group believes that the book value of the financial assets and liabilities that are presented in depreciated cost in the financial statements is almost identical to their fair value.

	As of June 30, 2014		As of June 30, 2013		As of December 31, 2013	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:						
Loans to customers and others (*)	89,196	86,580	114,597	111,147	108,312	101,348
Receivables in respect of a franchise arrangement (including current maturities)	31,519	32,057	1,051,991	1,125,390	273,170	304,142
	120,715	118,637	1,166,588	1,236,537	381,482	405,490
Non-current liabilities:						
Loans from banks and other credit providers (*)	3,903,372	4,106,132	4,479,416	4,705,778	4,066,744	4,250,525
Bonds (*)	1,410,225	1,592,725	1,637,236	1,797,150	1,583,756	1,779,061
	5,313,597	5,698,857	6,116,652	6,502,928	5,650,500	6,029,586
Surplus of liabilities over assets	(5,192,882)	(5,580,220)	(4,950,064)	(5,266,391)	(5,269,018)	(5,624,096)

(*) The book value includes current maturities and accrued interest.

Note 7 - Fair value (Contd.)

b. The interest rates used in the determination of the fair value:

The interest rates used in the discounting of the expected cash flows, where relevant, are based on the government yield curve for each individual type of loan, as of the Report Date, plus an appropriate fixed credit margin, and were as follows:

	As of June 30		As of Dec. 31
	2014	2013	2013
	%	%	%
Non-current assets:			
Loans to customers and others	4.1-5.2	3.7-6	4.3-6
Receivables in respect of a franchise arrangement	5	3.4-5.4	4.6-5
Non-current liabilities:			
Loans from banks and other credit providers	0.70-4.9	0.32-5.2	0.4-5.7
Bonds	0.70-1.3	0.58-3.6	0.4-2.7

c. The levels of fair value:

The following table presents an analysis of the financial instruments that are measured at fair value, using an evaluation model.

The various levels were defined as follows:

Level 1 - Quoted (not adjusted) prices in an active market for identical instruments.

Level 2 - Data observed, directly or indirectly, and not included in level 1 above (in respect of investments in financial assets designated at fair value through profit and loss, use is made of current market transactions between a willing buyer and a willing seller).

Level 3 - Data that is not based on observed market data.

Note 7 - Fair value (Contd.)

c. The levels of fair value: (Contd.)

	As of June 30, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trading:				
Securities	1,008	-	-	1,008
Derivatives not-used for hedging:				
Forward contracts	-	914	-	914
Financial assets available for sale:				
Marketable shares	945,882	-	-	945,882
Non-marketable shares	-	-	702,312	702,312
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	20,267	-	20,267
Total financial assets	946,890	21,181	702,312	1,670,383
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	4,737	-	4,737
Total financial liabilities	-	4,737	-	4,737

Note 7 - Fair value (Contd.)

c. The levels of fair value: (Contd.)

	As of June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in Thousands			
Financial assets held for trading:				
Securities	15,522	-	-	15,522
Restricted investments	52,670	-	-	52,670
Derivatives not used for hedging:				
Forward contracts	-	2,072	-	2,072
Derivatives used for hedging:				
Interest rate Swap	-	760	-	760
Financial assets available for sale:				
Marketable shares	855,071	-	-	855,071
Non-marketable shares	-	-	611,338	611,338
Financial assets designated at fair value through profit and loss				
Marketable shares	238	-	-	238
Non-marketable investments	-	20,236	-	20,236
Total financial assets	923,501	23,068	611,338	1,557,907
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	10,789	-	10,789
Derivatives used for hedging:				
Interest rate Swap	-	358	-	358
Embedded derivatives	-	-	269	269
Total financial liabilities	-	11,147	269	11,416

Note 7 - Fair value (Contd.)

c. The levels of fair value: (Contd.)

