AZRIELI GROUP

Azrieli Group LTD

Report Q3/2011

Dated 30th September 2011

Part A

Board Report

Part B

Update of the Description of the Corporation's Business

Part C

Consolidated Financial Reports

Dated September 30th 2011

PART A

BOARD REPORT

September 30, 2011

CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the periodic report for Year 2011 and the financial statements annexed thereto (the "**Report**") of the Azrieli Group Limited. Please note that this document should not be regarded as a substitute for reading the original Hebrew version of the Report in full.

This document is a convenience translation into English of the Hebrew language Report, and the financial reports annexed thereto, of the Azrieli Group Limited (The "Company") (the "Report"). The binning version of the Report for all 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 connection with the Report nor should it be regarded as a source of interpretation of the Report. In the event of a contradiction or inconsistency between this translation and the Hebrew version of the Report, the provisions of the Hebrew version shall prevail.

This translation was not carried out 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 contents. The full and legal version of the Report, in Hebrew, was released by the Company on August 24th, 2011 and may be inspected on the MAGNA website.

The translation of the financial statements annexed to the Report (the "Financial Statements") was not carried out by Brightman, Almagor, Zohar and Co., Accountants (the "Company's Auditors"), and was not 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 contents, and the Company's Auditors' report on the financial statements relates solely to the Hebrew language financial statements of the Company. The full and legal version of the Financial Statements was released by the Company as part of the Report on August 24th, 2011 and may be viewed on the MAGNA website.

AZRIELI GROUP

Azrieli Group Ltd.

Board of Directors' Report on the State of the Company's Affairs for the nine and three months ended September 30, 2011

The board of directors of Azrieli Group Ltd. hereby respectfully submits the board of directors' report for the nine and three months ended September 30, 2011 (the "**Report Period**" and the "**Quarter**", respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The review which shall be brought below is limited in its scope and addresses events and changes which occurred in the company's state of affairs during the Report Period, of which affect is material, and it must be read together with the chapter of Description of the Corporation's Business in the periodic report for December 31, 2010 (The "Periodic Report for 2010"), the financial statements and the board report on the Company's state of affairs for the year ending on such date, as well as the update to the Corporation's Business chapter, the board of directors' report and the financial statement for June 30, 2011.

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held by it, directly and/or indirectly, will be referred to below as the "**Group**" or "**Azrieli Group**"), engages both itself and through companies held by it, mainly in the income-producing property segment in Israel, while most of the Group's business activity is in the commercial centers and malls segment in Israel and in the office and other space for lease segment in Israel. In addition, the Company engages, through its holding in Granite HaCarmel Investments Ltd. ("**Granite**") in another business segment, which includes the energy, paint and building-finishing, water and environmental quality segments. The Company also holds minor holdings in financial corporations.

The Company belongs, as aforesaid, to the Azrieli Group and its 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 the controlling shareholder, Mr. David Azrieli, who founded and established the Company from the beginning of its activity.

The data appearing in the board report are based on the consolidated financial statements as of September 30, 2011. 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 September 30, 2011.

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 separate financial statements – i.e. – a summary of the Company's statements presented according to the IFRS standards, except for the Company's investment in Granite 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 information which helps in understanding the large contribution of the real estate activity to the total profit of the Company, while neutralizing material sections of the consolidated financial statements, deriving from the consolidation of Granite, such as clients, inventory, sales and more. The expanded stand alone statement is attached hereto as Annex E.

In the following emphases the Company included the main principles of this report below. In the matter of forward looking information, and including in connection with the progress in the projects under construction, see Sections 1.1.1 and 1.1.4 below.

Main emphases for the Quarter and the Report Period ended on September 30, 2011

Approx. 12% additional growth in the NOI figures	•Approx. NIS 250 million during the quarter compared to a total of approx. NIS 224 million in the same period last year, mainly from increase in income from rent and purchase of new properties.
Approx. 12% growth in the same property NOI in the office areas for rent and others sector	•During the quarter, the same property NOI in the **Office and other areas sector** totaled at approx. NIS 74 million compared with approx. NIS 66 million in the same period last year.
Approx. 3% growth in the same property NOI figures in the mall sector	•During the quarter, the same proeprty NOI in the **commercial centers and malls sector** totaled at approx. NIS 163 million compared with approx. NIS 158 million in the same period last year.
Approx. 10% growth in the FFO figures attributed to the income producing properites business	•Income Producing Properties FFO totaled during the quarter in approx. NIS 170 million, compared with approx. NIS 155 million in the same period last year. For calculation see Section 1.1.5 of this Report.
Approx. NIS 188 million net profit in the quarter	•Net profit of the Company (consolidated) during the quarter is NIS188 million compared with NIS 251 million in the same period last year. In the same quarter last year, the Company carried out a revaluation to most of its assets according to the index increase rate and included profit from the adjustment of fair value of real estate in the amount of approx. NIS 152 million compared with a revaluation at a total of approx. NIS 106 million in the current quarter done only to the Kiryat Ata and Akko Malls due to their opening.
Approx. 10% FFO return attributed solely to the real estate business	•In respect of the value of the Comapny on the stock exchange in proximity to the date of publication of this report (November 17, 2011). For calculation see Section 1.1.5 of this report.
Approx. 7.9% weighted cap rate derived from the income producing real estate	•In the financial statements as of September 30, 2011, on the basis of NOI proforma of NIS 1,056 million. For calculation see Section 1.1.4 of this report.
New Purchases, Development and Construction, and betterment of existing properties	•During the report period, a purchase of the land in Ramla, purchase of the office towers in Houston Texas, purchase of land in the Southern Kirya were completed, and the malls in Kiryat Ata and Akko were opened in the end of August/beginning of September 2011. The Comapny also engaged in an agreement for the purchase of the full rights in the Ir Yamim Mall (see section 1.1.1 of this report)
The (average) occupancy rate remained very high	•In the end of the quarter, the occupancy rate in the malls and commercial centers sector stands at close to 100% and in the office and others sector, at approx. 95%.
Holding Leumi Bank Shares	•The loss from change in fair value of holding Bank Leumi shares (net of tax) in the quarter in an amount of approx. NIS 236 million.

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

1.1 General

1.1.1 Main developments during the Report Period and Thereafter

The Opening to the public of two new malls in Kiryat Ata and in Akko

During the quarter, the Group opened to the public the two following malls: Akko Azrieli Mall at an overall area for marketing of approx. 12,640 sqm and the Kiriat Ata Azrieli Mall, at an overall area for marketing of approx. 9,180 sqm. As of the date of release of the report, the occupancy rate at Azrieli Akko Mall stands at approx. 98% and at Azrieli Kirtyat Ata Mall at approx. 90%. (The company estimates that the occupancy rate in the end of 2011 in Kiryat Ata Azrieli Mall is expected to be at approx. 95%).

Transactions in respect of investment property

Engagement in agreements for the acquisition of the Rights in "Ir Yamim" Mall

On August 15, 2011, the Company engaged in a contingent sale agreement for the acquisition of half of the rights in "Ir Yamim" Mall in Netanya (the "**Mall**") from Housing & Development For Israel Ltd. (the "**Seller**") in consideration for an amount of approx. NIS 350 million (plus VAT). On September 11, 2011, the Company engaged in a contingent sale agreement for the purchase of the additional half of the rights in the Mall from Housing and Construction Real Estate (Investments) Ltd., in consideration for an amount of approx. NIS 370 million (plus VAT).

The mall is in the last phases of construction and according to estimates, as of the date of this report, it is expected to open to the public at the beginning of 2012. As of the date of the Report, the sold property includes a gross commercial area for rent of approx. 24,000 sqm. As of the date of the Report, lease agreements have been signed in respect of approx. 65% - 70% of the commercial area of the Mall, by approximately 110 tenants, in respect of whom annual rent shall be paid in the amount of approx. NIS 41 million (not including additional income from the same tenants, estimated by the Company in an amount of approx. NIS 2 million). The Company estimates that the forecasted annual NOI assuming that lease agreements will be signed in respect of the all of the commercial area will be at approx. NIS 61 million). Also, the Company estimates, on the basis of estimates of external consultants, an investment of approx. NIS 80 million is required for the completion of construction of the mall.

As of the date of the report, each of the Sale Agreements is contingent upon two conditions - receipt of the approval of the General Director of the Israel Antitrust Authority, insofar as such approval is required, and receipt of the consent of Bank Leumi le-Israel BM which granted the Seller and the Partner a bank financing agreement for the construction of the Mall. During the report period, the parties of the two Sale Agreements agreed to the provision of

extensions to the Israel Antitrust Authority for providing a decision in the merger notices they have filed. As of the date of release of the report, the transaction has not been closed yet and the approval of the General Director of the Israel Antitrust Authority has not been received yet. For additional details regarding the Sale Agreement, see the Company's reports dated July 21, 2011 August 16, 2011, September 11, 2011(ref. no: 2011-01-218727, 2011-01-242088 and 2011-01-270261 respectively).

The Company's estimates with respect to the expected investments and costs, the date of opening of the Mall to the public and the fulfillment of the conditions for the performance of the Sale Agreements are forward-looking information, as defined in the Securities Law, 5728-1968, which is based on subjective estimates of the Company as of the date of the report, and the materialization thereof, in whole or in part, is uncertain, or they may materialize in a significantly different manner, inter alia, due to factors which are beyond the Company's control.

Azrieli Southern Hakirya, Tel Aviv

On May 30, 2011, the Company won a tender on behalf of the Israel Land Association for the acquisition of the lease rights in a lot of an area of approx. 9.4 Dunams in Southern Hakirya in Tel Aviv (the "**Lot**"). The Lot is intended for the construction of an office and commercial project at a scope of approx. 125 thousand sqm of above-ground built-up area (gross) and approx. 61 thousand sqm of underground floors. In consideration for the lease of the Lot, the Company paid the Israel Land Association the sum of NIS 522 million (exclusive of V.A.T) and approx. NIS 39 million as development expenses. The Company estimates, as a preliminary estimate, that the sum total of the planning costs, licensing and development expenses and construction costs required for the construction of the project on the Lot ranges at approx. NIS 900 to 950 million . As of the date of the report, the Company financed the acquisition of the Lot from its own sources and through bank financing and it intends to finance the construction from the Company's own sources and/or through bank financing. In the tender documents, the Company undertook to complete the construction of the project within 60 months and some of the work within 36 months. In addition, with respect to the acquisition, in July 2011 the Company paid purchase tax in the sum of approx. NIS 27 million. As of the date of release of the report, the Company is preparing for receipt of the permits required for commencement of the excavation and shoring work and commencement of construction. For further details, see Note 5 of the financial statement as of September 30, 2011 as well as the Company's reports dated May 29, 2011 and May 30, 2011 (ref. no.: 2011-01-165339 and 2011-01-167994 respectively) which are included in the framework of this report by way of reference.

The Company's estimates with respect to the expected investments and costs, the bank financing and the date of completion of the construction are forward-looking information, as defined in the Securities Law, 5728-1968, which is based on subjective estimates of the Company as of the date of the report, and the materialization thereof, in whole or in part, is uncertain, or they may materialize in a significantly different manner, inter alia, due to factors which

are beyond its control or changes in market conditions, the period of time that shall be required for approval of the building plan for performance and in the construction input prices.

Acquisition of the rights in the land located in Ramla (the construction of Azrieli Ramla Mall)

On January 1, 2011, the Group, through Otzem Initiation and Investments 1991 Ltd. (a wholly-owned subsidiary, "**Otzem**"), signed an agreement for the acquisition of the rights in a lot of an area of approx. 31,650 sqm in Ramla which constitutes part of the area known as the Gindi City Project from Gindi Investments Projects 2006 Ltd. The transaction was closed on May 25, 2011, and the entire consideration in the amount of NIS 100 million (plus VAT) was paid, part of which is held in an escrow deposit to secure the provision of tax certificates and performance of the transfer of the rights.

The Lot is intended for the construction of a mall of a gross area of 31,500 sqm (main areas and service areas). In respect of the transaction, Otzem paid purchase tax in the sum of approx. NIS 5 million. Otzem estimates that the sum of the additional investments required for construction of the mall on the Lot is approx. NIS 204 to 224. As of the date of the report, Otzem filed documents which are required for modification of the zoning plan under local authority for the settlement of issues in connection with to the construction of the project, received a permit for fencing the lot and destruction of the buildings therein and has commenced the development work. The Antiquities Authority has begun performing tests according to the requirement thereof. For additional details, see Note 5 of the financial statement as of September 30, 2011 as well as the Company's immediate reports of January 2, 2011 and May 26, 2011 (ref. no. 2011-01-000081 and 2011-01-162048, respectively), which are included in this Report by way of reference.

Acquisition of office towers in Houston, Texas, U.S.A.

On February 4, 2011, Three Galleria Office Buildings, LLC, a U.S. company indirectly held by the Company at a rate of 90%, consummated the acquisition of three office towers in Houston, U.S.A, of a total area of approx. 99,000 sqm (1,065,789 sqf) (without additional building rights), which are situated in the Galleria district in Houston, Texas, U.S.A, in consideration for the total sum of U.S. $176 million. In addition, the Company paid, in respect of finding of the property, initiation of the transaction and promotion thereof, an initiation and brokerage fee in the sum of approx. U.S. $1.4 million, constituting a rate of 0.78% of the consideration, to the owners of the external management company which manages most of the Company's properties overseas for the Company. The remaining 10% of the rights in the purchaser are held indirectly by the owners of the management company, which were financed, in part, through a loan provided by the Company and which as of the date of the report has not been paid yet. For further details regarding the property, the agreement for the acquisition thereof, the funding of the acquisition and the Company's engagement in an agreement for the management of the acquired properties, see the Company's reports of January 30, 2011 (ref no. 2011-01-031650) and of February 6, 2011 (ref. no. 2011-01-039024) which are included in this

Report by way of reference, Sections 9.2.10 and 16.15 of Chapter A of the Periodic Report of December 31, 2010 as well as Note 5 of the financial statement as of September 30, 2011.

Other Agreements

On June 23, 2011, the Company engaged together with Granite and subsidiaries of Granite in an agreement for the purchase of electricity from OPC Rotem Ltd. ("**OPC**") who is a private electricity producer. The agreement is for a period of 10 years and includes an option for five additional years, from the date of commencement of provision of electricity by OPC which is expected (on the date of signing the agreement and on the date of this report) to take place in the end of 2012. For further details in respect of the agreement for purchase of electricity from OPC see an immediate report of the Company dated June 26, 2011 (Reference no.: 2011-01-192495) which is included within this Report by way of reference.

The aforesaid in respect of the date of commencement of provision of electricity by OPC to the Company is forward looking information as defined in the Securities Law, based on initial assessments of the Company's management. Such assessments may not realize, in whole or in part, or realize in a materially different manner than the Company's estimate, according to the court decision on the matter.

Senior Management

Appointment of Mr. Menachem Einan as active vice to the chairman of the board

On January 16, 2011, the Company's board of directors approved, after the approval and recommendation of the Company's audit committee, that Mr. Menachem Einan, CEO of the Company ("**Mr. Einan**"), be promoted and appointed as active deputy to the chairman of the Company's board *in lieu* of his position as the Company's CEO. In his said position, Mr. Einan will be deemed as one of the two deputy chairmen of the board who the board of directors is entitled to elect, as stated in the Company's articles, in addition to Ms. Danna Azrieli, who has been acting as of the date of this Report, as active deputy to the chairman of the board since June 2010.

Mr. Einan will be responsible, in his new role, for the strategic areas related to the continued business development of the Group and realization of its long-term vision.

The appointment has taken effect on April 1, 2011. in accordance with the management agreement signed between the Company and Mr. Einan dated March 1, 2010, he terms and conditions of the management agreement with Mr. Einan remained unmodified, and all as specified in Section 21 of Chapter D of the Periodic Report as of December 31, 2010. For further details on the appointment of Mr. Einan, see immediate report of the Company dated January 16, 2011, ref. no. 2011-01-018351, which is included herein by way of reference as well as Note 5 of the financial statement as of September 30,

2011.

Appointment of the Company's CEO and approval of the terms and conditions of his office

On January 16, 2011, the Company's board of directors approved the appointment of Mr. Shlomo Sherf ("**Mr. Sherf**") to the position of CEO, commencing from April 1, 2011 and the terms and conditions of the engagement with him. For details on the management agreement that was signed with Mr. Sherf and the terms of his employment, see Section 21 of Chapter D of the Periodic Report as of December 31, 2010, an immediate report of the Company as of January 16, 2011, ref. no. 2011-01-018405, which is included herein by way of reference as well as Note 5 of the financial statement as of September 30, 2011.

Dividend and Current Operations

Distribution of Dividend

On March 29, 2011, the Company's board of directors approved the distribution of a dividend in the sum of NIS 240 million (NIS 1.9790099 per share). On April 27, 2011, the group paid the said dividend. For details, see the Company's immediate report as of March 30, 2011 (reference - 2011-01-098883).

For further details regarding the Company's policy in the matter of distribution of dividend, see Section 1.5 below.

Business opportunities:

The Company has been consistently acting in recent years for the creation of additional growth engines on top of those existing in the Group in the core businesses, in order for them to constitute a potential for significant future growth in the Company's NOI – both by way of purchasing lands for initiation and development of new properties, and through purchase of existing properties with growth potential.

As the Company had reported in the past, during the Report Period and until the date of release thereof, the Group has continued to review business opportunities in Israel and abroad, regarding the expansion of its activity especially in the real estate segment, including through acquisition of land reserves, acquisition of additional properties and betterment of the existing ones, some of which have been realized as stated in the Company's reports. In addition, the Company may review, from time to time, additional options for expanding its fields of business while utilizing market situations and/or crisis situations in leading and cash flow generating target companies in other segments. As of the date of the Report, the Company is conducting with several entities initial contacts only, with regard to which there is no certainty that they shall mature to negotiations. The Company shall report in the future, to the extent that there shall be developments which shall require reporting according to law.

Properties under initiation and development

As of the date of this Report, the Company is acting to develop several properties under construction, as specified below.

The Company's estimations and intentions stated in this section, including the data listed in the table at the end of this section, inter alia, in connection with the speed of development of the projects under construction and the possibility of the fulfillment of various conditions, the receipt of various regulatory certificates required for the purpose of promotion of the projects under construction or the results of administrative and legal proceedings, are forward looking information as defined in the Securities Law, 5728-1968, which is based on the Company's plans as of the date of the report and the Company's estimations on the speed of progress, the probability of fulfillment of the various conditions and the relevant decisions of the court. Such estimations may not be fulfilled, in whole or in part, or be fulfilled in a materially different manner than that which the Company estimated. The primary factors which may affect the same are: changes in the Company's plans and the Company or any member of the Group encountering financing or other difficulties, in a manner affecting the consummation of the Company's intentions.

Azrieli Kiryat Ata - Stage B – Office Building

After the opening of the Kiryat Ata Azrieli Mall to the public on September 6, 2011, the Group has been acting to construct another building on the project land which will serve mainly as offices (the "**Additional Building**") and has started in the advancement of the excavation and shoring work of the Additional Building.