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	5,988	-	-	5,988
Derivatives not used for hedging:				
Forward contracts	-	196	-	196
Derivatives used for hedging:				
Interest rate Swap	-	778	-	778
Financial assets available for sale:				
Marketable shares	1,001,688	-	-	1,001,688
Non-marketable shares	-	-	692,389	692,389
Financial assets designated at fair value through profit and loss				
Marketable shares	33	-	-	33
Non-marketable investments	-	18,774	-	18,774
Total financial assets	1, 007,709	19,748	692,389	1,719,846
Financial liabilities:				
Assets not used for hedging	-		-	
Forward contracts	-	7,919	-	7,919
Total financial liabilities	-	7,919	-	7,919

Note 7 - Fair value (Contd.)

d. Financial instruments that are measured at fair value at level 3:

The following table represents the reconciliation between the opening balance and the closing balance in respect of financial instruments that are measured at fair value at level 3 in the hierarchy of the fair value:

	For the six months period ended June 30		For the year Ended December 31
	2014	2013	2013
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(unaudited)		
Financial assets available for sale:			
Balance as of beginning of the year	692,389	612,923	612,923
Total profits (losses) recognized:			
in other comprehensive income	6,700	(1,220)	77,927
in the income statement	(253)	1,435	1,878
Sales	-	(1,800)	(2,111)
Investments	3,476	-	1,772
Carried to level 3	-	-	-
	702,312	611,338	692,389

Note 8 – Segment Reporting

a. General:

The Company applies the IFRS 8 "Operating Segments" ("IFRS 8"). In accordance with the provisions of the Standard, operating segments are identified on the basis of the internal reports in respect of the components of the Group, which are regularly reviewed by the Group's Chief Operating Decision Makers ("CODM") for the purpose of the allocation of resources and the evaluation of the performances of the operating segments.

The Company's business activity focuses primarily on the income-producing property segment, where most the Group's business activity is in the retail centers and malls segment, primarily in Israel, and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (office space for lease). Furthermore, the Company is engaged, through its (indirect) holding in Sonol Israel Ltd., also in an another operating segment, which includes oil distillates via direct marketing and fuelling and retail complexes. Furthermore, the Company has other businesses such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd.).

On June 12, 2014, the transaction for the sale of Tambour Ltd. was closed. In view of the aforesaid, Tambour does not constitute an operating segment anymore and it is presented in the financial statements as discontinued operations (for further details see Note 5).

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.

Segment B – Office and other space for lease in Israel.

Segment C – Income-producing property in the USA.

Segment D – Sonol.

Note 8 – Segment Reporting (Contd.)

b. Operating segments:

	For six-month period ended June 30, 2014 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	434,169	188,016	88,137	2,475,856	438,364	3,624,542
Total segment expenses	79,809	32,229	38,975	2,422,815	386,217	2,960,045
Segment profit (NOI)	354,360	155,787	49,162	53,041	52,147	664,497
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(24,435)	32,818	326	-	(4,173)	4,536
Unallocated costs						(42,079)
Financing expenses, net						(99,288)
Other revenues, net						19,285
The Company's share of results of associated companies, net of tax						(3,083)
Profit before income taxes						543,868
Additional information:						
Segment assets	10,328,416	5,789,146	1,513,612	2,353,799	3,065,766	23,005,739
Unallocated assets (*)						2,044,411
Total consolidated assets						25,095,150

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.5 billion.

Note 8 – Segment Reporting (Contd.)

b. Operating segments: (Contd.)

	For the six-month period ended June 30, 2013 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	435,834	177,261	88,712	2,641,150	586,892	3,929,849
Total segment expenses	82,729	29,292	37,140	2,590,558	513,011	3,252,730
Segment profit (NOI)	353,105	147,969	51,572	50,592	73,881	677,119
Net gain (loss) from fair value adjustment of investment property and investment property under construction	98,705	24,283	(6,715)	(450)	(613)	115,210
Unallocated costs						(49,953)
Financing expenses, net						(170,951)
Other revenues, net						8,225
The Company's share of results of associated companies, net of tax						(2,881)
Profit before income taxes						576,769
Additional information:						
Segment assets	9,797,559	5,153,377	1,528,472	2,511,540	2,531,130	21,522,078
Unallocated assets (*)						2,790,313
Total consolidated assets						24,312,391

(*) Including assets from Tambour's operation that was discontinued in the sum of approx. NIS 1.1 billion and financial assets available for sale in the sum of approx. NIS 1.4 billion.

Note 8 – Segment Reporting (Contd.)

b. Operating segments: (Contd.)