In the context of the construction of the Additional Building the Group has carried out and will carry out various tasks in the land, in accordance with undertakings which were issued thereby to the authorities, according to an agreement with the Ministry of Environmental Protection.

Rishonim Azrieli Mall

The Group, through Canit HaShalom Investments Ltd. ("**Canit HaShalom**") is the owner of a plot of land in an area of approx. 19 Dunam in Rishon Lezion (the "**Complex**"), which constitutes part of a larger land plot which is jointly owned by Canit HaShalom and third parties. In respect of the Complex, a plan was deposited on August 24, 2009 upon the approval of which, the building of rental areas at a scope of approx. 48,000 sqm (commerce and offices) as well as 82,095 sqm above ground and underground parking areas will be allowed. In December 2010, the resolution of the district committee was adopted, according to which the plan was approved for deposit for validation, subject to receipt of final approvals and performance of adjustments included in such resolution. As of the date of the report, the Company is acting for receipt of the approvals, upon the receipt of which it shall commence the work for preparing

the temporary parking lot for the train users.

Canit Hashalom assumed an undertaking, according to which, if the plan would be approved, then Canit HaShalom will build at its expense 600 parking spaces which will serve as a parking in favor of the train users, the rights in which will be of Canit HaShalom and they will be provided for the benefit of the train users, under terms and for consideration as shall be agreed upon with the City. In April 2011 an administrative appeal was filed against the district committee, Canit HaShalom and others in respect of approval of the plan under the terms as aforesaid. The appeal was filed by a member of the Ness Ziona City Council, tradesmen from Rishon LeZion and others. In the appeal, mainly, the claims raised within the context of the objections filed against the plan at the District Committee and which were, at the most part, rejected thereby, are reiterated. A preliminary hearing in the appeal took place in October 2011 and an additional hearing was scheduled for January 2012. The Company estimates that the appeal will not delay the timetables of the planning and performance of the project.

Azrieli Center Holon

The Group, through Canit HaShalom, is entitled to receive lease rights in a land plot at an overall area of approx. 34 Dunam at the eastern industrial area in Holon, which is owned by the City of Holon, by virtue of an agreement signed between the City of Holon and Canit HaShalom on June 5, 2008. The whole land plot is owned by the City of Holon. Pursuant to the agreement, the project is for the construction of a business park (in no more than four sub stages) which includes buildings for hi-tech industry, offices, showrooms and commerce halls, service areas and parking areas, as well as other uses (the "**Project**').

The Project will be built and operated as an income producing (rental) property, by way of a joint transaction. Canit HaShalom will be entitled to receive 83% of the areas which will be built in the Project as aforesaid, while the City of Holon will be entitled to receive 17% of the areas to be built as aforesaid (the "**Transaction Partnership Rate**"). As of the date of publication of the Report, the Group is in the midst of the work for foundation of the buildings and the construction of the basements in accordance with the permit received to build the basements.

Additional Development, construction and betterment:

As aforesaid, during the Report Period the Group continued to invest in the development and construction of new properties as well the expansion and renovation of existing properties, the total investments of the Company during the Report Period were at approx. NIS 319 million (not including purchase costs of new properties).

In addition to the promotion of the permits required for construction of the properties, the Company also continued the proactive management of its existing properties and the improvement thereof, maintaining the high occupancy rate which is distinctive of the Group and enhancement of the cash

flow generated by such properties, among other things, in the context of the branding of the properties, in December 2011 the first store (at an area of 1,500sqm) of the leading American brand Forever 21 is expected to be opened at the Azrieli mall in Tel Aviv and during 2012-2013 stores of the American brand American Eagle are expected to be opened at several of the Group's malls (at an aggregate area for rent of approx. 2,500 sqm).

The Company's estimates regarding the opening date of the Forever 21 store and the American Eagle stores are forward-looking information, as defined in the Securities Law, 5728-1968, which is based on subjective estimates of the Company as of the date of the report, and the materialization thereof, in whole or in part, is uncertain, or they may materialize in a significantly different manner, inter alia, due to factors which are beyond its control or changes in the market conditions.

Set forth below is a summary of the data regarding properties under construction and expansions

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	Cost of land and construction as of September 30, 2011 (NIS in millions)	Estimated cost of completion of construction and (NIS in millions)
Azrieli Kiryat Ata (stage B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	Q1/2013	4	45-55
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 – Temporary parking	December 2014(*)	82	400-430
Azrieli Center Holon (***)	Holon	Jun. 2008	Offices Commerce	83%	34,000	115,000 5,000	Phase A (**) – 2010 Phase B (**) – not yet determined	Phase A – 2013 Phase B – by 2016	85	522-562
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	Not yet determined	18 months from commencement of construction[1]	5	120-150
Azrieli Mall Ramla	Ramla	Jan. 2011	Commerce	100%	31,650	22,000	Aug. 2011	2014	108	204-224
Azrieli Center Southern Hakirya	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	125,000	Not yet determined	2016	588	900-950
Total						328,500			872	2,191 – 2,371

(*) Contingent on approval of the city zoning plan.
(**) Phase A – construction of 60,000 above-ground rental area and underground parking lots in an area of 81,000 sqm. Phase B – construction of the remaining of the areas (at least 80% of the building rights according to the city zoning plan).
(***) The figures are in respect of the 100%.

[1] Decision in the matter has not been made yet.

1.1.2 The NOI (Net Operating Income) index

As stated in the board report as of December 31, 2010[2], the (unaudited) NOI figure 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 properties, both from the commercial centers and malls segment and from the office and other space for lease segment:

NIS in millions	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Commercial centers and malls	169	158	488	457
growth rate	7%		7%	
Office and other space for lease	81	66	236	200
growth rate	23%		18%	
Total NOI	250	224	724	657
growth rate	12%		10%	
For explanations pertaining to the increase in NOI, see Section 1.11.1 and 1.11.2 below.				

1.1.3 Same property NOI Index

Same property NOI – (unaudited) NOI from similar properties that were held by the Group throughout the reported periods.

	For the three months ended		**For the nine months ended**	
NIS in Millions	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Commercial centers and malls segment	163	158	456	436
Office and other space for lease segment	74	66	215	200
Total	**237**	**224**	**671**	**636**
Growth rate	**5.8%**		**5.5%**	
For explanations pertaining to the increase in NOI, see Section 1.11.1 and 1.11.2 below.				

[2] Details in respect of the use made of this figure and the manner of calculation thereof were extensively provided in the Company's board report as of December 31, 2010.

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

	2011			2010	
	Q3	**Q2**	**Q1**	**Q4**	**Q3**
Same property NOI in all of the periods (*)	237	231	230	225	224
NOI from acquired properties	13	8	6	-	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**250**	**239**	**236**	**225**	**224**
(*) Properties both in the commercial centers and malls segment and in the office and other space for lease segment.					

1.1.4 Weighted cap rate

Following is a calculation of the (unaudited) weighted cap rate derived from the entire income-producing property of the Group as of September 30, 2011:

	NIS in millions
Total Investment property in the "Expanded stand alone" statement (See Annex E) (*)	14,286
Net of value attributed to construction rights not utilized yet	(1)
Net of value attributed to investment property under construction	(89)
Net of the value attributed to land reserves	(758)
Total income-producing investment properties (including vacant spaces)	**13,438**
Actual NOI for the quarter ended on September 30, 2011	250
Addition to future quarterly NOI (**)	14
Total standardized NOI	**264**
Pro-forma annual NOI based on standardized quarterly NOI (***)	**1,056**
Weighted cap rate derived from income-producing investment property (including vacant spaces) (****)	**7.9%**

(*) The Group performed valuations for all of its properties in Israel as of June 30, 2011. As of the date of the Report, only the valuations for Akko Azrieli Mall and Kiryat Ata Azrieli Mall which were opened to the public during the quarter have been updated.

(**) Including changes in rental fees that were renewed and signed until September 30, 2011 as well as the influence of the known index as of September 30, 2011 which was not included in the NOI for the third quarter. In addition, estimates were included for an addition of NOI for vacant spaces for which value was credited in the updated valuations and which have not been fully populated yet (mainly for Tower E in Herzliya of which population began in the end of 2010 and as of the date of the report is at population of approx. 73%, the population of another office floor in Givatayim and the population of the cinema area in Hanegev Mall) as well as weighting for a year in respect of the purchase of office buildings in Texas, during the Report Period.
This figure does not represent the forecast for the coming quarter and all of its purpose is to reflect the NOI under an assumption of full population for a whole year of all of the income-producing properties. (This figure includes NOI in the amount of NIS 50 million for the office buildings in Texas which were purchased during the Report Period).

(***) Annual NOI which is the multiplication of standardized Q3 NOI by four quarters.

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

1.1.5 The FFO (Funds From Operations) Index for the income-producing 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 its kind to better reflect the Group's income-producing property business while neutralizing influences which are not from the real estate segment.

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.

This index provides additional information over and above the NOI since it includes, *inter alia*, the cash flow financing expenses and tax expenses of the Company. It should be emphasized that the FFO does not represent cash flow from current activity 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 nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Net profit for period attributed to shareholders	180	243	725	446
Discounting the net profit from Granite HaCarmel attributed to shareholders (including amortization of surplus costs)	(7)	(6)	(22)	(14)
Adjustments to profit [1]:				
Increase of investment property value	(106)	(152)	(459)	(133)
Depreciation and amortizations	1	-	3	2
Net non-cash-flow finance expenses	23	48	100	65
Deferred tax expenses	34	46	82	69
Adjustments for equity-investees	-	-	1	2
Interest and dividends from financial assets held for trade net of tax [5]	(8)	(7)	(43)	(9)
Impairment of financial assets available for sale and held for trade, net	41	(34)	106	(32)
Plus benefit recorded for employee option plan	(4)	1	1	1

Net of dividend from BLL and Leumi Card	-	-	(43)	-
Total adjustments to profit	**(19)**	**(98)**	**(252)**	**(35)**
Plus interest paid for real investments - [2]	**16**	**16**	**45**	**44**
Total FFO attributed to the income-producing property business [3]	**170**	**155**	**496**	**441**
Annual FFO return for income-producing property in proximity to the Report date (November 17, 2011)				
Company's market cap	**10,790**			
Net of the value of cash and negotiable securities (according to book value as of September 30, 2011)	**(1,362)**			
Net of the value of the Company's holdings in Granite HaCarmel (according to market cap)	**(542)**			
Net of the value of the Company's holdings in Bank Leumi (according to market cap)	**(821)**			
Net of the value of the Company's holdings in Leumi Card (according to book value according to the last valuation as of December 31, 2010 – the company is not traded)	**(498)**			
Net of the value of Investment real estate under construction	**(847)**			
Market value attributed to income-producing property alone	**5,981**			
Total quarterly real estate FFO	**170**			
Standardizing the quarterly FFO for a year	**680**			
Annual income-producing property FFO return [4]	**10%**			

Remarks and assumptions:

1. **The adjustments to the profit below do not include adjustments due to Granite since its profits were discounted in full.**
2. **Calculated according to weighted interest of the Group due to the real investments, which include: Granite HaCarmel, Bank Leumi and Leumi Card, for 65% of the investments costs.**
3. **Which is attributed to shareholder only.**
4. **The result deriving from dividing the FFO which is attributed to the income-producing property only with the market value which is attributed to the income-producing property only.**
5. **Net of interests and dividends in respect of a securities portfolio that was written off from the income-producing property business.**

1.1.6 The EPRA index: Net Asset Value (EPRA NAV)

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 index 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.

It shall be emphasized that the index which was specified above does not include the profit component anticipated due to the projects under construction which were assessed by an assessor at fair value on the basis of land value plus investments by the date of the Report.

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 millions)	As of	
	September 30, 2011	**September 30, 2010**
Equity attributed to the Company's shareholders in the financial statements	**11,233**	**10,215**
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	**1,509**	**1,270**
EPRA NAV	**12,742**	**11,485**
EPRA NAV per share (NIS)	**105**	**95**

1.1.7 Main market trends

In the estimation of the Company's board of directors, according to the companies and business survey, the business activity in the Israeli market continued to expand also in Q3/2011 but at a much more moderate rate and in light of the developments in the Israeli economy and society there is no certainty in respect of the continued growth also during Q4/2011. These trends supported the decision of the Bank of Israel to reduce the interest for October by 0.25%. The consumer price index (known index) rose in Q3/2011 by approx. 0.58%, versus a rise of approx. 1.23% in the same period last year. The dollar exchange rate strengthened versus the NIS by approx. 8.7% in Q3/2011, while the Canadian dollar exchange rate strengthened compared with the NIS by approx. 3.1% during that period. As a result of the growth in the market and the increase in the business activity and in private consumption, demand levels and rent prices have risen, and in most properties increased revenues have been recorded during the Report period. However, there is still difficulty in raising rental fees in certain areas in which competition is on the rise. In view of the worldwide uncertainty and instability in the financial markets, the Company is unable to assess, as of the date of approval of the financial statements, the expected effect of the events described above and the length of time in which such effects shall last.

1.1.8 Liquid means at Azrieli Group

As of September 30, 2011 the aggregate scope of liquid means (cash and cash-equivalents, financial assets held for trade and short-term deposits) held by the

Group amounted to the sum of approx. NIS 1.5 billion[3], after completion of the IPO pursuant to the Company's Prospectus dated May 12, 2010 as amended on May 25, 2010, and the private placement completed by the Company on June 6, 2010 (the "**IPO**"), , debt repayments and the making of current investments in the Group during the period. The Company regards its liquid means as important to its financial stability, great financial flexibility, due to its independence from the availability of outside sources also for the purpose of repayment of debts and the ability to take advantage of investment opportunities in different periods, including in times of financial crisis such as that which characterized the years 2008-2009. In reference to additional possible liquid sources, the Company estimates that the Group is able to raise financing under convenient terms, also in the current economic conditions. In Section 16.4 in Description of the Corporation's Business in chapter in Chapter A of the periodic Report for 2010, the Company specified further issues in connection with the Group's financing activity.

Since the completion of the IPO, the Company manages the balance of the issue proceeds in accordance with the policy announced by the Company in the Prospectus and in an immediate report dated August 29, 2010 (ref. no. 2010-01-601578). The aforesaid funds will be managed in a diverse manner, for the purpose of risk distribution, whereby the rate of up to 30% of the aforesaid amount will be managed through investment in shares which are traded in the Tel Aviv 100 Index (or, with regard to funds that are managed by overseas portfolio managers, through investment in shares of Canadian companies that are traded in S&P TSX Composite Index on the stock exchange in Toronto, Canada), and the balance will be managed through investments in bonds with investment grade ratings of +BB and above and/or in deposits in financial institutions.

As of the date of the report, the Company does not intend to act in financial derivatives in connection with the funds which will be managed as aforesaid, other than for purposes of protection of currency exposure, insofar as it will be decided to perform such protection, according to the Company's discretion.

According to such policy, the Company deposited the IPO proceeds, in proper dispersion, through engagement with several companies which engage in the fund management sector according to their terms or with regard to some of the funds, by itself. As of September 30, 2011, the balance of the IPO proceeds (approx. NIS 1.3 billion) are managed through portfolio managers according to the restrictions set forth in the said policy (The majority is managed in Israel and some is managed outside of Israel, in accordance with such instructions[4]). During the Quarter and in the Report Period, the Company recorded financing expenses in a sum of approx. NIS 31 million and NIS 51 million respectively due to a change in the value of negotiable securities net of interests and dividends received from negotiable securities.

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[3] For details regarding the sum of no less than approx. NIS 135 million which the Company undertook to reserve within the framework of ratings renewal of commercial securities which it issued see Section 1.5 of this Report.

[4] After the closing of the transaction for the acquisition of the towers in Houston, a very negligible amount remains under management overseas.

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

1.2.1 Background

The Group's business activity focuses mainly on the income-producing property market in Israel, as well as additional industries, *inter alia*, through the subsidiary, Granite. Below is chart specifying the Company's main operation sectors:

The Company's business condition, results of operations, capital and cash flows, are affected mainly by the state of the rental real estate industry, the business condition of Granite and changes in the value of the financial assets held for sale by the Company. In the board of directors' report, explanations will be presented regarding these effects on the Company and its results for the Report Period.

The Company's strength is affected mainly by the broad dispersion of the income-producing property (commercial centers and office space for lease), the diverse lessee composition, 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 commercial centers and malls owned thereby are characterized by high occupancy rates and revenues, immediately in proximity to the date of population thereof and 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 activity 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. The Company from time to time looks into business opportunities in Israel and abroad in connection with expansion of its business, mainly in the commercial centers and malls segment and in the commercial property for office and other space segment, including through the acquisition of land reserves, the purchase of additional properties and betterment of existing properties. In addition, the Company from time to time looks into other possibilities for expansion of its business segments whilst taking advantage of market situations and/or crisis situations in leading cash flow-generating target companies in other segments. The Company's management is acting with the intention of continuing to lead the income-producing property market, *inter alia*, through completion and population of projects in the income-producing property segments, 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.

1.2.2 Summary of the Group's business segments

During the Report Period, no material changes occurred in the main business segments constituting the core of the Group's business as specified in the board report as of December 31, 2010.

- **The Commercial Centers and Malls Segment – The Company has 14 income-producing properties in Israel and abroad, at an overall leasable area of approx. 266 thousand sqm (Company share) and 267 thousand sqm (on a consolidated basis) and approx. 1,650 lessees**.

- **The Office and Other Space for Lease Segment – The Company has 13 properties at an overall leasable area of approx. 403 thousand sqm (Company share) and 416 thousand sqm (on a consolidated basis) and approx. 940 lessees.**

- **The Granite Segment**:

The Group has additional businesses, which include, *inter alia*, passive financial investments in corporations in the banking and financing segment and investments in venture capital companies.

Thus, in light of the business opportunity that was created, the Company purchased during 2009 passive minority holdings in Bank Leumi, which are presented in the financial statements as a financial asset available for sale. The passive financial investments are presented in the Company's financial statements according to the fair value thereof, the change of value in respect thereof, net of the tax effect which was credited directly to the overall profit. The Company's management has taken no decision regarding the increase or reduction of its holdings that are specified above.

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

	Fair value* of the investment as presented in the financial statements as of December 31, 2010	Investments during the nine months ended on September 30, 2011	Total investment as of September 30, 2011 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 September 30, 2011	Change in the fair value during the Report Period	Dividend that was received during the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	1,284	-	1,284	842	(442)	43
Investment in Leumi Card Ltd. (**)	498	-	498	498	-	-
Total	1,782	-	1,782	1,340	(442)	43

* The fair value of the investment in Bank Leumi le-Israel was determined according to the value of the share at the stock exchange. For details regarding the resolution of Bank Leumi's board of directors regarding the distribution of a dividend, see Section 11.1.2 of Chapter A of the periodic Report for Y2010 – of the Description of the Corporation's Business chapter and Section 1.5 below;

** The fair value of the investment in Leumi Card Ltd. ("**Leumi Card**") was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2010. As of the date of the Report no new valuation had been performed.

It should be noted that as of November 17, 2011, (closely prior to the date of the report), there was a decrease in the fair value of the investment in Bank Leumi (net of tax) so that had the Company included such value in its financial statements (without changing other data) the total profit of the Company for the Report Period would have decreased by approx. NIS37 million.