	For the three-month period ended June 30, 2014 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	215,772	94,830	44,475	1,279,621	187,350	1,822,048
Total segment expenses	39,213	17,026	18,949	1,243,294	170,064	1,488,546
Segment profit (NOI)	176,559	77,804	25,526	36,327	17,286	333,502
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(24,833)	35,635	135	-	(2,786)	8,151
Unallocated costs						(19,527)
Financing expenses, net						(65,542)
Other revenues, net						6,266
The Company's share of results of associated companies, net of tax						(1,356)
Profit before income taxes						261,494

Note 8 – Segment Reporting (Contd.)

b. Operating segments: (Contd.)

	For the three-month period ended June 30, 2013 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	218,213	88,668	44,183	1,297,558	279,324	1,927,946
Total segment expenses	41,682	14,190	18,686	1,270,541	244,477	1,589,576
Segment profit (NOI)	176,531	74,478	25,497	27,017	34,847	338,370
Net profit (loss) from fair value adjustment of investment property and investment property under construction	98,279	28,452	(2,670)	(450)	498	124,109
Unallocated costs						(27,006)
Financing expenses, net						(92,171)
Other revenues, net						2,170
The Company's share in results of associated companies, net of tax						(1,142)
Profit before income taxes						344,330

Note 8 – Segment reporting (Contd.)

b. Operating segments: (Contd.)

	For the year ended December 31, 2013 (audited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	873,267	365,195	179,163	5,308,761	1,149,885	7,876,271
Total segment expenses	167,933	64,182	80,273	5,206,844	1,011,771	6,531,003
Segment profit (NOI)	705,334	301,013	98,890	101,917	138,114	1,345,268
Net profit (loss) from fair value adjustment of investment property and investment property under construction	183,874	175,014	69,011	(450)	(2,792)	424,657
Unallocated costs						(93,018)
Financing expenses, net						(333,662)
Other revenues, net						17,157
The Company's share in results of associated companies, net of tax						(6,299)
Profit before income taxes						1,354,103
Additional information:						
Segment assets	10,122,616	5,608,440	1,518,364	2,333,107	2,765,932	22,348,459
Unallocated assets (*)						3,203,965
Total consolidated assets						25,552,424
Capital expenditures	351,232	634,182	23,439	57,570	(**)143,893	1,210,316

(*) Including assets from Tambour's discontinued operations in the sum of approx. NIS 1.1 billion and financial assets available for sale in the sum of approx. NIS 1.6 billion.

(**) Including capital investments due to Tambour's discontinued operations in the sum of approx. NIS 41 million.

Note 9 – Material Subsequent Events

a. On July 9, 2014 Mr. David Azrieli, OBM, the Company's Chairman of the Board and controlling shareholder, passed away, and his office as Chairman of the Board came to an end.

On July 3, 2014, due to the deterioration in Mr. David Azrieli's health, Ms. Danna Azrieli was appointed as the Acting Chairman of the Board and on July 21, 2014, the Company's Board of Directors appointed Ms. Danna Azrieli as the Chairman of the Board.

On July 9, 2014, in view of the passing of Mr. David Azrieli OBM, the management agreement with the management companies controlled by him was terminated (for details regarding the management agreement, see Note38C(1) to the annual financial statements).

Pursuant to the management agreement, the annual bonus is calculated to the relative part of the year, based on the annual financial statements. Accordingly, appropriate provisions were carried in the financial statements regarding the estimate of the annual bonus until June 2014 (inclusive).

b. In the matter of closing the sale of the entire rights in Via Maris Desalination (Holdings) Ltd. after the date of the financial statements – see Note 6a.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of June 30, 2014

(unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement

as of June 30, 2014

(unaudited)

Prepared pursuant to the provisions of Section 38D of the Securities Regulations

(Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Interim Financial Statement
as of June 30, 2014

(unaudited)

Contents

Deloitte.
Brightman Almagor Zohar

To
The Shareholders of
Azrieli Group Ltd.
1 Azrieli Center
Tel Aviv

Dear Sir/Madam,

Re: Special report for review of the separate interim financial statement pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of June 30, 2014 and for the six and three month periods then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for such interim period, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 1,150 million as of June 30, 2014 and the profit from such investee companies amounted to approx. NIS 128 million and approx. NIS 94 million for the six- and three-month periods then ended, respectively. The financial statements of these companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it is related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

We performed our review pursuant to Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of financial statement for interim periods prepared by the auditor of the entity". Review of separate financial statement for interim periods is comprised of inquiries, mainly with people responsible for the financial and accounting matters, and of the implementation of analytical and other review procedures. A review is significantly narrower in scope than an audit performed pursuant to Generally Accepted Auditing Standards in Israel and therefore, does not allow us to obtain assurance that we shall become aware of all of the significant matters that could have been identified through an audit. Accordingly, we do not provide an audit opinion.