1.3 The business results and the total assets in the Report Period

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

	Segment profit in the three months ended:		Segment profit in the nine 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 nine months ended:	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Commercial centers and malls	169	158	488	457	90%	63%	64%	98%
Office and other space for lease	81	66	236	200	43%	26%	31%	43%
Granite	47	60	172	122	25%	24%	23%	26%
Total attributed profit	297	284	896	779	158%	113%	118%	167%
Changes in fair value	106	152	462	130	56%	61%	61%	28%
Net financing expenses	(135)	(97)	(428)	(273)	(72%)	(39%)	(56%)	(58%)
Tax expenses	(64)	(68)	(161)	(133)	(34%)	(27%)	(21%)	(29%)
Management and other revenues (expenses), net	(16)	(20)	(11)	(35)	8%	(8%)	(2%)	(8%)
Net profit per period	188	251	758	468	100%	100%	100%	100%

The Group's revenues for the Report Period amounted to approx. NIS 5,543 million, compared with approx. NIS 4,719 million in the same period last year, an increase of approx. NIS 824 million, deriving mainly from an increase in the income-producing property segment for commercial centers and malls in the sum of approx. NIS 34 million (mainly due to the purchase of the Azrieli Haifa Mall during the first quarter of 2010, the opening of Akko Azrieli Mall in the end of August 2011, the opening of Kirya Ata Azrieli Mall in the beginning of September 2011 and an increase in revenues from existing properties), an increase in the income-producing property for office and other space for lease segment in the sum of approx. NIS 61 million (mainly due to the purchase of three office buildings in Houston, Texas, USA, during Q1/2011, from the completion of the lease of the offices in Modi'in and commencing the population of Tower E in Herzliya), and an increase in the Granite segment in the sum of approx. NIS 727 million (mainly due to an increase in sales in Sonol, Supergas and Tambour as well as an increase in GES mainly due to the consolidation for the first time of Via Maris since Q2 of last year). As of September 30, 2011, the total assets on the balance sheet were approx. NIS 22.7 billion, compared with approx. NIS 21.3 billion as of December 31, 2010.

Following is the share of the assets of the business 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 from the total assets, on a consolidated basis, as of	
	September 30, 2011	**Dec. 31, 2010**	**September 30, 2011**	**Dec. 31, 2010**
Commercial centers and malls	9,296	8,489	41%	40%
Office and other space for lease	5,015	3,675	22%	17%
Granite	5,489	4,921	24%	23%
Others	2,866	4,258	13%	20%
Total	**22,666**	**21,343**	**100%**	**100%**

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

	As of September 30, 2011	As of September 30, 2010	As of Dec. 31, 2010
Current assets	3,988	4,410	4,364
Non-current assets	18,679	16,037	16,979
Current liabilities	3,680	3,161	2,993
Non-current liabilities	7,284	6,653	6,826
Equity attributed to the Company's shareholders	11,233	10,215	11,101
Equity attributed to the Company's shareholders from the total balance sheet (in percents)	50%	50%	52%

The Group finances its business activity mostly by its equity, the IPO proceeds and by using non-bank credit (mostly bonds), bank credit (short- and long-term) and commercial securities. The Group's financial stability and the fact that most of the Group's debt is in long-term loans and bonds provides the Group with available sources for obtaining finance under convenient terms.

1.5 **Financial Condition, Liquidity and Financing Sources**

Liquid Means in the Group

As of September 30, 2011, the cumulative scope of cash, cash equivalents, and financial assets held for trade and short-term deposits and investments amounted to approx. NIS 1.5 billion[5].

The Company estimates that its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 8.5 billion in addition to NIS 1.5 billion specified above), allow it a high financial flexibility and an

[5] For details regarding the sum of no less than approx. NIS 135 million which the Company undertook to reserve within the framework of ratings renewal of commercial securities which it issued see Section 1.5 of this Report.

ability to use investment and capital raising opportunities in good conditions.

The following is a table of the assets that are not pledged and are available to serve as collateral against the obtaining of credit[6]:

Assets	Value of assets as of September 30, 2011 (NIS in millions) as presented in the financial statements
Property in commercial centers and malls segment	5,443
Property in the office and other space for lease segment	907
Company's holdings in Leumi Card	498
Company's holdings in Granite	779
Company's holdings in Bank Leumi	842
Total	**8,469**

In addition, the Company holds pledged income-producing properties, the loan rate for which is considerably lower than their fair value. (Such as the Azrieli Center project, which was appraised by an independent appraiser as of June 30, 2011, at approx. NIS 4.1 billion, whereas the loans for it, as of September 30, 2011, amounted to approx. NIS 1 billion only).

Dividends:

The Company: As provided in the Company's Prospectus, the Company's board of directors adopted during the Report Period dividend policy according to which, each year, upon the publication of the Company's annual financial statements or thereafter, the Company shall distribute to its shareholders dividend at a rate of 35% of the Company's net profit, subject to any law and to the cash flow, the financing needs, all as shall be examined according to board of directors' discretion and in accordance with its authority to change this policy.

On March 29, 2011, the Company's board of directors approved, after having accepted the recommendation of the finance committee, a distribution in cash in the total amount of NIS 240 million (NIS1.9790099 per share) which constitutes approx. 48% of the net profit to the shareholder after discounting revaluation profits and after a discounting the tax effects thereon). On April 27, 2011 the Company distributed to its shareholders the said amount. For further details, see immediate report of the Company dated March 30, 2011, reference: 2011-01-098883, included in this report by way of reference. According to the Company's financial statements as of September 30, 2011, and after the dividend distribution, the Company has surplus of approx. NIS 8.5 billion.

Granite: To the best of the Company's knowledge, according to the dividend distribution policy set forth for the held company Granite, Granite shall distribute every year cash dividend in such sum that shall constitute 40% to 50% of the net annual profit after tax of Granite, except for one-time profits not resulting from current operations, subject to the provisions of any law.

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

As reported by Granite, on May 18, 2011 the board of directors of Granite approved the distribution of dividend to the shareholders in an amount of NIS 15 million. On June 7, 2011, a consolidated company received a dividend from Granite Hacarmel in the sum of approx. NIS 9 million.

Leumi Card: To the best of the Company's knowledge, on May 24, 2010, Leumi Card's board of directors adopted an annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed. This policy was updated on May 22, 2011 such that the distribution of the dividend will be allowed subject to the restrictions of a "risk appetite" policy which was approved by Leumi Card's board of directors, whereby a capital to risk components ratio shall be preserved in a range between 14% and 14.5% and a core capital ratio no less than 12%, as well as the requirements of the Supervisor of Banks which determine that the Company is required to adopt Bank Leumi's capital adequacy targets.

Bank Leumi: On January 27, 2011, the Company received approximately NIS 24 million as a dividend from Bank Leumi due to the resolution of the general meeting of December 28, 2010, for the distribution of an additional dividend in the total amount of NIS 500 million, due to the first nine months of 2010. In addition, the Company received, on June 28, 2011, a dividend from Bank Leumi in the sum of approx. NIS 19 million.

Cash flows

Net cash flows deriving for the Group from current operations in the nine months which ended on September 30, 2011, amounted to the sum of approx. NIS 1,323 million, compared with the sum of approx. NIS 1,547 million which were used for current operations in the same period last year (an increase of approx. NIS 2,870 million).

The increase in cash flow from current operations in the nine months ended on September 30, 2011, compared with the same period last year derived mainly from the sale of financial assets held for trade in the sum of approx. NIS 869 million in the Report Period, compared with the purchase of financial assets held for trade in the sum of approx. NIS 2,194 million in the same period last year. In addition, an increase occurred in the cash flow deriving from an increase in the operating profit of the income-producing property (approx. NIS 67 million), compared with the same period last year. In contrast, in the Granite segment a decrease of approx. NIS 217 million was recorded, deriving mainly from changes in trade accounts receivable, inventory and the trade accounts payable.

Net cash flows deriving for the Group from current operations in the three months which ended on September 30, 2011, amounted to the sum of approx. NIS 55 million, compared with the sum of approx. NIS 1,138 million which were used for current operations in the same period last year (an increase of approx. NIS 1,193 million).

The main increase in cash flows from current operations in the three months ended on September 30, 2011 compared with the same period last year resulted from the purchase of financial assets held for trade in the sum of approx. NIS 39 million in the Quarter, compared with the purchase of financial assets held for trade in the sum of

approx. NIS 1,275 million in the same period last year. In addition, an increase occurred in cash flows deriving from an increase in the operating profit of the income-producing property (approx. NIS 26 million), compared with the same period last year. In addition, in the Granite segment a decrease of approx. NIS 105 million was recorded, deriving mainly from changes in trade accounts receivable, inventory and the trade accounts payable.

The cash flow derived by the Group from current operations in the three months ended on September 30, 2011, together with cash originating from the IPO, were used by the Group mainly for financing investments required for projects under construction and for purchase of properties.

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property in an amount of approx. NIS 724 million, plus cash flow which resulted from current operations from the sale of financial assets held for trade in the sum of approx. NIS 869 million and from a dividend received from BLL in the amount of approx. NIS 43 million.

Net cash flows used by the Group for investment activity in the nine months which ended on September 30, 2011, amounted to approx. NIS 1,727 million, compared with approx. NIS 346 million in the same period last year.

The increase in the sum of NIS 1,381 million in the Report Period resulted mainly from the purchase of, and investment in, investment properties and investment properties under construction in the sum of approx. NIS 1,627 million compared with approx. NIS 419 million in the same period last year, from a change in short-term deposits in the sum of approx. NIS 140 million compared with the same period last year and consideration from liquidation of financial assets available for sale in the same period last year, in an amount of approx. NIS 36 million.

Net cash flows used by the Group for investment activity in the three months which ended on September 30, 2011, amounted to approx. NIS 71 million, compared with approx. NIS 82 million in the same period last year.

The decrease in the sum of NIS 11 million in the Quarter resulted mainly from the purchase of fixed assets and intangible assets in the amount of approx. NIS 29 million, compared with approx. NIS 42 million in the same period last year, and from the change in collection due to clearance of derivative financial instruments in the amount of NIS 29 million compared with the same period last year net of purchase and investment of investment properties and investment properties under construction (net of proceeds from institutions for the properties) in the amount of approx. NIS 72 million compared with approx. NIS 40 million in the same period last year.

Net cash flows derived by the Group from financing activity in the nine months ended on September 30, 2011, amounted to approx. NIS 366 million, compared with net cash flows deriving from financing activity in the sum of approx. NIS 1,977 million in the same period last year. The decrease in the sum of approx. NIS 1,611 million resulted mainly from the IPO proceeds in the sum of approx. NIS 2,481 million which were included in the same period last year, from dividend distribution in the sum of approx. NIS 240 million which was included in the Report Period and from an increase in short- and long-term loans/bonds received (net of loans repaid) in the

sum of approx. NIS 1,130 million compared with the same period last year (most of which derives from an increase, during the Report Period, in credit from banking corporations and other service providers from the Granite segment in an amount of approx. NIS 319 million , while the balance resulted mainly from increase in credit due to the purchase of the office buildings in Texas and the purchase of the Southern Hakirya land during the Report Period in respect of the loan taken for the purchase of the Haifa Mall in the same period last year).

Following is the composition of the Group's financing sources:

	September 30, 2011		December 31, 2010	
	NIS in millions	% of total balance sheet	NIS in millions	% of total balance sheet
Short-term credit from banking corporations and other credit providers	2,357	10,4%	1,772	8.3%
Long-term credit from banking corporations and other credit providers	3,860	17.0%	3,300	15.5%
Bonds	1,730	7.6%	1,836	8.6%
Total	7,947	35.1%	6,908	32.4%

Bonds and commercial securities and the rating thereof

The Company's bonds are rated by Maalot, The Israeli Securities Rating Corporation Ltd. ("Maalot") and Midroog Ltd. ("Midroog"). Just before the release of the report, Ma'alot updated the rating and raised it to a stable AA rating. For details see immediate report of the Company dated November 23, 2011, Reference 2011-01-336291.

As of September 2011, the rating was as follows: the rating of Midroog: Aa2 with a stable horizon; the rating of Maalot: AA- with a positive rating forecast. To review Midroog's annual monitoring report see the Company's report of June 30, 2011, ref. no. 2011-01-198093. To review Maalot's report and changing the forecast from stable to positive, see the Company's report of December 8, 2010, ref. no. 2010-01-712131.

On June 30, 2011, Midroog extended the rating of commercial securities (the "**Commercial Securities**") which the Company had issued, until June 30, 2012, at the rating of P-1. In order to ensure sufficient liquidity for the repayment of the Commercial Securities, the Company undertook to reserve an amount which shall not be lower than approx. NIS 135 million in a deposit, which may not be offset against a bank loan, in a bank whose short term rating is P-1 and/or in State of Israel bond which are free and clear of charges, until the date of repayment of the Commercial Securities. For details see the immediate report of June 30, 2011, ref. no. 2011-01-198045.

Liabilities and Financing

Financial liabilities of the Group (except for Granite) as of September 30, 2011, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	**USD linked**	**Not linked**	**Pound sterling linked**	**Not linked**	**Fixed interest**	**Variable interest**	
Short-term loans	-	-	-	24	602	-	626	626
Long-term loans	3,668	661	34	-	-	4,363	-	4,363
Total	**3,668**	**661**	**34**	**24**	**602**	**4,363**	**626**	**4,989**

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and from the IPO proceeds, 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 Consumer Price Index, 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 September 30, 2011, short-term loans accounted for approx. 13% of the Group's total financial liabilities (except for Granite). According to 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 activity for many years (excluding consideration or investment in financial assets that are listed for trade). This cash flow amounted to the sum of approx. NIS 454 million in the nine months ended on September 30, 2011, compared with the sum of NIS 647 million in the same period last year.

  A decrease in the total sum of approx. NIS 193 million. The main decrease in the sum of NIS 217 million is attributed to Granite - see explanation regarding the cash flows above, and the increase in payments to income tax, compared with

refunds in the same period last year in the sum of approx. NIS 113 million, net of an increase in the operating profit from the real estate business in the sum of approx. NIS 67 million and of an increase in the income from dividend (mainly from Bank Leumi) in the sum of approx. NIS 43 million.

- A material part of the real estate property of the Group (not including Granite) is not pledged (approx. NIS 6.4 billion) and allows the Group, if necessary, to raise additional credit beyond the surpluses of the current cash flow, the balance of cash and securities.

- After the IPO, the Company received the IPO proceeds, in the sum of approx. NIS 2.5 billion, which are used, *inter alia*, to repay the financial liabilities. The balance of the cash and financial assets held for trade on September 30, 2011 is approx. NIS 1.5 billion.

- The Company has financial assets that are available for sale and not pledged (such as: its entire holdings of Leumi Card shares whose value in the financial statements as of September 30, 2011, was approx. NIS 498 million, as well as Bank Leumi shares (that were purchased in April 2009), whose value in the financial statements as of September 30, 2011 is approx. NIS 842 million).

- The Group's entire holdings of Granite shares which are not pledged and are presented in the expanded standalone statement (see Annex E) as of September 30, 2011, are approx. NIS 779 million.

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

1.6 Quality of Profit

No changes occurred during the Report Period compared with the description which were included by the Company in the board report as of December 31, 2010.

1.7 General and Administrative Expenses

The Company's consolidated administrative expenses (without Granite) amounted to approx. NIS 48 million in the Report Period (NIS 13 million in the Quarter), compared with approx. NIS 48 million in the same period last year (NIS 16 million in the same quarter last year). A decrease in the quarter of approx. NIS 3 million resulting mainly from a decrease in expenses due to a share-based payment.

The total consolidated amount of donations of the Company (without Granite) in the Report Period amounted to approx. NIS 3.6 million).

1.8 Net Financing Expenses

The Group's net financing expenses as of the Report Period, amounted to the sum of approx. NIS 428 million (NIS 135 million per quarter), compared with approx. NIS 273 million in the same period last year (NIS 97 million in the same quarter). The increase in the financing expenses during the Report period results mainly from the increase in the rate of the rise of the known index during the Report Period at a rate of

approx. 2.75% compared with an increase of approx. 1.62% in the same period last year.

In addition, a loss from a change in the value of financial assets held for trade net of interests and dividends received therefor in the sum of approx. NIS 51 million was included in the Report Period, compared with a profit of approx. NIS 39 million in the same period last year.

The increase in the scope of the Company's activities during the period (mainly the purchase of income-producing property) led to an increase in the scope of the Company's debt and as a result to an increase in the financing expenses.

The increase in financing expenses during the quarter derives mainly from a change in the value of the financial assets held for trade net of interests and dividends received therefor in the amount of approx. NIS 31 million compared with a profit of approx. NIS 41 million in the same period last year, net of the influence of the decrease in the rate of the known index rise during the quarter at a rate of approx. 0.58% compared with a rise of approx. 1.23% in the same period last year.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 161 million, compared with tax expenses in the sum of approx. NIS 133 million in the same period last year. The increase in the expenses resulted mainly from deferred taxes due to an adjustment of the value of investment property and investment property under construction net of a decrease in the tax expenses due to the increase in the financing expenses.

1.10 Summary of the Company's Results (Consolidated) – NIS in millions

	For a period of a three months ended		For a period of nine months ended		For the year ended Dec. 31, 2010
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**	
Net profit for the period attributed to the Shareholders	179	243	725	446	1,224
Net profit attributed to the Shareholders and rights which do not confer control	188	251	758	468	1,255
Basic profit per share (NIS)	1.48	2.00	5.98	4.31	11.33
Total profit for Shareholders and rights which do not confer control	(25)	425	408	421	1,317

Main causes for the change in the Net Income (NIS millions)

	In the nine months ended on		
	September 30, 2011	**September 30, 2010**	**Difference**
Consolidated Net Profit	758	468	290
Profit from real estate value increase net of tax	(379)	(107)	
Loss (profit) from negotiable securities net of tax	82	(28)	
Dividends from assets available for sale	(43)	(2)	
Interest and dividend from securities net of tax	(42)	(7)	
Total change factors (consolidated)	(382)	(144)	(238)
The total profit net of change factors	**376**	**324**	**52**

The Company's net profit (consolidated) during the quarter is NIS 188 million compared with NIS 251 million in the same period last year. In the same period last year the Company performed a revaluation to most of its assets according to the rate of the index rise and included profit from adjustment of real estate fair value at a total of approx. NIS 152 million compared with a revaluation at a total of approx. NIS 106 million during the current quarter which was done only to the Kiryat Ata and Akko Mall due to their opening.

Comprehensive Profit (Loss)

The Company's capital and comprehensive income thereof 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 total comprehensive income during the Report period totaled to an amount of approx. NIS 409 million, compared with net profit (including rights which do not confer control) at a total of approx. NIS 758 million during the same period. The said difference derives mainly from a change in the fair value of the investment in Bank Leumi LeIsrael in the amount of approx. NIS 356 million net of profit due to translation differences for foreign activity in an amount of approx. NIS 7 million.