Conclusion

Based on our review and on the review reports of other auditors, nothing had been brought to our attention that causes us to believe that the aforesaid separate interim financial statement has not been prepared, in all material respects, according to the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our aforesaid conclusion, we refer to Note G regarding a legal claim against the Company and an investee company, in respect of which a motion for class certification was filed.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, August 19, 2014

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Azrieli Group Ltd.

Statement of Financial Position

	As of June 30		As of December 31
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	278,650	72,509	327,837
Financial assets held for trading	1,008	2,404	1,211
Trade accounts receivable	7,127	6,973	8,020
Other receivables	100,345	101,709	96,990
Total current assets	387,130	183,595	434,058
Non-current assets			
Investments in investee companies	6,050,792	5,372,299	5,689,203
Loans to investee companies	3,035,665	2,160,216	3,189,750
Receivables	6,716	6,778	7,156
Financial assets	1,556,461	1,390,910	1,610,809
Investment property and investment property under construction	6,880,664	6,565,232	6,779,273
Fixed assets	5,305	5,368	5,357
Total non-current assets	17,535,603	15,500,803	17,281,548
Total assets	17,922,733	15,684,398	17,715,606
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	905,421	967,322	933,312
Trade payables	42,606	8,332	49,654
Payables and other current liabilities	28,677	50,396	37,417
Current tax liabilities	29,246	16,499	9,238
Total current liabilities	1,005,950	1,042,549	1,029,621
Non-current liabilities			
Loans from banks and other credit providers	2,465,641	1,015,678	2,313,618
Bonds	537,958	576,917	583,869
Employee benefits	11,981	20,469	13,068
Other liabilities	15,889	17,394	17,139
Deferred tax liabilities	1,106,517	982,195	1,123,005
Total non-current liabilities	4,137,986	2,612,653	4,050,699
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	338,332	237,236	381,532
Retained earnings	9,944,578	9,296,073	9,757,867
Total capital attributable to shareholders of the Company	12,778,797	12,029,196	12,635,286
Total liabilities and capital	17,922,733	15,684,398	17,715,606

August 19, 2014			
Date of approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board of Directors**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues:					
From rent and management and maintenance fees	220,647	223,719	110,463	111,726	445,824
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(44,483)	40,234	(44,632)	40,019	54,603
Financing	71,852	77,970	39,161	45,133	169,881
Other	10,000	6,000	-	-	6,000
Total revenues	258,016	347,923	104,992	196,878	676,308
Costs and expenses:					
Cost of revenues from rent and management and maintenance fees	7,834	5,082	3,815	2,539	10,332
Sales and marketing	4,305	1,392	1,658	1,007	7,039
General and administrative	27,030	35,873	11,052	19,493	57,920
Financing	34,262	51,774	25,477	27,281	115,638
Total costs and expenses	73,431	94,121	42,002	50,320	190,929
Profit before the Company's share of the profits of investee companies	184,585	253,802	62,990	146,558	485,379
Share of profits of investee companies, net of tax	251,761	245,057	141,746	147,072	574,338
Income before income taxes	436,346	498,859	204,736	293,630	1,059,717
Income taxes	(43,208)	(53,679)	(8,480)	(29,926)	(168,034)
Income from continued operations	393,138	445,180	196,256	263,704	891,683
Income from discontinued operations (after tax)	73,573	22,745	61,450	10,099	37,866
Net profit for the period	466,711	467,925	257,706	273,803	929,549
Other comprehensive income (loss):					
Amounts that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	(41,663)	(29,082)	(9,289)	(37,074)	135,582
Translation differences from foreign operations	(4,558)	(12,397)	(6,400)	(3,171)	(28,674)
Share of the other comprehensive income (loss) of investee companies, net of tax	3,280	(6,975)	1,746	(2,774)	(10,744)
	(42,941)	(48,454)	(13,943)	(43,019)	96,164
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(198)
Other comprehensive income (loss) for the period, net of tax	(42,941)	(48,454)	(13,943)	(43,019)	95,966
Total comprehensive income for the period attributable to the shareholders of the Company	423,770	419,471	243,763	230,784	1,025,515

Azrieli Group Ltd.

Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - current operations					
Net profit for the period	466,711	467,925	257,706	273,803	929,549
Depreciation and amortization	487	390	243	204	871
Net loss(gain) from fair value adjustment of investment property and investment property under construction	44,483	(40,234)	44,632	(40,019)	(54,603)
Financing and other revenues, net	(41,903)	(32,424)	(10,576)	(20,514)	(59,855)
Share of profits of investee companies, net of tax	(325,334)	(267,802)	(203,196)	(157,171)	(612,204)
Taxes recognized in the income statement	43,208	53,679	8,480	29,926	168,034
Income tax paid, net	(21,619)	(18,143)	(16,328)	(11,988)	(52,658)
Change in financial assets	203	431,375	255	279,678	432,572
Change in trade and other receivables	(27,767)	(7,635)	(30,669)	(6,203)	(19,537)
Change in trade and other payables	(8,404)	(9,061)	(9,076)	(15,033)	5,797
Recording of benefit in respect of share-based payment	334	7,364	200	3,843	8,411
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(1,639)	(167)	357	(3)	124
Change in employee provisions and benefits	(1,421)	(6,771)	(1,374)	(6,746)	(17,521)
Net cash – current operations	127,339	578,496	40,654	329,777	728,980
Cash flows - investment activities					
Investment in investment property and investment property under construction	(140,197)	(44,636)	(73,733)	(15,049)	(176,157)
Down payments on account of investment property	(1,823)	(162,753)	(1,461)	(151,081)	(202,017)
Purchase of fixed assets	(435)	(942)	(16)	(613)	(1,412)
Investments in investee companies	(522)	(2)	(173)	-	(363)
Acquisition of a company	(54,589)	-	(3,089)	-	-
Proceeds from disposition of financial assets available for sale	-	2,913	-	1,146	2,913
Change in financial assets designated at fair value through profit and loss	180	(218)	145	(799)	1,157
Repayment (granting) of long-term loans investee companies	265,230	(88,469)	274,479	(59,810)	(1,046,034)
Interest and dividend received	10,378	5,388	215	5,113	9,798
Return of investment in an investee company	462	-	462	-	17,276
Institutions for purchase of real estate	(5,100)	(18,031)	(5,100)	(26,276)	(2,663)
Net cash - investment activities	73,584	(306,750)	191,729	(247,369)	(1,397,502)

Azrieli Group Ltd.

Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - financing activities					
Dividend distribution to shareholders	(280,000)	(265,000)	(280,000)	(265,000)	(265,000)
Repayment of bonds	(44,636)	(44,108)	-	-	(44,108)
Receipt of long-term loans from banks	300,000	-	300,000	-	1,410,000
Repayment of long-term loans from banks	(111,091)	(86,647)	(14,764)	(25,043)	(256,781)
Short-term credit from banks, net	(60,892)	193,031	(61,130)	233,730	200,494
Deposits from customers, net	(1,183)	(858)	(770)	(804)	(1,306)
Interest paid	(52,306)	(50,871)	(22,595)	(23,922)	(101,801)
Net cash - financing activities	(250,108)	(254,453)	(79,259)	(81,039)	941,498
Increase (decrease) in cash and cash equivalents	(49,185)	17,293	153,124	1,369	272,976
Cash and cash equivalents at beginning of period	327,837	57,413	125,459	72,582	57,413
Effect of exchange rate changes on cash balances held in foreign currency	(2)	(2,197)	67	(1,442)	(2,552)
Cash and cash equivalents at end of period	278,650	72,509	278,650	72,509	327,837

(*) Non-cash transactions include payables for the purchase on credit of non-current assets in the amount of NIS 25,183 thousand (NIS 32,146 thousand as of December 31, 2013, NIS 19,112 thousand as of June 30, 2013).

Azrieli Group Ltd.

Notes to the Separate Financial Statement

A. General:

The Company's separate financial statement is prepared in accordance with the provisions of Regulation 38D of the Securities Regulations (Immediate and Periodic Reports), 5730-1970.

This separate financial statement is to be inspected with respect to the Company's separate financial statement as of December 31, 2013, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

The Company	-	Azrieli Group Ltd.
Investee company	-	Consolidated company, consolidated company under proportionate consolidation and an investee company.

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2013 and the year then ended, other than the changes in the accounting policy specified in Notes 2C and 2D to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

D. Events during the Reporting Period:

See Note 4 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

E. Discontinued Operations:

See Note 5 to the Condensed Consolidated Financial Statements which are published with this separate financial statement. Income from discontinued operations (after tax) is the Company's share of the profits of investee companies, that were realized in the framework of the discontinued operations.

F. Subsequent events:

See Note 9 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

G. Contingent Liability:

The Parties	Amount of the Claim	Nature of the Claim	Chances of the Claim
Claim against the Company and an investee company	If it is not certified as a class action – NIS 4,561. If it is certified as a class action only in respect of the class of offerees in respect of whose shares a forced purchase was made – approx. NIS 18 million. If it is certified as a class action in respect of the entire class of offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Department of the Tel Aviv District Court by a petitioner claiming to be an offeree in a full tender offer which the Company closed at the end of September 2012, for shares held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth by the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the tender offer, at a price lower than the value of the shares, and that the conditions for performance of a forced purchase pursuant to the tender offer had not been fulfilled, and therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion for summary dismissal of the motion as well as its replication to the motion, and the hearing was scheduled for March 2014. At the hearing, in light of the Court's comment, the Petitioner withdrew his request for the remedy of revocation of the tender offer and re-listing of the shares. As per the Court's request, the parties were to file additional summations regarding the motion for summary dismissal which were filed in April 2014 and in May 2014. In the Company's management estimation, based on its legal counsel, the probability that the motion for class certification will be granted, and the claim granted, is lower than 50%.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure

Azrieli Group

Quarterly report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38C

Attached hereto is a quarterly report on the effectiveness of internal control over financial reporting and disclosure pursuant to regulation 38C(a):

The management, under the supervision of the Board of Directors of Azrieli Group Ltd. (the "Corporation"), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Corporation.

For this purpose, the members of management are:

1. Yuval Bronstein, CEO;
2. Irit Sekler-Pilosof, CFO;
3. Michal Kamir, General Counsel and the Company Secretary;
4. Yair Horesh, Chief Comptroller for Accounting and Financial Statements.

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Corporation, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under supervision of the Board of Directors of the Corporation, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Corporation is thus required to disclose, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports is avoided or discovered.

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure which was attached to the quarterly report for the period ended on March 31, 2014 (the "Last Quarterly Report on Internal Control") the internal control was found to be effective.

Until the date of the report, no event or matter had been brought to the attention of the Board of Directors and management which may change the effectiveness evaluation of the internal control, as found to be in the Last Quarterly Report on Internal Control.

As of the date of the report, based on the Last Quarterly Report on Internal Control, and based on information brought to the attention of the management and Board of Directors as aforesaid, the internal control is effective.

Statement of Managers:

Statement of CEO pursuant to Regulation 38C(d)(1):

I, Yuval Bronstein, represent that:

(1) I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for Q2/2014 (the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.

(3) To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for periods and as of the dates covered by the Reports.

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statements Committee, based on my most current evaluation of internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others at the Corporation:

a. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

b. Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with to the provisions of the law, including in conformity with GAAP.

c. No event or matter had been brought to my attention which occurred during the period between the date of last quarterly report and the date of this report, which may change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over financial reporting and disclosure of the Corporation.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 19, 2014

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Yuval Bronstein, CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 38C(d)(2):

I, Irit Sekler-Pilosof, represent that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Azrieli Group Ltd. (the "Corporation") for Q2/2014 (the "Reports" or the "Interim Reports");

(2) To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.

(3) To my knowledge, the Interim Financial Statements and other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statements Committee, based on my most current valuation of internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure insofar as it relates to the Interim Financial Statements and the other information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others at the Corporation:

a. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under our supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others at the

Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

b. Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of the financial reporting and preparation of the financial statements in to the provisions of the law, including in conformity with GAAP;

c. No event or matter had been brought to my attention which occurred during the period between the date of the last quarterly report and the date of this report, referring to the Interim Financial Statements and any other financial information included in the interim reports, which may, in my estimation, change the conclusion of the Board of Directors and management with regard to the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 19, 2014

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Irit Sekler-Pilosof , CFO