The total profit for the three months ended September 30, 2011 amounted to the sum of approx. NIS 25 million, compared with a net profit (including rights which do not confer control) in the sum of approx. NIS 188 million in the same period. The aforesaid difference results mainly from a change in the fair value of the investment in Bank Leumi le-Israel in the sum of approx. NIS 235 million and the deduction of profit for translation differentials of foreign activity in the amount of approx. NIS 22 million.

1.11 Contribution to the Company's Results According to Business 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 held company Granite, which constitutes a business segment.

1.11.1 Commercial Centers and Malls Segment

Summary of the segment's business results:

	For the period of three months ended		For the period of nine months ended		For the year ended
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**	**Dec. 31, 2010**
			NIS in Millions		
Revenues	210	199	598	564	759
% change	6%		6%		
NOI	169	158	488	457	618
% change	7%		7%		

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 1.1.2 and 1.1.3 above.

The increase in the NOI results mainly from an improvement in the revenues of the existing commercial centers and malls and from the acquisition of Azrieli Haifa Mall in 2010 and the opening of Azrieli Akko Mall and Azrieli Kiryat Ata Mall in the third quarter of 2011.

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

	For the three months ended		For the nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
For the assets owned by the Company as of the beginning of the period[7]	163	158	456	436
For assets that were purchased or whose construction was completed during 2010	-	-	26	21
For assets that were purchased or whose construction was completed in the Report Period	6	-	6	-
Total	**169**	**158**	**488**	**457**

In the Report Period, the NOI increased compared with the same period last year, resulting mainly from an increase in revenues from existing properties, the purchase of Azrieli Haifa Mall at the end of January 2010 and the opening of Azrieli Akko Mall and Azrieli Kiryat Ata Mall in Q3/2011.

[7] 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 commercial centers segment was favorably affected primarily by:

- 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).
- Most lease contracts are linked to the consumer price index (which rose in the period of the report by 2.75% (known index)).
- Replacement of stores such as the removal of the cinemas and introduction of H&M in the Azrieli mall and the Azrieli Jerusalem mall.

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

- Temporary vacation of leased properties in order to perform changes in the tenant mix (in Azrieli Hanegev mall).

The balance of the assets of commercial centers and malls segment -amounted as of September 30, 2011, to the sum of approx. NIS 9.3 billion, compared with approx. NIS 8.5 billion as of December 31, 2010. The change resulting mainly from the increase in the value of the properties following the update of the appraisals for the properties in Israel prepared as of June 30, 2011, update of appraisals for September 30, 2011 for properties opened to the public during Q3/2011 (Kiryat Ata Azrieli Mall and Akko Azrieli Mall) as well from the acquisition of land in Ramla (in January 2011) and the acquisition of land in Southern Hakirya (in May 2011, part of which is attributed to offices and part to commerce).

Profit due to the 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 the Report Period to the sum of approx. NIS 377 million, compared with a profit of approx. NIS 109 million in the same period last year. The properties in Israel are presented according to the valuations prepared by an independent appraiser as of June 30, 2011, except for Akko Azrieli Mall and Kiryat Ata Azrieli Mall which were opened during Q3/2011 and the valuation in respect thereof was updated as of September 30, 2011. The increase in the valuation during the Report period resulted mainly from the increase in the rental fees, revaluation of properties under construction and cancellation of the development profit due to Kiryat Ata Mall and Akko Mall which were opened during the quarter.

For details regarding transactions with respect to real estate during the Report Period see note 5 of the financial statement.

1.11.2 Office and Other Space for Lease Segment

Summary of the segment's business results (in NIS millions):

	For the period of three months ended		For the period of nine months ended		For the year ended Dec. 31, 2010
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**	
	NIS in Millions				
Revenues	109	84	311	250	332
% Change	30%		24%		
NOI	81	66	236	200	264
% Change	23%		18%		

The increase in revenues during the Report Period derives mainly from revenues from office and other space for lease which was added to the Group pursuant to the purchase thereof and/or the finishing of construction and occupation thereof during 2010 and in the Report Period (especially the purchase of office buildings in Texas, Modi'in offices and residences, and Tower E in Herzliya), as well as from an improvement in revenues from existing office space for lease, and the lease of vacant space.

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

	For the three months ended		For the nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Due to assets owned by the Company as of the beginning of the Period. [8]	74	66	215	200
Due to assets which were purchased or whose construction was completed during 2010	-	-	-	-
Due to assets which were purchased or whose construction was completed during the Report Period	7	-	21	-
Total	**81**	**66**	**236**	**200**

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 1.1.2 and 1.1.3 above.

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

- A real increase in the rent at the time of renewal of contracts in the

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

various properties (pursuant to option exercise by the tenants and/or execution of new contracts).

- Most lease contracts are linked to the consumer price index (which rose in the period of the report by 2.75% (known index)).
- Continuing the occupation of Tower E in Herzliya Business Park.
- Operational streamlining of the management companies.

The balance of the Group's investment property in the office and other space for lease segment – amounted on September 30, 2011 to the sum of approx. NIS 5.0 billion, compared with approx. NIS 3.7 billion on December 31, 2010.

Most of the decrease results from the purchase of office buildings in Texas and the purchase of the Southern Hakirya land (which was partially attributed also to the malls and commercial centers segment).

Profit 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 the Report Period, to the sum of approx. NIS 86 million, compared with a profit of approx. NIS 24 million in the same period last year.

Most of the increase results from the update of the valuations for the properties in Israel by an independent appraiser as of June 30, 2011. The increase in the valuation resulted from the increase in the rental fees.

For details regarding transactions with respect to real estate during the Report Period see Note 5 of the financial statement.

1.11.3 Granite Segment

The Company's share (without rights which do not confer control) in the Granite segment results amounted, in the Report Period, to a profit of approx. NIS 22 million, compared with a profit of approx. NIS 14 million in the same period last year.

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

	For the three months ended		Increase (decrease)	For the nine months ended		Increase	For the year ended Dec. 31, 2010
	September 30, 2011	September 30, 2010		September 30, 2011	September 30, 2010		
	NIS in Millions		%	NIS in Millions		%	
Revenues	1,612	1,302	24%	4,633	3,906	19%	5,252
Operating Profit	48	60	(20%)	183	150	22%	211
Net Profit	16	15	7%	58	42	38%	56

Summary of Granite's business results:

The main increase in Granite's revenues during the Report Period and the Quarter, compared with the same periods last year resulted from:

(1) an increase in sales in Sonol mainly due to the rise in oil prices.

(2) "Sogood" chain of convenience stores - recorded an increase in sales.

(3) an increase in the quantities of diesel oil and LPG and price increase in the direct marketing segment.

(4) an increase in the amounts of paint and related products which were sold and from the new activity in the field of gypsum which began in Q2 of last year.

(5) an increase in GES resulting from the consolidation, for the first time, of Via Maris since Q2 of last year.

Gross profit

Granite's gross profit amounted in the Report Period to a sum of approx. NIS 846 million, compared with approx. NIS 794 million in the same period last year. An increase at a rate of approx. 6.5% during the Report Period which was influenced mainly by:

(1) In Sonol the gross profit increased by approx. NIS 12 million compared with the same period last year.

(2) In the fueling and commerce complexes segment the gross profit decreased mainly due to the negative influences of the decrease in quantities and decrease in margins. The decrease was offset because of inventory profits and due to the increase in the profit from the convenience stores in the Sogood chain.

(3) In the direct marketing segment there was an increase in profit mainly due to an increase in the amounts of diesel oil sold and due to inventory profits. The inventory profits in Sonol totaled at approx. NIS 7.2 million compared with inventory profits of approx. zero last year.

(4) The gross profitability was affected also from the decline in the exchange rate of the dollar, which is the purchase currency of oil distillates compared with the rise thereof in the same period last year (the Company protects against such fluctuations through future currency transactions that are performed as economic protection. The results of the transactions are included in the financing item).

(5) In Supergas the gross profit increased by approx. NIS 16 million in the Report Period, compared with last year, mainly due to an increase in the amounts of LPG sold and a decrease in the amortization of past investments. The increase was partially offset by a decrease in the margins.

(6) In Tambour the gross profit increased by approx. NIS 20 million mainly due to the increase in amounts of paint and related products sold and due to

the new operations in the gypsum segment.

(7) In GES there was an increase in the gross profit of approx. NIS 7 million, mainly due to the operations of Via Maris which was consolidated for the first time in Q2 of last year.

Sales, general and administrative expenses

In the Report Period selling, general and administrative expenses in the Granite segment amounted to approx. NIS 670 million compared with approx. NIS 666 million in same period last year.

Gasoline marketing margins

As announced by Granite HaCarmel on August 31, 2011, Sonol received an amendment to the Control Order on Maximal Prices in Fueling Stations, according to which, commencing on September 1, 2011 the marketing margin for 95 octane gasoline through self service was reduced by 18.5 Agorot per liter (including VAT) and by 11.5 Agorot (including VAT) for the full service. Sonol, like the other fuel marketing companies, filed a petition to the High Court of Justice against this decision. On September 19, 2011, the court decided to return the matter of examining the marketing margin to a renewed hearing before the Ministry of Infrastructures and the prices committee, on the basis of an updated database, determined timetables for completion of the proceeding and decided that until the completion of the proceeding the price control order shall remain in effect.

Sonol initiated and is initiating steps for minimizing the influence of the reduction of the marketing margin, while at this stage, the influence of the margin reduction is non-assessable.

Execution of an agreement with Tahal for the purchase of its holdings in Via Maris

On October 4, 2011, Granite HaCarmel Reported that an agreement had been executed between a company fully owned thereby ("**GES**") and Tahal Engineers and Consultants Ltd. ("**Tahal**") according to which GES shall purchase from Tahal the shares thereof in Via Maris Desalination (holdings) Ltd. ("**Via Maris**") in consideration for an amount of approx. NIS 62,375 thousand so that after the closing of the transaction GES will hold all of the rights in Via Maris and the corporations held thereby. Closing of the transaction is contingent upon various conditions precedent. For further details see the immediate report of the Company dated October 4, 2011 (Reference; 2011-01-291333) included in this report by way of reference.

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 1.5 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, progress of

the projects under construction and pertaining to the possibility of conversion of the short-term debt into long-term debt; are forward looking information, as defined in the Securities Law, which is based on the Company’s plans as of the date of the Report, 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 date of the Report. 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, and the Company or any of the Group's members encountering financing or other difficulties, in the manner which has an effect on the Company's cash flow.

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

2.1 General

During the quarter ended on September 30, 2011, no material changes occurred in the risk factors, the Company's policy in market risks management, the supervision means and policy implementation, compared with the description in the board report on the Corporation's state of affairs for the year ended on December 31, 2010 and the notes to the financial statements for such year.

2.2 Positions in derivatives

For details see Annex B 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

During the quarter ended on September 30, 2011 no material changes occurred in the analysis of the sensitivity tests and influences on the fair value compared with the description in the board report on the corporation's state of affairs for the year ended on December 31, 2010 except for the sensitivity analysis for the changes in the fair value of the negotiable securities in which the Company invested the issuance proceeds as of the balance sheet date, changes in the discounting rate of the investment properties, changes in the rates of index linked and nominal securities, as well as changes in the exchange rates of the Canadian Dollar as specified in Annex C of the board report.

2.4 Linkage bases table

See attached herein as Annex D of the board report.

3. Corporate Governance Aspects

3.1 Process of approval of the financial statements in the corporation

The committee

The Company's board of directors has appointed the finance committee to act also as the financial statement review committee. The audit committee does not act as a financial statement review committee.

The members of the committee

As of the date of the report, the members of the committee for the examination of the financial statements are:

Prof. Niv Ahituv (chairman of the committee and outside director), with accounting and financial expertise, *inter alia* based on his education and experience: holds an MBA from the Tel Aviv University and acts as a member of the investment committee of Migdal Insurance and Financial Holdings Ltd. and as an outside director in several public companies and also served in the past as chairman of the board of directors and chairman of the rating committee of Maalot, a company for rating.

Mr. Joseph Ciechanover, director (whose classification as an independent director, as the term is defined in the Companies Law, was confirmed by the Audit Committee and the Board of Directors on May 25, 2011), with accounting and financial expertise, *inter alia*, based on his education and experience: holds a BA in business administration from the Hebrew University in Jerusalem. Mr. Ciechanover declared that neither he nor his relative, partner, employer, anyone to whom he directly or indirectly reports, or a corporation of which he is the controlling shareholder, on the date of the appointment or in the two years prior to the date of the appointment, has a link with the Company, the controlling shareholder of the Company on such date, or another corporation;

Mr. Yossi Kucik, director, with professional qualifications and the ability to read and understand financial statements who acts, *inter alia*, as vice chairman of Direct Insurance Financial Investments Ltd. and as a director in Meitav Investments Ltd. Mr. Kucik declared that neither he nor his relative, partner, employer, anyone to whom he directly or indirectly reports, or a corporation of which he is the controlling shareholder, on the date of the appointment or in the two years prior to the date of the appointment, has a link with the Company, the controlling shareholder of the Company on such date or another corporation.

Mr. Efrayim Halevy, outside director, with professional qualification and ability to read and understand financial statements, serving, *inter alia*, as the head of Shasha Center for Strategic Studies at the Hebrew University and holder of a bachelor's degree in law.

Immediately before their appointment the three committee members issued a declaration to the Company pertaining to their education and experience, as specified in Article 26 of Chapter D of this Report and pursuant to Section 3 of the Companies Regulations (Instructions and Conditions regarding the Proceeding of Approval of the

Financial Statements), 5770-2010, according to which the Company deems them as having accounting and financial expertise or the ability to read and understand financial statements, as the case may be.

Proceeding of approval of the financial statements

The Committee convened on November 20, 2011 to review the financial statements as of September 30, 2011 and to form its recommendations to the Board of Directors regarding approval of the statements. An advanced draft of the quarterly Report, with all parts thereof including the Company's financial statements, as well as the Company's presentation on the main financial results and material issues for discussion were forwarded to the members of the committee several days prior to the date scheduled for the committee meeting.

The Finance Committee meeting dated November 20, 2011 was attended by all of the Committee members specified above. In addition, pursuant to the request of the chairman of the Committee, also Mr. Shlomo Sherf, the Company CEO, Mr. Yuval Bronstein, the CFO, Ms. Dana Azrieli, Active Deputy chairman of the board, the internal auditor, Mr. Gali Gana, the general counsel, Ms. Michal kamir, the Company's auditor as well as holders of relevant positions in the Company such as the Company comptroller and the CEO assistant attended the meeting.. During the meeting, the Company CEO and CFO reviewed the statements and other issues and responded to questions of the committee members to the extent necessary.

During the meeting the Committee discussed, *inter alia*, the financial results, including estimates and assessments made in connection with the financial statements, internal controls related to financial reporting, the completeness and fairness of the disclosure in the financial statements, the manner of presentation of figures and the comparison thereof to parallel figures in the previous reporting year. The Committee further discussed the accounting policy adopted in the financial statements and whether any changes occurred thereto, the accounting treatment applied to material issues of the corporation and valuations, including the assumptions and estimates underlying the same, on which figures in the financial statements are based.

In the course of the discussion, the Committee members raised issues that require clarifications and received answers and clarifications from the CFO and from officers of the Company who attended the meeting, as well as from the auditors, who also attended the meeting.

After a deliberation, as specified above, was held at the committee, the committee chairman put to the vote the committee's recommendation to the board and asked whether any of the committee members still had questions or issues regarding which no answer was provided. At that meeting, the committee decided to recommend to the board of directors to approve the Company's financial statements as of September 30, 2011. The recommendations of the finance committee, sitting as the financial statement review committee, were delivered to the members of the board of directors on November 21, 2011, in accordance with the period of time determined as "reasonable" by the board of directors (approx. 2 business days) in preparation for the board meeting that was held on November 23, 2011.

On November 23, 2011, the Company's board of directors, which is the organ

responsible for oversight at the Company, approved the financial statements of the Company as of September 30, 2011. For details in respect of the members of the board of directors see Regulation 26 of Chapter D of the Company's periodic report as of December 31, 2010. Advanced drafts of the financial statements, the notes thereto, the board report and annexes thereto and any report and presentation accompanying thereto are sent to the members of the board several days prior to the date scheduled for the board meeting.

The board meeting of November 23, 2011 was also attended by the persons invited to the meeting of the finance committee as specified above. The members of the board of directors who were present at the aforesaid meeting were: Mr. David Azrieli, chairman of the board of directors, Ms. Danna Azrieli, active deputy to the chairman of the board, Mr. Menachem Einan, active deputy to the chairman of the board, Ms. Sharon Azrieli, director (through telephone conference), Ms. Naomi Azrieli, director, Mr. Joseph Ciechanover, independent director, Prof. Niv Ahituv (outside director) and Mr. Efraim Halevy (outside director). The representatives of the Company's auditor commented and responded, insofar as required, to questions which were addressed to them by the members of the board pertaining to material issues which derived from the figures presented in the financial statements contemplated in the deliberation. In the context of presentation of the statements to the board of directors, the material developments in the period and the financial results were reviewed, in comparison to previous periods, during which questions were answered. At the end of the deliberation by the board of directors, a vote was held in which the financial statements were approved.

3.2 **Senior officers' changes of office**

3.2.1 On January 16, 2011, after receipt of the approval of the audit committee, the Board of Directors approved the promotion of Mr. Menachem Einan and his appointment as an active deputy chairman of the board of directors instead of his position as a CEO, with no change in the terms of the applicable management agreement. The aforesaid appointment took effect on April 1, 2011. For details and by way of inclusion, see immediate report dated January 16, 2011, ref. no. 2011-01-018351.

3.2.2 On January 16, 2011, after receipt of the approval of the audit committee, the Board of Directors approved the appointment of Mr. Shlomo Sherf as CEO and the terms of employment thereof. The aforesaid appointment took effect on April 1, 2011. For details, see Note 5 of the financial statement as of September 30, 2011, constituting Part C of this Report.

3.2.3 On May 25, 2011, the Company's Audit Committee and Board of Directors confirmed, the classification of Mr. Joseph Ciechanover as an independent director, as well as an update to his compensation in accordance with the provisions of Section 1A(2) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 (the "**Relief Regulations**"), , from the date of the said resolution and so long as he acts as an independent director of the Company. Mr. Joseph Ciechanover is a director with accounting and financial expertise, as defined in the Companies Law, 5759-1999 (the "**Companies Law**").

In accordance with the provisions of Sections 244 and 249C of the Companies Law and according to the Companies Regulations (Rules on the Remuneration and Expenses of an Outside Director), 5760-2000 (the "**Remuneration Regulations**"), the remuneration of Mr. Ciechanover as an independent director will be identical to the remuneration paid to an expert outside director holding office in the Company, in accordance with the approval of the general meeting of the Company's shareholders of August 24, 2010. I.e., the annual remuneration and the participation remuneration will be paid according to the maximum amount set forth in the Remuneration Regulations in reference to an expert outside director, according to the Company's capital rank, as being from time to time. As of the date of this Report the Company's capital rank is E. The said amounts of the remuneration will be linked to the consumer price index according to the provisions of the Remuneration Regulations. In addition, according to the approval of the general meeting of the Company's shareholders of May 10, 2010, Mr. Ciechanover is entitled to reimbursement of expenses identical to the reimbursement of expenses of all the directors holding office in the Company (including outside directors), and in accordance with the Remuneration Regulations. For details, see the immediate report released by the Company on May 26, 2011, ref. no.: 11-01-162051, included herein by way of reference.

3.3 Annual and Special General Meeting

1. On August 15, 2011, the Company's general meeting approved, in the framework of an annual and special meeting the reappointment of the directors holding office at the Company who are not outside directors.

2. The reappointment of the Company's auditor.

3. Amendment of the Company's articles with the aim of adjusting the same to the provisions of Amendment 16 to the Companies Law, 5759-1999 and the Improvement of Enforcement Proceedings in the ISA Law (Legislative Amendments), 5771-2011, which recently took effect.

4. Amendment of the letters of indemnification for officers – considering the amendment to the Company's articles as aforesaid, and after receiving the approval of the Company's board of directors and audit committee dated June 28, 2011, the general meeting approved an amendment to the language of the letters of exemption and indemnification which the Company granted and grants to the officers and directors of the Company, including to the officers and directors of the Company who are deemed as controlling shareholders and/or in the granting of which the controlling shareholders of the Company have a personal interest, as shall hold office from time to time, in order to adapt the same to the provisions of Section 56H of the Securities Law, such that they shall include an indemnification undertaking with respect to payments to parties injured by a violation and expenses in connection with administrative enforcement proceedings, including reasonable litigation expenses.

   For further details regarding the general meeting, the language of the amended articles and the language of the amended letters of indemnification, see the Company's immediate report of August 7, 2011 (ref. no.: 2011-01-233409), as

well as the Company's immediate report of August 15, 2011 regarding the results of the meeting (ref. no.: 2011-01-241173).

3.4 **Internal Enforcement Plan in the Company**

As of the date of release of the report, the Company commenced a proceeding for the adoption of an internal enforcement plan in the Company and the Company management is currently formulating, in cooperation with the Company's legal counsels, an outline for the plan which is suitable for the special structure of the Group and the fields of business thereof. The Company is at advanced stages of reviewing the work processes and procedures currently existing at the Company, the update thereof and integration within the proposed outline, and identification of the entities involved in the work processes, as well as the determination of a timetable for implementation of the milestones required for completion of the plan adoption process.

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

4.1 Description of the Company's operations during the Report Period and update of the Description of the Corporation's business for the Report Period pursuant to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "Reports Regulations")

For events and developments during the Report Period and updates for the Description of the Corporation's Business chapter as of December 31, 2010, see Chapter B of the Report and Note 5 of the financial statements as of September 30, 2011.

4.2 Report in Respect of the Group's Commitments' Status

A report in respect of the Group's commitments' status, pursuant to Regulations 38E and 9D of the Reports Regulations is attached in a separate reporting form, concurrently with the release of this report.

4.3 Legal Claims

For details see Note 4 of the consolidated financial statements as September 30, 2011.

4.4 Critical accounting estimates

No changes occurred in the quarter ended on September 30, 2011 compared with the description in the board report for the year ended on December 31, 2010.

4.5 Disclosure pertaining to fair value of investment properties

The guideline of the Securities Authority determines that a material valuation is a valuation which fulfills one of the tests: (1) The subject matter of the valuation constitutes at least 5% of the company's total assets as the same are presented in the report on the consolidated financial condition as of the last day of the report (the "**Balance Sheet Test**") (2) The effect of the change in value as the result of the valuation on the net or total profit, as the case may be, constitutes at least 5% of the total amount of the net or total profit, respectively, of the company for the period of the report. In addition, the guideline determines that a very material valuation, which should be attached to the financial statements of a reporting corporation, is a valuation which fulfills double materiality (10% instead of 5%).

The Securities Authority further determined that where the valuation fulfills the quantitative tests but qualitative considerations led to a different decision of the corporation and it was decided not to attach the same, the corporation will examine the effect of the valuation on the net or total profit of the current year, as the case may be, in respect of the equity which is attributed to the owners of the corporation (effect on equity without rights which do not confer control) or on any other accepted criterion in the industry (the "**Additional Test**"). Insofar as after the application of the Additional Test the corporation

adopts a resolution whereby a valuation is not very material, it shall disclose its resolution, while specifying the results of the quantitative tests, including the Additional Test and the reasons and considerations which constituted the basis for this resolution.

As of the Report date, the Company's board of directors determined that there is an obligation to attach a valuation of an asset whose value is at least 10% of the Company's total consolidated assets, or that the change in its fair value constitutes, in the absolute value thereof, at least 10% of the consolidated profit/loss of the Company (of the Company's profit or loss before financing, tax and excluding profit or loss from revaluation of investment properties in the current reported period), provided that the change in the fair value constitutes, in its absolute value, at least 4% of the Company's capital, as the same is presented in the Company's consolidated balance sheet.

As of the date of the Report and after the above determination was examined, it appears that the very material valuation is only 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). The most updated valuation is as of June 30, 2011 and was attached to the quarterly report as of June 30, 2011.

As of September 30, 2011, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2010) was in the amount of approx. NIS 4.1 billion (which is attributed both to Azrieli Center's towers and mall,), out of a fair value of investment properties in the amount of approx. NIS 14.4 billion (approx. 28% of the Company's total investment properties).

4.6 Events after the date of the financial statements

On October 30, 2011 the Israeli government made a decision in respect of the adoption of the main recommendations appearing in the taxes chapter of the report of the committee for economic social change (known as – the "**Trachtenberg Committee**") which was submitted to the government on September 26, 2011 (the "**Government Decision**"). Within that context, the government decided, *inter alia*, that the rate of companies' tax applicable to corporations shall be, commencing from 2012 at a fixed rate of 25% instead of a companies' tax rate of 23% in 2012, gradually reduced to a rate of 18% in 2016 according to the legislation currently existing. Continuing the reduction outline of the companies' tax rate will be reconsidered no later than 2014, considering the economic and fiscal conditions of the Israeli market, and the state of the global markets at such time. However, as of the date of the report, the statute memorandum released following the said Government Decision had not matured yet into binding legislation and therefore, as of the date of the report, the Government Decision has no influence on the measurement of deferred tax assets and deferred tax liabilities in the interim consolidated financial statements as of September 30, 2011.

Had the Government Decision obtained legal effect until September 30, 2011 within authorized legislation, a one-time increase in the deferred tax liabilities,

net would have been recorded (at an initial estimate – at an overall amount of approx. NIS 583 million) for one exceptional expense (consolidated) in the interim consolidated financial statements as of September 30, 2011 due to the increase in the companies tax rate (all *pro rata* to the scope of the Company's assets as of the date of the report, which had significantly increased compared with Q3/2009 in which a one-time income was recorded due to the reduction of the said tax rate). An amount of approx. NIS 572 million out of the net deferred tax liabilities as aforesaid, would have been carried as an expense to the Income Statement; and an amount of approx. NIS 11 million would have been carried as loss to other comprehensive income.

For further events see Note 7 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 as Annex A of the board of directors' report, 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 tothe provisions of Note 4 pertaining to legal actions in material amounts, cumulatively, against consolidated companies, regarding which a motion was filed to recognize the same as class actions and pertaining to various arguments and claims in material financial scopes, cumulatively, against a consolidated Company regarding which it was argued that the agreements thereof with its clients constitute a restrictive arrangement.

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 on September 30, 2011.

David Azrieli **Chairman of the Board of Directors**	**Shlomo Sherf, CEO**

Date: November 23, 2011

Annex A

Separate financial statement

September 30, 2011

(Un-audited)

Azrieli Group Ltd.

Separate Interim Financial Information
as of September 30, 2011

[Unaudited]

Prepared in accordance with the provisions of Regulation 38D

of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Interim Financial Information
as of September 30, 2011

[Unaudited]

Contents

[On letterhead of Deloitte & Touche]

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 Information pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the separate interim financial information presented pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 of **Azrieli Group Ltd.** (the "Company") as of September 30, 2011, and for the nine-month and three-month periods ended on the same date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the total sum of investments amounted to approximately NIS 468 million as of September 30, 2011, and the profit from these investee companies amounted to the sum of approximately NIS 29 million and approximately NIS 8 million for the nine-month and three-month periods ended on the same date, respectively. The financial statements of these companies were reviewed by other auditors whose reports were provided to us, and our conclusion, insofar as it relates to the financial statements of these companies, is based on the review reports of the other auditors.

Scope of the Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Performed by the Entity's Auditor". A review of separate financial information for interim periods consists of making inquiries, mainly with the persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is significantly narrower in scope than an audit which is performed in accordance with accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we will become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention which leads us to believe that the separate interim financial information is not prepared, from all material aspects, in accordance with the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The accompanying separate financial statements have been translated into English solely for the convenience of the readers.

Brightman, Almagor, Zohar & Co.

Certified Public Accountants

Tel Aviv, November 23, 2011

Azrieli Group Ltd.

Data on the Financial Condition

	As of September 30		As of Dec. 31
	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	63,330	95,940	83,105
Financial assets held for trade	1,268,802	2,226,315	2,234,857
Trade receivables	5,824	4,626	6,500
Other receivables	20,961	25,068	11,570
Total current assets	1,358,917	2,351,949	2,336,032
Non-current assets			
Available-for-sale financial assets	1,348,488	1,656,992	1,789,993
Financial assets designated at fair value through the income statement	17,991	21,390	17,408
Investment property and investment property under construction	6,105,326	4,972,800	5,333,219
Investments in investee companies	4,401,803	3,484,815	3,876,883
Loans to investee companies	1,513,307	1,207,523	1,209,180
Fixed assets	4,967	3,617	4,127
Other receivables	8,227	8,972	8,786
Total non-current assets	13,400,109	11,356,109	12,239,596
Total assets	14,759,026	13,708,058	14,575,628
Liabilities and capital			
Current Liabilities			
Credit from banks and other credit providers	787,272	644,044	547,873
Trade payables	14,210	2,928	6,519
Other payables	37,802	54,542	38,493
Liabilities for current taxes	7,264	4,851	15,069
Total current liabilities	846,548	706,365	607,954
Non-current liabilities			
Loans from banks	1,336,462	1,428,967	1,414,533
Bonds	652,569	672,900	677,355
Other liabilities	18,591	18,487	18,401
Deferred tax liabilities	655,986	657,264	744,464
Employee benefits	15,598	9,324	11,980
Total non-current liabilities	2,679,206	2,786,942	2,866,733
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,630	(*)2,477,664
Capital funds	211,953	457,125	(*)564,394
Surplus	8,525,432	7,261,773	8,040,660
Total capital attributed to holders of the parent company	11,233,272	10,214,751	11,100,941
Total liabilities and capital	14,759,026	13,708,058	14,575,628

(*) Reclassified

November 23, 2011

Date of approval of separate financial information	**David Azrieli Chairman of the Board**	**Shlomo Sherf Chief Executive Officer**	**Yuval Bronstein Chief Financial Officer**

Azrieli Group Ltd.

Data on Comprehensive Profit

	For the Nine-Month Period Ended on September 30		For the Three-Month Period Ended on September 30		For the Year Ended on December 31
	2011	2010	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Income					
From rental, management and maintenance fees	315,951	300,129	106,282	104,170	403,920
Net gain, from the adjustment of the fair value of investment property and investment property under construction	145,634	73,989	1,875	82,676	429,078
Financing income	85,379	103,287	26,305	68,185	144,728
Other	43,178	2,000	-	-	25,970
Total income	590,142	479,405	134,462	255,031	1,003,696
Costs and expenses					
Cost of income from rental, management and maintenance fees	6,508	6,279	2,171	(*)2,395	8,493
Sales and marketing	663	599	112	358	956
G&A	39,697	38,421	6,002	(*)14,351	57,662
Financing expenses	203,732	137,978	76,721	57,773	180,138
Total costs and expenses	250,600	183,277	85,006	74,877	247,249
Profit before the Company's share in the profits of investee companies	339,542	296,128	49,456	180,154	756,447
Share in the profits of investee companies, net of tax	430,749	213,369	135,983	99,691	611,295
Profit before taxes on the income	770,291	509,497	185,439	279,845	1,367,742
expenses of taxes on the income	(45,519)	(63,335)	(5,975)	(36,728)	(143,562)
Net profit for the period	724,772	446,162	179,464	243,117	1,224,180
Other comprehensive profit (loss), net of tax					
Change in fair value of available-for-sale financial assets, net of tax	(356,227)	(27,363)	(235,085)	176,912	83,071
Actuarial gain in respect of a defined benefit plan, net of tax	-	-	-	-	135
Translation differences due to foreign operations	1,801	(479)	6,064	(2,758)	(1,139)
Share in the other comprehensive profit (loss) of investee companies, net of tax	4,233	(11,779)	13,388	(490)	(13,178)
Other comprehensive profit (loss) for the period, net of tax	(350,193)	(39,621)	(215,633)	173,664	68,889
Total comprehensive profit (loss) for the period attributed to the holders of the Company	374,579	406,541	(36,169)	416,781	1,293,069

(*) Reclassified

Azrieli Group Ltd.

Data on the Cash Flows

	For the Nine-Month Period Ended on September 30		For the Three-Month Period Ended on September 30		For the Year Ended on December 31
	2011	2010	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - operating activities					
Net profit for the period	724,772	446,162	179,464	243,117	1,224,180
Depreciation and amortization	522	292	187	116	448
Capital loss (gain) from the disposal of fixed assets	(7)	-	25	-	-
Net gain, from the adjustment of the fair value of investment property	(145,634)	(73,989)	(1,875)	(82,676)	(429,078)
Financing and other expenses (income), net	(33,347)	64,741	9,140	25,317	41,478
Dividend received from financial assets available for sale	43,145	-	-	-	25,970
Interest and dividends received from financial assets held for trade	57,168	9,005	11,273	6,635	26,763
Share in investee companies' profits, net of tax	(430,749)	(213,369)	(135,983)	(99,691)	(611,295)
Taxes recognized in the income statement	45,519	63,335	5,975	36,728	143,562
Income taxes received (paid) , net	(52,305)	40,693	(7,770)	(6,318)	34,711
Change in financial assets held for trade	966,055	(2,226,136)	12,005	(1,308,002)	(2,234,678)
Change in trade receivables	(7,742)	3,329	6,896	(3,731)	7,063
Change in trade and other payables	621	(16,879)	3,749	(17,333)	(18,722)
Crediting benefit for share based payment	1,423	-	(2,374)	-	6,350
change in financial assets designated at fair value through the income statement	757	1,612	(16)	1,209	5,454
Change in provisions and employee benefits	1,676	5,269	154	4,125	1,740
Net cash – operating activities	1,171,874	(1,895,935)	80,850	(1,200,504)	(1,776,054)

Azrieli Group Ltd.

Data on the Cash Flows (continued)

	For the Nine-Month Period Ended on September 30		For the Three-Month Period Ended on September 30		For the Year Ended on December 31
	2011	2010	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - investment activities					
Proceeds from the disposal of fixed assets	460	-	206	-	-
Investment in investment property and investment property under construction	(616,156)	(328,725)	(37,835)	(5,097)	(345,809)
Purchase of fixed assets	(1,815)	(1,471)	(634)	(606)	(2,153)
Investment in company consolidated for the first time	(67,453)	-	(3,226)	-	-
Provision of long term loans	(9,033)	-	-	-	-
Repayment of long term loans	8,921	-	5,394	-	-
Investment in investee companies	(1,306)	(1,853)	(595)	-	(1,853)
Return of Investment (investment) in financial assets designated at fair value through the income statement	(1,340)	45	2,124	(109)	396
Proceeds from disposal of financial assets designated at fair value through the income statement	-	211	-	-	-
Collection (provision) of long-term loans to investee companies	(247,275)	178,023	(46,741)	43,180	208,834
Institutions due to purchase of property	-	-	83,520	-	-
Net cash – investment activities	(934,997)	(153,770)	2,213	37,368	(140,585)
Cash flows – financing activity					
Proceeds from IPO (net of IPO expenses in an amount of approx. NIS 44 million)	-	2,480,733	-	(3,306)	2,480,697
Distribution of dividends to the shareholders	(240,000)	-	-	-	-
Repayment of bonds	(42,764)	(41,054)	-	-	(41,054)
Receipt of long-term loans from banking corporations	-	225,000	-	-	225,000
Repayment of long-term loans from banking corporations	(111,895)	(403,041)	(29,363)	(26,596)	(524,055)
Short-term credit from banking corporations, net	232,132	(45,201)	(31,132)	(2,000)	(47,801)
Deposits from customers, net	(256)	1,350	(41)	(408)	1,067
Interest paid	(93,408)	(95,929)	(32,302)	(34,080)	(121,404)
Net cash – financing activity	(256,191)	2,121,858	(92,838)	(66,390)	1,972,450
Increase (decrease) in cash and cash equivalents	(19,314)	72,153	(9,775)	(1,229,526)	55,811
Cash and cash equivalents at commencement of the period	83,105	31,727	73,620	1,328,349	31,727
Effect of the changes in exchange rates on cash balances held in foreign currency	(461)	(7,940)	(515)	(2,883)	(4,433)
Cash and cash equivalents at the end of the period	63,330	95,940	63,330	95,940	83,105

Azrieli Group Ltd.

Additional figures for the Separate Interim Financial Information

A. General:

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

This separate financial information must be reviewed in the context of the separate financial information of the Company as of December 31, 2010, and the year ended on such date, and the additional figures accompanying thereto.

B. Definitions:

Company	-	Azrieli Group Ltd.
Investee Company	-	As defined in Note 1 to the Company's consolidated financial statements as of December 31, 2010.

C. Accounting Policy:

The separate financial information was prepared in accordance with the accounting policy specified in Note B to the Company's annual separate financial statements, apart from the accounting policy specified in Note 2 to the summary consolidated financial statements as of September 30, 2011, which are published with this separate financial information.

D. Events during the report period:

(1) In the report period, the Company's board of directors decided to provide the subsidiary Otzem Initiation and Investments (1991) Ltd. a capital notes in the amount of NIS 104 million with no interest and linkage for a period of 5 years.

(2) On March 29, 2011, the board of directors of the Company decided on the distribution of a dividend in the amount of NIS 240 million (reflecting NIS 1.98 per share), which was paid on April 27, 2011.

Annex B

The Group's positions in its derivatives
September 30, 2011

Annex B

Consolidated companies perform financial protection on the rise of the index due to the difference between the liabilities and index-linked NIS assets.

Below is a specification of the transactions as of September 30, 2011:

Amount Thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS Thousands)
590,000	NIS	October 2011 – September 2012	(1,955)

The maximum holding of derivatives, during the period of the report, of all of the NIS purchase positions was NIS 625,000 thousand.

Consolidated companies engaged during the period for performance of future currency transactions for protective purposes.

Below is a specification of the engagements as of September 30, 2011:

Amount in Thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS Thousands)
136,650	Dollar	NIS	October-November 2011	7,155

The maximum holding of derivatives, during the report period, of all of the purchase positions for purposes of protection of the dollar-NIS exchange rate was US$180,500 thousand, and of the total of the purchase positions for purposes of protection of the Euro-NIS exchange rate was €3,200 thousand.

Collection of the figures for purposes of the aforesaid measurements was performed on the basis of the par value thereof at the time of measurement. The measurement is tracked at a frequency of at least once a month.

Annex C

Sensitivity Tests

September 30, 2011

Annex C – Sensitivity Tests

Sensitivity to NIS/Canadian Dollar Exchange Rate as of September 30, 2011

	Profit from changes in the market factor		Fair value of asset	Loss from changes in the market factor		Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	10% increase	5% increase		5% decrease	10% decrease	
Cash and cash equivalents	277	139	2,773	(139)	(277)	Book value
Financial assets held for trade	5,568	2,784	55,684	(2,784)	(5,568)	Market value
Total	5,845	2,923	58,457	(2,923)	(5,845)	

Sensitivity to Changes in Securities' Value as of September 30, 2011

	Profit from changes in the market factor		Fair value of asset	Loss from changes in the market factor		Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	
Shares	24,318	12,159	243,177	(12,159)	(24,318)	Market value
Government Bonds	49,687	24,844	496,874	(24,844)	(49,687)	Market value
Corporate Bonds	52,490	26,245	524,897	(26,245)	(52,490)	Market value
Convertible Bonds	10	5	103	(5)	(10)	Market value
Participation certificates in Trust funds	5,952	2,976	59,522	(2,976)	(5,952)	Market value
Others	873	436	8,725	(436)	(873)	Market value
Total	133,330	66,665	1,333,298	(66,665)	(133,330)	

Sensitivity to Rates of Index-Linked Securities as of September 30, 2011

	Profit from changes in the market factor		Fair value of asset	Loss from the changes in the market factor		Manner of Determination of Value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	**2% Increase**	**1% Increase**		**1% Decrease**	**2% Decrease**	
Index linked bonds	10, 018	5, 009	500,894	(5,009)	(10,018)	Market value
Index linked convertible bonds	2	1	103	(1)	(2)	Market value
Total	10, 020	5, 010	500,997	(5,010)	(10,020)	

Sensitivity to Nominal Securities rates as of September 30, 2011

	Profit from changes in market factor		Fair value of asset	Loss from changes in market factor		Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	**2% Increase**	**1% Increase**		**1% Decrease**	**2% Decrease**	
Bonds	8, 882	4,441	444,067	(4,441)	(8,882)	Market value
Shares	4,800	2,400	240,017	(2,400)	(4,800)	Market value
Trust Funds	744	372	37,171	(372)	(744)	Market value
Others	238	119	11,876	(119)	(238)	Market value
Total	14,664	7,332	733,131	(7,332)	(14,664)	

Annex C – Sensitivity Tests

Sensitivity to Changes in the Interest on the Cap Rates of Investment Property as of September 30, 2011

	Loss from the changes in the market factor			Fair Value of the Property	Loss from the changes in the market factor			Method of Determination of the Value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Rate of the Change	2% Absolute Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	2% Absolute Decrease	
Weighted cap rate								
7%-7.5%	(1,223,647)	(522,668)	(273,778)	5,714,350	302,597	638,816	2,130,617	Cash flow capitalization
7.51%-8%	(692,110)	(320,866)	(178,507)	3,224,055	139,123	318,053	1,109,439	Cash flow capitalization
8.01%-8.5%	(716,182)	(336,418)	(180,285)	3,563,497	181,284	392,199	1,156,171	Cash flow capitalization
8.51%-9%	(156,288)	(76,119)	(39,872)	827,294	44,069	93,034	249,437	Cash flow capitalization
10%	(2,362)	(1,190)	(606)	37,113	639	1,292	2,683	Cash flow capitalization
Investment property and investment property under construction	(2,790,589)	(1,257,261)	(673,048)	13,366,309	667,712	1,443,394	4,648,347	

Annex D

Reporting according to Linkage Bases
September 30, 2011
(IFRS 7)

Annex D
Reporting according to Linkage Bases
as of September 30, 2011 according to IRFS 7
(NIS thousands)

	As of September 30, 2011					
	Israeli Currency		Foreign Currency		Other items	
	Non linked	Index linked	Dollar	Other(*)	Others	Total
Current Assets						
Cash and cash equivalents	118,295	-	17,246	3,240	-	138,781
Financial assets held for trade	733,131	500,997	10,610	88,560	-	1,333,298
Short term deposits and investments	70,799	-	-	-	-	70,799
Trade receivables	1,725,419	3,073	75,661	5,849	-	1,810,002
Accounts receivables	29,002	21,901	37,136	1,324	49,877	139,240
Receivables for work in Progress	25,196	940	5,538	1,605	-	33,279
Inventory	-	-	-	-	441,492	441,492
Current tax assets	-	-	-	-	20,706	20,706
Total current assets	2,701,842	526,911	146,191	100,578	512,075	3,987,597
Non-current assets						
Investments in equity investees	-	-	-	-	13,698	13,698
Loans to equity investees	11,978	23,709	-	-	-	35,687
Investments, loans and debt balances	31,226	58,443	4,751	-	35,384	129,804
Limited investments	28,710	22,023	-	-	-	50,733
Financial Assets available for sale	1,377,148	-	-	8,448	-	1,385,596
Financial assets designated at fair value through profit and loss	1,299	-	16,692	-	-	17,991
Long term Receivables in respect of a Franchise Arrangement	58,531	467,795	-	-	-	526,326
The Fuel Administration	-	-	129,048	-	-	129,048
Investment Real Estate and Investment Real Estate under Construction	-	-	-	-	14,358,246	14,358,246
Fixed Assets	-	-	-	-	1,399,272	1,399,272
Intangible assets	-	-	-	-	545,731	545,731
Prepaid Lease Fees and Deferred Expenses	-	-	-	-	37,367	37,367
Deferred Tax Assets	-	-	-	-	49,325	49,325
Total Non-Current Assets	1,508,892	571,970	150,491	8,448	16,439,023	18,678,824
Total assets	4,210,734	1,098,881	296,682	109,026	16,951,098	22,666,421

(*) Mainly CAD and Euro

Annex D
Reporting according to Linkage Bases
as of September 30, 2011 according to IRFS 7
(NIS thousands)

(Contd.)

	As of September 30, 2011					
	Israeli Currency		Foreign Currency		Other items	
	Non-linked	Index linked	Dollar	Other(*)	Others	Total
Current liabilities						
Credit from banks and other credit providers	1,763,803	460,913	108,003	23,961	-	2,356,680
Trade payables	324,153	13,861	408,811	37,290	-	784,115
Account payables	92,822	27,052	26,848	587	224,005	371,314
Deposits from customers	-	105,925	-	-	-	105,925
Provisions	-	-	-	-	31,086	31,086
Liabilities for current taxes	-	-	-	-	30,393	30,393
Total current liabilities	2,180,778	607,751	543,662	61,838	285,484	3,679,513
Non-current liabilities						
Loans from banks and other credit providers	491,830	2,709,399	658,883	-	-	3,860,112
Bonds	-	1,730,496	-	-	-	1,730,496
Employee benefits	-	-	-	-	55,286	55,286
Other liabilities	10,962	49,609	40,951	-	199	101,721
Deferred tax liabilities	-	-	-	-	1,536,597	1,536,597
Total non-current liabilities	502,792	4,489,504	699,834	-	1,592,082	7,284,212
Total liabilities	2,683,570	5,097,255	1,243,496	61,838	1,877,566	10,963,725
Total exposure in the statement on the financial position	1,527,164	(3,998,374)	(946,814)	47,188	15,073,532	11,702,696

(*) Mainly Euro and Pound Sterling.

Annex E

Financial Statements – expanded Solo
September 30, 2011

Annex E

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the Company's condensed financial statements presented in accordance with the IFRS rules, excluding the investment in Granite which is presented by the equity method instead of consolidating its statements with those of the Company (the other investments are presented without change in the statement presented in accordance with the IFRS rules). These statements do not constitute separate statements within the meaning of International Accounting Standard IAS 27 and do not constitute 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 required to be published according to the Securities Laws, but nevertheless, the Company's management believes that analysts, investors, shareholders and bondholders are likely to receive valuable information from presenting these figures.

The figures in this appendix were not audited nor reviewed by the Company's auditors.

Balance sheet:

	As of September 30		As of December 31
	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current assets			
Cash and cash equivalents	92,672	116,209	115,929
Financial Assets held for trade	1,268,802	2,226,315	2,234,857
Trade Receivables	31,216	24,177	29,348
Account Receivables	50,771	25,092	19,710
Current Taxes Assets	5,852	5,697	6,471
Total Current Assets	1,449,313	2,397,490	2,406,315
Non-Current Assets			
Investments in held companies	779,054	769,829	768,370
Investments and long-term debt balances	30,041	27,275	26,973
Financial Assets available for sale	1,348,488	1,656,992	1,789,993
Financial assets designated at fair value through profit and loss	17,991	21,390	17,408
Investment real estate and investment real estate under construction	14,285,987	11,340,143	12,137,437
Fixed assets	44,029	41,946	42,558
Deferred taxes assets	1,676	776	1,672
Total non-current assets	16,507,266	13,858,351	14,784,411
Total assets	17,956,579	16,255,841	17,190,726

Annex E

Extended Standalone Financial Statements

Balance sheet: (Contd.)

	As of September 30		As of December 31
	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Equity			
Current Liabilities			
Credit from banks and other credit providers	956,636	911,523	813,029
Trade receivables	80,368	35,771	42,794
Account receivables	68,027	67,410	64,203
Current tax liabilities	22,123	9,985	26,350
Total Current Liabilities	1,127,154	1,024,599	946,376
Non-Current Liabilities			
Loans from banking corporations and from other credit providers	2,944,358	2,504,625	2,472,274
Bonds	1,088,665	1,140,221	1,136,463
Other liabilities	38,306	34,751	34,819
Employee benefits	19,513	11,236	15,668
Deferred tax liabilities	1,448,329	1,295,680	1,450,909
Total non-current liabilities	5, 539,171	4,986,513	5,110,133
Equity			
Ordinary share capital	18,223	18,223	18,223
Premium on shares	2,518,015	2,517,981	2,518,015
Capital Reserves	171,602	416,774	524,043
Retained earnings	8,525,432	7,261,773	8,040,660
Total equity relating to the owners of the parent company	11,233,272	10,214,751	11,100,941
Non-controlling interests	56,982	29,978	33,276
Total equity	11,290,254	10,244,729	11,134,217
Total liabilities and equity	17,956,579	16,255,841	17,190,726

Annex E

Extended Standalone Financial Statements

Income Statement:

	For a period of nine months ended on September 30		For a period of three months ended on September 30		For the year ended on December 31
	2011	2010	2011	2010	2010
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues					
From rent, management and maintenance fees	912,640	815,775	320,315	283,868	1,094,466
Profit, net from adjustment of fair value of investment property and property under construction	463,088	133,547	106,761	153,078	891,777
Financing revenues	2,373	43,082	2,109	39,561	65,369
Share in held companies' results, net of tax	48,719	31,986	13,702	12,686	43,678
Others	43,152	2,584	-	584	26,584
Total Revenues	1,469,972	1,026,974	442,887	489,777	2,121,874
Costs and Expenses					
Cost of revenues from rent, management and maintenance fees	185,638	156,321	69,467	58,913	209,141
Sales and marketing	1,557	1,367	379	619	2,158
General and administrative	48,497	47,796	12,740	15,691	69,138
Financing expenses	330,170	239,396	112,432	103,172	316,592
Others	31	208	31	-	211
Total costs and expenses	565,893	445,088	195,049	178,395	597,240
Profit before taxes on income	904,079	581,886	247,838	311,382	1,524,634
Tax on income expense	(146,422)	(114,273)	(59,478)	(59,895)	(269,530)
Net profit for the period, including minority	757,657	467,613	188,360	251,487	1,255,104

PART B

Update - Description of the Corporation's Business

September 30, 2011

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, 2010 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a specification of material developments which have occurred in the Company's business during the nine and three months that ended on September 30, 2011 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**" – November 23, 2011; the "**Date of Report on the Financial Condition**" and the "**Report Date**" – September 30, 2011.

1. Material developments which have occurred in the Company's structure and business until the Report Release Date

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

(a) **Engagement in two contingent agreements for the purchase of all of the rights at the "Ir Yamim" mall in Netanya – property under construction.**

On August 15, 2011, the Company engaged in a contingent sale agreement for the purchase of half the rights at the "Ir Yamim" mall in Netanya (the "Mall") from Shikun Upituach for Israel Ltd. in consideration for an amount of approx. NIS 350 million (plus V.A.T.). On September 11, 2011, the Company engaged in a contingent sale agreement for the purchase of the other half of the rights at the Mall from Shikun & Binui Real Estate (Investments) Ltd. in consideration for an amount of approx. NIS 370 million (plus V.A.T.). For details regarding the Company's engagement in the above-mentioned agreements, see Section 1.1.1 of Chapter A hereof, as well as the Company's reports dated July 21, 2011 (reference 2011-01-218727), August 16, 2011 (reference 2011-01-242088), August 24, 2011

[1] As released on March 30, 2011 (reference number 2011-01-098865) and amended on March 30, 2011 (reference number 2011-01-099996).

(reference 2011-01-251010) and September 11, 2011 (reference 2011-01-270261), which are included herein by way of reference.

(b) **The opening to the public of two new malls in Kiryat Ata and Akko**

During the quarter, the Group opened to the public the following two malls: "Azrieli Akko Mall" of a total marketing area of approx. 12,640 sqm and "Azrieli Kiryat Ata Mall" of a total marketing area of approx. 9,180 sqm. As of the Report Release Date, the occupancy rate in Azrieli Akko Mall is approx. 98% and in Azrieli Kiryat Ata Mall approx. 90%.

(c) **Purchase of Office Towers in Houston, Texas, USA**[2]

On February, 4, 2011, Three Galleria Office Buildings, LLC., a U.S. company indirectly held at the rate of 90% by the Company, closed a purchase of three office towers in Houston, U.S. of a total area of approx. 99,000 sqm (1,065,789 sqf) (with no additional building rights), located in the Galleria area in Houston, Texas, USA, in consideration for a total sum of U.S. $176 million. For further details regarding the property, the agreement for the purchase thereof, financing the purchase and the Company's engagement in an agreement for the management of the purchased properties, see Section 1.1.1 of Chapter A hereof and the Company's reports dated January 30, 2011 (reference 2011-01-031650), and dated February 6, 2011 (reference 2011-01-039024), which are included herein by way of reference, Sections 9.2.10 and 16.15 of Chapter A of the periodic report dated December 31, 2010, as well as Note 5 to the financial statements dated September 30, 2011.

2. Investments in the Capital of the Company and Transactions in the Shares thereof

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

On June 23, 2011, Nadav Investments Inc, which is the direct controlling shareholder of the Company, transferred 1,605,354 shares of the Company held thereby, without consideration, to a registered charity fund, whose residence is in Canada, and whose assets are intended for donations and for financing philanthropic activity in Israel and in Canada. It is clarified that as conveyed to the Company, neither Mr. David Azrieli nor any of his relatives are control holders of the fund, and therefore the fund shall not be considered an interest holder or controlling shareholder of the Company. For further details, see immediate report of the Company dated June 23, 2011 (reference no.: 2011-01-192156), which is included herein by way of reference.

[2] Which constitutes also an update to Section 9.2.10 of the Description of the Corporation's Business Chapter in the Company's periodic report dated December 31, 2010, which was presented at that time as events after the Report on the Financial Condition.

3. Dividends

Update to Section 4.5 of the Description of the Corporation's Business Chapter:

Following the Company's report as of March 30, 2011, on April 27, 2011, the Company paid to its shareholders a total sum of approx. NIS 240 million (1.9790099 per share). For further details, see Section 1.5 of Chapter A of the Board of Directors' Report.

4. Properties under Construction

Azrieli Center Southern Hakirya, Tel Aviv

On May 30, 2011, the Company won a tender on behalf of the Israel Land Administration and purchased all of the lease rights of an area of approx. 9.4 dunam at Southern Hakirya in Tel Aviv near the Sharona Project. For details regarding the Company's winning in a tender for the purchase of lease rights in a lot in Southern Hakirya in Tel Aviv, which is intended for the construction of an office and commerce project, see Section 1.1.1 of Chapter A hereof as well as the Company's reports dated May 29, 2011 and May 30, 2011 (reference no.: 2011-01-165339 and 2011-01-167994, respectively), which are included herein by way of reference.

Properties in Kiryat Ata and in Akko

For details regarding the opening of the malls in Kiryat Ata and in Akko to the public and regarding the development of the additional building in Kiryat Ata, see Section 1.1.1 hereof.

Azrieli Center Holon

As of the Report Release Date, the excavation and shoring work has been completed and the foundation of the buildings and the construction of the basements have been commenced in accordance with the permit received to build the basements.

Azrieli Mall Rishonim

In April 2011, an administrative petition was filed against the regional committee, Canit Hashalom and others due to the approval of the plan under the terms as specified in the periodic report for 2010. The petition was filed by a councilwoman of the city of Ness Ziona, merchants from the city of Rishon LeZion and others. The petition mostly repeats the claims that were raised in the context of the objections to the plan which were filed and mostly denied by the regional committee. A preliminary hearing on the petition was held in October 2011 and an additional hearing was scheduled for January 2012. The Company estimates that the petition will not delay the time tables of the planning and performance of the project. As of the Report Release Date, the Company is acting to obtain the permits, upon receipt of which it shall commence works to prepare the temporary parking lot for the train users.

The aforesaid regarding the outcome and implications of the administrative petition is forward-looking information as defined in the Securities Law, which is based on initial estimates of the Company's management. All or any of these estimates may not materialize, or may materialize in a materially different manner than estimated by the Company, in accordance with the court's decision in the matter.

For details regarding the total investments during the report's period that the Company continued to invest in the development and construction of new properties and in expansion and renovation of existing properties, see Section 1.1.1 of the Board of Directors' Report in Chapter A hereof.

5. Azrieli Ramla Mall

Update to Section 8.3 of the Description of the Corporation's Business Chapter:

The transaction was closed on May 25, 2011, and the entire consideration was paid, part of which is held in an escrow deposit to secure the provision of tax certificates and performance of the transfer of the rights. As of the Report Release Date, the Company has received a permit for fencing off the lot and demolishing buildings within the area thereof, and has begun the development work. In addition, the Israel Antiquities Authority has begun to perform its examinations.

For further details, see Section 1.1.1 of Chapter A hereof and Note 5 of the financial statements as of June 30, 2011, and see also the Company's immediate reports dated January 2, 2011, reference number: 2011-01-000081, and May 26, 2011, which are included herein by way of reference.

6. Developments regarding Azrieli Center Tel Aviv

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

Azrieli Towers Tel Aviv

(Data according to 100%) (*)	For the quarter ended on September 30, 2011	For the quarter ended on June 30, 2011	For the quarter ended on March 31, 2011	For the year ended on December 31, 2010
Property Value (NIS in thousands)	2,359,125	2,358,172	2,290,043	2,287,214
NOI in the period (NIS in thousands)	47,177	46,381	45,220	176,896
Revaluation profit in the period (NIS in thousands)	-	62,894	-	98,205
Average occupancy rate in the period (%)	99.5%	99.5%	99%	99%
Rate of return (%)	8.0%	7.9%	7.9%	7.7%
Average rent per sqm per month	90	90	90	90

(NIS) (**)				
Average rent per sqm per month in contracts signed in the period (NIS)	104	101	102	93

(*) The corporation's share in the property – 99.1%;
(**) Not including the hotel's rent. Had the average included the hotel's rent, the average for Q3 of 2011 and for 2010 would have been approx. NIS 86 per sqm.

The valuation for this property and details regarding the valuation were released in the financial statements of the Company as of June 30, 2011.

7. Developments in the area of activity of Granite Hacarmel

General:

For general reports of the Company regarding reports released by Granite in the period of the report, which are included herein by way of reference, after the release of the periodic report of the Company, see the following reports of the Company:

Date of Report	Reference Number	Date of Report	Reference Number
Apr. 13, 2011	2011-01-120159	Aug. 2, 2011	2011-01-228762
Apr. 13, 2011	2011-01-121242	Aug. 24, 2011	2011-01-250980
May 8, 2011	2011-01-142434	Sep. 1, 2011	2011-01-262134
May 11, 2011	2011-01-144306	Sep. 6, 2011	2011-01-266211
June 15, 2011	2011-01-184509	Sep. 20, 2011	2011-01-279513
June 16, 2011	2011-01-185676	Oct. 4, 2011	2011-01-291333
June 30, 2011	2011-01-198078	Oct. 23, 2011	2011-01-304296
July 17, 2011	2011-01-214812	Nov. 1, 2011	2011-01-313557

For details in respect of the reduction of the gasoline marketing margin regarding Sonol Israel Ltd. (as specified in the Company's immediate reports dated August 2, 2011 and September 1, 2011 (reference no. 2011-01-262134 and 2011-01-228762, respectively) and the execution by Granite Hacarmel of an agreement with Tahal for the purchase of the holdings thereof in Via Maris (as specified in the Company's immediate reports dated October 4, 2011 (reference no. 2011-01-291333)), see also Section 1.11.3 of the Board of Directors' report in Chapter A hereof.

8. Developments in the Human Capital

Update to Section 14.5 of the Description of the Corporation's Business Chapter:

On April 1, 2011, the appointments of Mr. Menachem Einan as an active deputy to the chairman of the board and of Mr. Shlomo Sherf as CEO of the Company came into force. For details see the Company's immediate reports dated January 16, 2011 (reference no. 2011-01-018369 and 2011-01-018393).

For further details see also Note 5 of the Company's financial statement as of September 30, 2011, which constitutes Chapter C hereof.

9. Amendment of the Letters of Indemnification to the Officer and Directors of the Company

Update to Section 14.7 of the Description of the Corporation's Business Chapter:

On August 15, 2011, the general meeting of the Company approved an amendment to the articles of association of the Company in order to conform them to Amendment 16 of the Companies Law, 5759-1999, and Improvement of Enforcement Proceedings in the ISA Law, which recently came into force. Further to the amendment of the articles of associations, and following the receipt of the approvals of the audit committee and the board of directors of the Company dated June 28, 2011, on August 15, 2011, the general meeting of the Company approved an amendment to the language of the letters of exemption and indemnification which the Company has granted and is granting to officers and directors of the Company, including officers and directors of the Company who are deemed controlling shareholders and/or in the granting of which the controlling shareholders of the Company have a personal interest, as shall hold office from time to time, in order to conform them to the provisions of Section 56H of the Securities Law, so as to include an undertaking for indemnification due to payments to persons injured by a violation and expenses in connection with administrative enforcement proceedings, including reasonable litigation expenses. For additional details and the language of the amended articles of associations and letters of indemnification, see the Company's immediate report dated August 7, 2011 (reference no. 2011-01-233409), as well as the Company's immediate report regarding the results of the meeting of August 15, 2011 (reference no.: 2011-01-241173), which are included herein by way of reference.

10. Extension of the Date to Provide a Guarantee to the Financing Bank for the Purchase of the Givatayim Mall

Update to Section 16.3 of the Description of the Corporation's Business Chapter:

On October 31, 2011, the lease rights in the Givatayim Mall were registered at the Israel Land Administration in the name of the Company (except for the

Company's rights in the parking lots) as well as an undertaking for registration of the mortgage in favor of Bank Leumi.

11. Repayment of Loans and Taking Additional Loans

Update to Section 16.4 of the Description of the Corporation's Business Chapter:

Borrowing corporation	Date of granting the loan	Purpose of loan	Loan type		Balance as of September 30, 2011 (Company's share) (NIS in thousands)	Annual interest rate	Linkage	Guarantees in NIS in thousands/ Charge	Repayment date of long term loans
			Bank / financial institution	**Long term**					
Canit Northchase LP	Mar. 30, 2011	Refinance, purchase of Northchase	Mizrahi-Tefahot Bank	X	28,768	4.35%	US dollar	Guarantee of Azrieli Group for the full amount of the loan	**Until March 2015**
Rivercan LP	April 5, 2011	Refinance Three Riverway	Morgan Stanley Mortgage Capital Holdings LLC	X	87,091	5.51% fixed	US dollar	Mortgage of the property	**Until May 2021**

a. On March 30, 2011, the Company repaid to First Union National Bank a loan in the sum of approx. NIS 27 million (bearing an annual interest at the rate of 7.08%), which was granted to the Company for the purchase of Northchase, through a new loan taken on March 30, 2011, as specified above.

b. On the Financial Condition, on May 5, 2011, the Company repaid to General Electric Capital Corporation a loan in the sum of approx. NIS 80 million, which was granted to the Company for the purchase of Three Riverway, through a new loan taken on May 4, 2011, as specified in the table above.

12. Financing from banks to the Company:

Update to Section 16.3 of the Description of the Corporation's Business Chapter

As of September 30, 2011, the sum of the Company's short-term loans, which it took from banks, including in connection with the financing of the acquisition of the land in Southern Hakirya, amounted to NIS 602 million.

For further details regarding the Company's liabilities, see the financial liabilities status report released by the Company shortly before the release hereof, on November 23, 2011.

13. Series A Bonds of Canit Hashalom:

Update to Section 16.6.1 of the Description of the Corporation's Business Chapter:

On June 30, 2011, Midroog reapproved the rating of the Series A Bonds of Canit Hashalom as Aa2/stable. For a review of the annual follow-up report of Midroog, see the Company's immediate report dated June 30, 2011, reference 2011-01-198078, which is included herein by way of reference.

14. Bonds and Commercial Papers and the Rating thereof:

Update to Section 16.12 of the Description of the Corporation's Business Chapter:

Shortly before the release of the report, Maalot upgraded the rating of the Company's Series A Bonds to AA/stable. To inspect Maalot's monitoring report, see the Company's immediate report dated November 23, 2011, reference 2011-01-336291,which is included herein by way of reference.

On June 30, 2011, Midroog reapproved the rating of the Series A Bonds of the Company as Aa2/stable. For a review of the annual follow-up report of Midroog, see the Company's immediate report dated June 30, 2011, reference 2011-01-198093, which is included herein by way of reference.

On June 30, 2011, Midroog extended the rating of the commercial papers (the "**CP**") issued by the Company until June 30, 2012, as P-1. In order or assure sufficient liquidity for the repayment of the CP, the Company undertook to maintain a sum of no less than NIS 135 million in a deposit, which cannot be set off against a bank loan, in a bank whose short term rating is P-1 or in State of Israel Bonds free of liens until the repayment date of the CP. For details, see immediate report dated June 30, 2011, reference 2011-01-198045, which is included herein by way of reference.

15. Repayment of Commercial Securities

Update to Section 16.5.1.2 of the Description of the Corporation's Business chapter:

In the report period, the Company made a principal repayment of unrated commercial securities in the sum of approx. NIS 10 million. The commercial securities which were repaid as aforesaid have been written-off. As of September 30, 2011 the balance of the liability due to the issue of unrated commercial securities was in the sum of approx. NIS 59 million. After the Date of Report on the Financial Condition and until the Report Release Date, the Company paid an additional amount of NIS 2 million. As of the Report Release Date, the balance of the undertaking due to the issue of unrated commercial securities was approx. NIS 57 million.

Update to Section 16.5.1.3 of the Description of the Corporation's Business chapter:

In the report period, the Company repaid the principal of rated commercial securities in an accumulated sum of approx. NIS 19 million. The commercial securities which were repaid as aforesaid have been written-off. As of September 30, 2011 the balance of the undertaking due to the issue of rated commercial securities was approx. in the sum of NIS 111 million. After the Date of Report on the Financial Condition and until the Report Release Date, the Company repaid a sum of NIS 5 million. As of the Report Release Date, the balance of the undertaking due to the issue of rated commercial securities was approx. NIS 106 million.

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

Update to Section 16.5.2 of the Description of the Corporation's Business Chapter:

In the report period, principal and interest payments were made in Accordance with the payment schedule and as specified in Section 16.5.2 of the Description of the Corporation's Business Chapter. As of September 30, 2011, the balance of the par value of the Series A Bonds of the Company is NIS 592,000,000.

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

Update to Section 16.6.1 of the Description of the Corporation's Business chapter:

In the report period, principal and interest payments were made in Accordance with the payment schedule and as specified in Section 16.6.1 of the Description of the Corporation's Business Chapter. As of September 30, 2011, the balance of the par value of the Series A Bonds of Canit Hashalom is NIS 404,413,703.

18. Business License for the Operation of the Hotel in the Square Tower

Update to Section 9.2.1 of the Description of the Corporation's Business chapter:

Azrieli Towers Tel Aviv – Yarden Hotels M.H.Y. Ltd. that operates the hotel which is located in the Square Tower of Azrieli Towers, has a temporary permit for the operation of the hotel, which, as of the Report Release Date, is valid until July 11, 2012. It is the position of the Licensing Department in the City of Tel Aviv that receipt of a permanent business license for the hotel is conditioned, *inter alia*, also on the issuance of a building permit for changes made to the Square Tower until receipt of a finishing certificate for the tower. As of the Report Release Date, the Company is acting to complete the proceedings on the matter.

19. Business Licensing

Update to Section 19.17 of the Description of the Corporation's Business chapter:

Azrieli Mall Ayalon - the temporary license was extended until December 31, 2011; Azrieli Mall Haifa - the temporary license was extended until March 30, 2012; Azrieli Mall Hanegev - the temporary permit was extended until December 22, 2011; Science and Technology Campus Petach_Tikva – on July 14, 2011, a business license was received for the parking lot in this property; Azrieli Kiryat Ata Mall and Azrieli Akko Mall - as of the Report Release Date, the Company is operating for receipt of a business license in those properties.

20. Engagement in an Agreement for the Purchase of Electricity from OPC Rotem Ltd.

Update to Section 20 of the Description of the Corporation's Business chapter:

On June 23, 2011, the Company engaged, together with Granite and subsidiaries of Granite, in an agreement for the purchase of electricity from OPC Rotem Ltd. ("**OPC**"), which is a private electricity manufacturer. The agreement is for a period of 10 years and includes an option for an additional five years, from the starting date of the provision of electricity by OPC, which is expected (on the signing date of the agreement and on this Report Date) to occur at the end of 2012. For additional details regarding the agreement for the purchase of electricity form OPC, see the Company's immediate report dated June 26, 2011 (reference no.: 2011-01-192495), which is included herein by way of reference.

The aforesaid regarding to the starting date of the provision of electricity by OPC to the Company is forward-looking information as defined in the Securities Law, which is based on initial estimates of the Company's management. All or any of these estimates may not materialize, or may materialize in a materially different manner than estimated by the Company, in accordance with the court's decision in the matter.

PART C

Financial Reports

September 30, 2011

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as at September 30, 2011

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

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 its subsidiaries (hereinafter –the "Group") which include the condensed consolidated statement of financial condition as at September 30, 2011 and the condensed consolidated comprehensive income statement, changes in equity and cash flows for the periods of nine and three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730–1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed financial information for the interim periods of consolidated companies whose assets included in the consolidation comprise approx. 22.5% of all the consolidated assets as at September 30, 2011, and whose revenues included in the consolidation comprise approx. 76.8% and 79%, respectively, of all the consolidated revenues for periods of nine and three months then ended. Moreover, we did not review the condensed financial information for the interim periods of associated companies in which the investment in them is approx. NIS 49,385 thousand as at September 30, 2011 and the Group's share in their results is approx. NIS 13,169 thousand and approx. NIS 3,433 thousand, respectively, for the periods of nine and three months then ended. The condensed financial information for the interim periods of those companies were reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports 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 financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is considerably more limited in scope than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information is not prepared, in all significant aspects, in accordance with International Accounting Standard IAS34.

In addition to the remarks in the previous paragraph, based on our review and on the review reports of the other auditors, nothing came to our attention which cause us to think that the above financial information does not meet, from all significant aspects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our above opinion we direct attention to Note 4 regarding legal claims for a total of a considerable amount, against consolidated companies, which were filed with a motion to recognize them as class actions, and various allegations for a total of a considerable amount against a consolidated company claiming that the agreements with its customers are a type of a restrictive arrangement.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, November 23, 2011

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As at September 30		As at December 31,
	2011	2010	2010
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	138,781	168,246	177,858
Financial assets held for trading	1,333,298	2,301,584	2,310,423
Short-term deposits and investments	70,799	53,904	48,274
Trade receivables	1,810,002	1,400,356	1,339,109
Other receivables	139,240	100,936	95,233
Receivables for work in progress	33,279	23,382	34,982
Inventories	441,492	349,958	346,054
Current tax assets	20,706	11,632	12,319
Total current assets	3,987,597	4,409,998	4,364,252
Non-current assets			
Investments in associated companies	13,698	15,822	15,309
Loans to associated companies	35,687	27,752	27,648
Investments, loans and other receivables	129,804	(*)116,081	119,533
Restricted investments	50,733	46,117	49,448
Financial assets available for sale	1,385,596	1,695,757	1,828,302
Financial assets earmarked at fair value through the income statement	17,991	21,390	17,408
Long-term receivables in respect of franchise arrangement	526,326	(*)542,507	527,075
The Fuel Administration	129,048	127,476	123,569
Investment property and investment property under construction	14,358,246	11,410,650	12,210,264
Fixed assets	1,399,272	1,388,275	1,419,748
Intangible assets	545,731	(*)550,965	551,517
Lease fees paid in advance	37,367	43,842	39,454
Deferred tax assets	49,325	(*) 50,728	49,851
Total non-current assets	18,678,824	16,037,362	16,979,126
Total assets	22,666,421	20,447,360	21,343,378

(*) Reclassified (see Note 2e).

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As at September 30		As at December 31
	2011	2010	2010
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	2,356,680	2,066,501	1,772,313
Trade payables	784,115	593,517	682,783
Other payables	371,314	339,264	366,170
Deposits from customers	105,925	102,626	103,366
Provisions	31,086	36,785	32,883
Current tax liabilities	30,393	22,698	35,265
Total current liabilities	3,679,513	3,161,391	2,992,780
Non-current liabilities			
Loans from banks and other credit providers	3,860,112	(*)3,280,892	3,300,137
Bonds	1,730,496	1,843,432	1,835,675
Benefits to employees	55,286	52,120	54,311
Other liabilities	101,721	102,174	101,410
Deferred tax liabilities	1,536,597	(*)1,374,456	1,534,228
Total non-current liabilities	7,284,212	6,653,074	6,825,761
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,517,981	2,518,015
Capital reserves	171,602	416,774	524,043
Retained earnings	8,525,432	7,261,773	8,040,660
Total capital attributed to the parent company's shareholders	11,233,272	10,214,751	11,100,941
Non-controlling interests	469,424	418,144	423,896
Total capital	11,702,696	10,632,895	11,524,837
Total Liabilities and capital	22,666,421	20,447,360	21,343,378

(*) Reclassified (see Note 2e).

November 23, 2011			
Date of approval of the financial statements	**David Azrieli** **Chairman of the Board**	**Shlomo Sherf** **CEO**	**Yuval Bronstein** **VP Finance**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Comprehensive Income

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	NIS thousands		NIS thousands		NIS thousands
	(Unaudited)		(Unaudited)		
Revenues					
From sales, work and services	4,623,034	3,895,792	1,608,347	1,298,896	5,238,630
From rent, management and maintenance fees	920,225	823,645	322,904	286,414	1,105,292
Net profit from the adjustment to fair value of investment property and investment property under construction	462,364	130,189	106,223	152,245	890,696
Financing revenues	72,335	103,816	21,756	69,685	151,635
Other	53,894	29,411	1,513	662	56,285
Total revenues	6,131,852	4,982,853	2,060,743	1,807,902	7,442,538
Costs and Expenses					
Costs of revenues from sales, work and services	3,788,350	3,114,952	1,333,889	1,019,877	4,171,617
Costs of revenues from rent, management and maintenance fees	190,534	161,353	71,195	60,702	216,684
Selling and marketing	573,819	552,290	201,720	184,510	742,087
General and administrative	144,009	160,414	40,656	51,851	225,030
Share in results of associated companies, net of tax	13,169	14,134	3,443	4,897	21,378
Financing expenses	500,229	376,589	156,578	166,269	514,437
Other	3,200	2,575	964	26	4,042
Total costs and expenses	5,213,310	4,382,307	1,808,445	1,488,132	5,895,275
Income before taxes on income	918,542	600,546	252,298	319,770	1,547,263
Expenses of taxes on income	(160,885)	(132,933)	(63,938)	(68,283)	(292,159)
Net income for the period	757, 657	467,613	188,360	251,487	1,255,104
Other comprehensive income (loss), net of tax					
Change in fair value of financial assets available for sale, net of tax	(356,227)	(27,363)	(235,085)	176,912	81,515
Realizing financial assets available for sale, net of tax	-	(16,387)	-	-	(16,387)
Actuarial profit of defined benefit plan, net of tax	-	-	-	-	1,292
Translation differences from foreign operations	7,366	(2,550)	22,118	(3,594)	(4,540)
Other comprehensive income (loss) for the period, net of tax	(348,861)	(46,300)	(212,967)	173,318	61,880
Total comprehensive income (loss) for the period	408,796	421,313	(24,607)	424,805	1,316,984

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

The Azrieli Group Ltd.

Condensed Consolidated Statements of Comprehensive Income
(Continued)

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	NIS thousands		NIS thousands		NIS thousands
	(Unaudited)		(Unaudited)		
Net income for the period attributed to:					
Shareholders in the parent company	724,772	446,162	179,464	243,117	1,224,180
Non-controlling Interests	32,885	21,451	8,896	8,370	30,924
	757,657	467,613	188,360	251,487	1,255,104
Total comprehensive income (loss) for the period attributed to:					
Shareholders in the parent company	374,579	406,541	(36,169)	416,781	1,293,069
Non-controlling Interests	34,217	14,772	11,562	8,024	23,915
	408,796	421,313	(24,607)	424,805	1,316,984
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings of one ordinary share of NIS 0.1 par value each attributed to shareholders in the parent company	5.98	4.31	1.48	2.00	11.33
Average weighted share capital used in calculating basic and diluted earnings per share	121,272,760	103,626,411	121,272,760	121,272,760	108,074,258

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 period of nine months ended September 30, 2011 (unaudited)									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences of foreign operations	Capital reserve from transactions with related parties	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling Interests	Total
	NIS in Thousands									
Balance as of January 1, 2011	18,223	2,518,015	573,325	(16,850)	(31,000)	(1,432)	8,040,660	11,100,941	423,896	11,524,837
Net profit for the period	-	-	-	-	-	-	724,772	724,772	32,885	757,657
Change in fair value of available for sale financial assets, net of tax	-	-	(356,227)	-	-	-	-	(356,227)	-	(356,227)
Translation differences due to foreign operations	-	-	-	6,034	-	-	-	6,034	1,332	7,366
Total comprehensive income for the period	-	-	(356,227)	6,034	-	-	724,772	374,579	34,217	408,796
Purchase of non-controlling interests in a consolidated company	-	-	-	-	-	(2,076)	-	(2,076)	(591)	(2,667)
Dividend to the shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	17,628	17,628
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(5,898)	(5,898)
Capital reserve due to transactions with related parties	-	-	-	-	(172)	-	-	(172)	172	-
Total transactions with shareholders of the Company	-	-	-	-	(172)	(2,076)	(240,000)	(242,248)	11,311	(230,937)
Balance as of September 30, 2011	18,223	2,518,015	217,098	(10,816)	(31,172)	(3,508)	8,525,432	11,233,272	469,424	11,702,696

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 period of nine months ended September 30, 2010 (Unaudited)

	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences of foreign operations	Capital reserve from transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
Balance as at January 1, 2010	6,300	40,351	501,027	(12,585)	(31,184)	-	6,824,775	7,328,684	374,498	7,703,182
Net income for the period	-	-	-	-	-	-	446,162	446,162	21,451	467,613
Realization of financial assets available for sale, net of tax	-	-	(9,856)	-	-	-	-	(9,856)	(6,531)	(16,387)
Change in fair value of assets available for sale, net of tax	-	-	(27,363)	-	-	-	-	(27,363)	-	(27,363)
Translating differences due to foreign operations	-	-	-	(2,402)	-	-	-	(2,402)	(148)	(2,550)
Total comprehensive income for the period	-	-	(37,219)	(2,402)	-	-	446,162	406,541	14,772	421,313
Exercise of warrants in a consolidated company	-	-	-	-	-	-	5	5	1,567	1,572
Change in non-controlling interests in a consolidated company due to the issue of shares in a consolidated company	-	-	19	-	195	-	(279)	(65)	65	-
Allotment of stock dividends of the Company	8,890	-	-	-	-	-	(8,890)	-	-	-
Issue of shares of the Company (net of issue expenses in the sum of approx. NIS 44 million)	3,033	2,477,630	-	-	-	-	-	2,480,663	-	2,480,663
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(6,316)	(6,316)
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(1,052)	-	(1,052)	1,052	-
Acquisition of non-controlling interests in a business combination	-	-	-	-	-	-	-	-	32,408	32,408
The share of non-controlling interests due to transactions with controlling shareholders	-	-	-	-	-	-	-	-	73	73
Capital reserve from transactions with related parties	-	-	-	-	(25)	-	-	(25)	25	-
Total transactions with the Company's shareholders	11,923	2,477,630	19	-	170	(1,052)	(9,164)	2,479,526	28,874	2,508,400
Balance as at September 30, 2010	18,223	2,517,981	463,827	(14,987)	(31,014)	(1,052)	7,261,773	10,214,751	418,144	10,632,895

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 September 30, 2011 (Unaudited)									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences of foreign operations	Capital reserve from transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
Balance as at July 1, 2011	18,223	2,518,015	452,183	(30,268)	(31,124)	(3,508)	8,345,968	11,269,489	457,466	11,726,955
Net income for the period	-	-	-	-	-	-	179,464	179,464	8,896	188,360
Change in the fair value of available for sale financial assets, net of tax	-	-	(235,085)	-	-	-	-	(235,085)	-	(235,085)
Translation differences due to foreign operations	-	-	-	19,452	-	-	-	19,452	2,666	22,118
Total comprehensive income (loss) for the period	-	-	(235,085)	19,452	-	-	179,464	(36,169)	11,562	(24,607)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	348	348
Capital reserve from transactions with related parties	-	-	-	-	(48)	-	-	(48)	48	-
Total transactions with shareholders of the Company	-	-	-	-	(48)	-	-	(48)	396	348
Balance as at September 30, 2011	18,223	2,518,015	217,098	(10,816)	(31,172)	(3,508)	8,525,432	11,233,272	469,424	11,702,696

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 period of three months ended September 30, 2010 (unaudited)									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences on foreign operations	Capital reserve from transactions with related parties	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands									
Balance as at July 1, 2010	18,223	2,518,357	286,915	(11,739)	(31,008)	(1,052)	7,018,656	9,798,352	410,459	10,208,811
Net income for the period	-	-	-	-	-	-	243,117	243,117	8,370	251,487
Change in the fair value of available for sale financial assets, net of tax	-	-	176,912	-	-	-	-	176,912	-	176,912
Translation differences due to foreign operations	-	-	-	(3,248)	-	-	-	(3,248)	(346)	(3,594)
Total comprehensive income for the period	-	-	176,912	(3,248)	-	-	243,117	416,781	8,024	424,805
Issue expenses	-	(376)	-	-	-	-	-	(376)	-	(376)
Share of non-controlling interests due to transactions with controlling shareholders	-	-	-	-	-	-	-	-	73	73
Dividend for holders of non-controlling interests	-	-	-	-	-	-	-	-	(418)	(418)
Capital reserve from transactions with related parties	-	-	-	-	(6)	-	-	(6)	6	-
Total transactions with shareholders of the company	-	(376)	-	-	(6)	-	-	(382)	(339)	(721)
Balance as at September 30, 2010	18,223	2,517,981	463,827	(14,987)	(31,014)	(1,052)	7,261,773	10,214,751	418,144	10,632,895

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, 2010									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences on foreign operations	Capital reserve from transactions with related parties	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands									
Balance as of January 1, 2010	6,300	40,351	501,027	(12,585)	(31,184)	-	6,824,775	7,328,684	374,498	7,703,182
Net income for the year	-	-	-	-	-	-	1,224,180	1,224,180	30,924	1,255,104
Realization of available for sale financial assets, net of tax	-	-	(9,856)	-	-	-	-	(9,856)	(6,531)	(16,387)
Change in the fair value of available for sale financial assets, net of tax	-	-	82,135	-	-	-	-	82,135	(620)	81,515
Actuarial profit in respect of defined benefit plan, net of tax	-	-	-	-	-	-	875	875	417	1,292
Translation differences due to foreign operations	-	-	-	(4,265)	-	-	-	(4,265)	(275)	(4,540)
Total comprehensive income for the year	-	-	72,279	(4,265)	-	-	1,225,055	1,293,069	23,915	1,316,984
Exercise of warrants for shares in a consolidated company	-	-	-	-	-	(380)	-	(380)	1,955	1,575
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(1,052)	-	(1,052)	1,052	-
Issue of shares of the Company (net of issue expenses in the sum of approx. NIS 44 million)	3,033	2,477,664	-	-	-	-	-	2,480,697	-	2,480,697
Change in non-controlling interests in a consolidated company due to the issue of shares in a consolidated company	-	-	19	-	195	-	(280)	(66)	66	-
Allotment of stock dividends of the Company	8,890	-	-	-	-	-	(8,890)	-	-	-
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(10,248)	(10,248)
Acquisition of non-controlling interests in a business combination	-	-	-	-	-	-	-	-	32,408	32,408
Other	-	-	-	-	(11)	-	-	(11)	250	239
Total transactions with shareholders of the Company	11,923	2,477,664	19	-	184	(1,432)	(9,170)	2,479,188	25,483	2,504,671
Balance as at Dec. 31, 2010	18,223	2,518,015	573,325	(16,850)	(31,000)	(1,432)	8,040,660	11,100,941	423,896	11,524,837

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	NIS thousands				
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net income for the period	757,657	467,613	188,360	251,487	1,255,104
Depreciation and amortization	104,470	103,470	34,494	33,917	145,643
Impairment in value of intangible assets	-	-	-	-	579
Amortization and impairment investments and loans in associated companies	73	-	-	-	-
Loss from realizing investments in associated companies	-	208	-	-	202
Net gain from adjustments to fair value of investment property and investment property under construction	(462,364)	(130,189)	(106,223)	(152,245)	(890,696)
Financing and other expenses, net	273,958	322,570	80,689	138,164	387,457
Dividend received from available for sale financial assets	44,346	-	885	-	25,970
Interest and dividend received from financial assets held for trade	57,168	9,005	11,273	6,635	26,763
Loss (gain) from realizing fixed assets, investment property and intangible assets, net	(1,755)	(162)	(434)	245	1,505
Share in losses of associated companies accounted by the equity method	13,169	14,134	3,443	4,897	21,378
Recording of benefit in respect of share-based payment	(774)	-	(5,581)	-	14,606
Tax expenses recognized in the income statement	160,885	132,933	63,938	68,283	292,159
Change in financial assets held for trade	977,125	(2,230,990)	21,469	(1,310,768)	(2,239,890)
Profit from the acquisition of shares in investee companies	-	-	-	-	(2,884)
Profit from realizing investments in financial assets available for sale	-	(22,265)	-	-	(22,265)
Profit from revaluation of previous holding in associated company due to the gaining of a controlling interest	-	(1,091)	-	-	-
Income taxes (paid) received, net	(85,995)	(*) 26,672	(10,730)	(14,543)	16,272
Revaluation of balance of the Fuel Administration	(5,479)	3,704	(10,005)	7,072	7,611
Revaluation of earmarked financial assets to fair value through the income statement	757	1,612	(16)	1,209	5,454
Change in inventory	(95,297)	(25,269)	(35,853)	(10,552)	(21,489)
Change in trade and other receivables	(523,003)	(101,740)	(245,341)	(83,087)	(32,159)
Change in receivables in respect of franchise arrangement	942	(23,169)	1,827	(2,323)	(17,143)
Change in trade and other payables	110,410	(92,175)	65,270	(79,607)	(10,388)
Change in provisions and benefits to employees	(3,207)	(1,836)	(2,298)	2,840	(13,012)
Net cash - current operations	1,323,086	(1,546,965)	55,167	(1,138,376)	(1,049,223)

(*) Reclassified (see Note 2e)

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 period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	NIS thousands				
	(Unaudited)				
Cash flows - investment activities					
Proceeds from realizing fixed and intangible assets	2,582	23,121	1,451	837	25,626
Proceeds from realizing investment property	-	1,858	-	-	9,086
Purchase of and investment in investment property and investment property under construction	(1,627,470)	(419,460)	(155,763)	(40,340)	(474,468)
Institutions due to purchase of property	-	-	83,520	-	-
Purchase of fixed and intangible assets	(102,840)	(138,703)	(28,632)	(41,575)	(188,406)
Investment in and granting of loans to associated companies	(19,322)	(15,946)	(4,752)	(6,027)	(19,094)
Change in long-term deposit	-	(196)	-	-	-
Change in short-term deposits	(21,652)	118,700	(9,235)	(1,528)	124,342
Change in restricted investments	(140)	(4,502)	(42)	(70)	(7,502)
Receipt (payment) for settling derivative financial instruments, net	(575)	(14,386)	22,271	(6,593)	(32,196)
Return of investment (investment) in financial assets earmarked at fair value through the income statement	(1,340)	45	2,124	(109)	185
Granting long-term loans	(8,343)	(6,350)	(1,956)	(840)	(14,185)
Collection of long-term loans	24,202	9,735	10,407	2,908	11,761
Dividends received	-	-	-	-	5,062
Collection of loans from associated companies	-	73,986	-	-	73,861
Interest received	28,245	21,777	9,495	10,854	39,232
Acquisition of companies consolidated for the first time	-	(20,536)	-	-	(20,536)
Proceeds from realizing financial assets available for sale	-	35,616	-	-	35,616
Proceeds from realizing financial assets designated at fair value through the income statement	-	211	-	-	211
Income tax paid in connection with realization of assets and investments	-	(*)(10,736)	-	-	(10,736)
Net cash - investment activities	(1,726,653)	(345,766)	(71,112)	(82,483)	(442,141)
Cash flows - financing activities					
Dividend distribution to shareholders	(240,000)	-	-	-	-
Repayment of bonds	(176,330)	(132,695)	(40,943)	(25,569)	(152,540)
Receipt of long-term loans from banks	859,864	456,642	55,832	60,995	563,838
Repayment of long-term loans from banks	(507,030)	(665,438)	(86,560)	(85,548)	(848,943)
Short-term credit from banks and others, net	697,811	86,309	144,229	98,062	(121,650)
Proceeds from issue of shares (net of issue expenses in the sum of approx. NIS 44 million)	-	2,480,733	-	(3,306)	2,480,697
Proceeds from exercise of warrants for shares by employees in a consolidated company	-	-	-	-	1,575
Repayment of deposits from customers	(2,444)	(2,180)	(507)	(1,003)	(2,021)
Deposits received from customers	4,877	3,484	1,994	274	3,800
Acquisition of non-controlling interests	(2,715)	-	(410)	-	(1,306)
Dividend to holders of non-controlling interests	(5,898)	(6,316)	-	(418)	(10,248)
Proceeds from issue of shares in a consolidated company to holders of non-controlling interests	9,337	1,572	371	-	20
Interest paid	(271,943)	(245,141)	(90,533)	(79,081)	(330,145)
Net cash provided by financing activities	365,529	1,976,970	(16,527)	(35,594)	1,583,077
Increase (decrease) in cash and cash equivalents	(38,038)	84,239	(32,472)	(1,256,453)	91,713
Cash and cash equivalents at beginning of the period	177,858	92,632	172,112	1,427,440	92,632
Effect of changes in the rates of exchange on cash balances held in foreign currency	(1,039)	(8,625)	(859)	(2,741)	(6,487)
Cash and cash equivalents at end of the period	138,781	168,246	138,781	168,246	177,858

(*) Reclassified (see Note 2e)

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

Note 1 – General

a. General description of the Company and its operations:

The Azrieli Group Ltd. (the "Company" and/or the "Group") is an Israeli resident company which was incorporated in Israel and its registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the Tel Aviv Stock Exchange starting from June 2010 and is included in the "Tel Aviv 25" index. The Group's consolidated financial statements as at September 30, 2011 include those of the Company and of its subsidiaries (hereinafter jointly, the "Group"), and the Group's rights in associated companies and jointly controlled entities.

The Company is held at the rate of approx. 73.6% (until the issue of the Company the Company was held at the rate of 100%) by Nadav Investments Inc. (the "Parent Company") a private company incorporated under Canadian Law, wholly owned and controlled by Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is wholly owned and controlled by Mr. David Azrieli, Chairman of the Company's Board of Directors, who holds directly and indirectly, approx. 40% of the issued and paid up capital, and his four children each hold directly and indirectly, approx. 15% of the issued and paid up capital.

b. The Company is engaged (both directly and through investee companies in which it invests and develops) mainly in the following fields of operations:

(1) Initiation, construction, purchase, management and lease in the commercial centers and malls segment in Israel.

(2) Development, construction, purchase, management and lease in the office and other space for lease segment.

(3) Holding at a rate of 60.68% of the share capital and voting rights in Granite Hacarmel Investments Ltd. ("Granite"). Granite is an Israeli resident company which is incorporated in Israel and whose securities are listed for trading on the Tel Aviv Stock Exchange. Granite and its subsidiaries are engaged mainly in the marketing and distribution of oil distillates, both through direct marketing and through fuelling stations and trading sites, the manufacturing and marketing of paints and complementary products for construction, water desalination and purification and waste treatment.

Note 2 – Significant accounting principles

a. The basis for the preparation of the financial statements

The Group's condensed consolidated financial statements ("Interim Financial Statements") are prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting) ("IAS 34").

In the preparation of these Interim Financial Statements the Group has implemented the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of the financial statements as at December 31, 2010 and for the year then ended, apart from changes in accounting policy resulting from the implementation of standards, and amendments to standards and new interpretations which came into force on the date of the financial statements as detailed in Note 2c.

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:

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 implementation of the policy and the amounts of assets and liabilities, revenues and expenses. It should be clarified that the actual results are liable to be different from these estimates.

1. The evaluations and discretion that the management used in order to implement the accounting policy and the preparation of consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as at December 31, 2010.

2. On June 30, 2011, the group updated the valuations for all of its investment properties and investment properties under construction in Israel (which are attributed to the commercial centers and malls segment and office and other space for lease segment, and which were not purchased in the report period), mainly due to a significant change in the cash flow which is expected to derive from the group's properties due to their being leased in index-linked contracts (which has risen at a rate of approx. 2.16% since the date of the update of the last financial valuation which was performed on December 31, 2010) as well as due to a real rise in the rent collected in the group's income-producing properties in Israel.

   The valuations were performed by outside independent appraisers with appropriate professional skills.

   The valuations were prepared mainly according to the method of capitalization of the cash flow expected to derive from the properties.

   No change has occurred in the cap rates for June 30, 2011 versus the cap rates that the group used at the time of the previous value update as of December 31, 2010.

   On September 30, 2011, the Group updated the valuations of Azrieli Kiryat Ata Mall and Azrieli Akko Mall, following the opening thereof and the classification

Note 2 – Significant accounting principles – Contd.

thereof during the third quarter of the year from investment property under construction to investment property.

c. New standards, amendments to standards and interpretations, which are in force and are implemented in these financial statements:

- IAS 24, Related Party Disclosures
- Amendment to IAS 34, Interim Financial Reporting
- Amendment to IFRS 7 Financial Instruments: Disclosures

To implement the standards, the amendments to the standards and the new clarifications, which came into force, which can be seen in Note 2(ao) to the consolidated financial statements as at December 31, 2010 have no significant effect on these condensed Interim Financial Statements;

d. Standards, amendments to standards and new interpretations, which are not in force, and are not implemented in these financial statements earlier:

(1) For information regarding the start dates, the transition provisions and the expected effects on the Company of the standards, the amendments to the standards and the interpretations specified below, see Note 2ao to the annual financial statements of the Company as of December 31, 2010 and for the year ended on the same date:

- International Financial Reporting Standard IFRS 9, Financial Instruments.
- Amendment to IAS 12, Income Taxes – Deferred Taxes on Investment Property.

(2) On May 12, 2011 the IASB published several new standards in the matter of financial statement consolidation and related matters and in the matter of fair value measurement. Following are the general nature of the modifications:

1. **New system of accounting standards in the matter of financial statements consolidation and related matters**

The new standards system in fact replaces the existing standardisation in the matter of financial statement consolidation and joint transactions and also includes several modifications in respect of associated companies.

Following is a specification of the new standards that were published:

Note 2 – Significant accounting principles – Contd.

a) IFRS 10 "Consolidated Financial Statements"

The standard determines the following provisions on the issue of consolidated financial statements:

- Control of an entity over another entity will be determined based on a uniform model, independently of the other entity being a "Special Purpose Entity". In this framework, interpretation 12 SIC "consolidation, special purposes entities".

- Control of an investor in another entity (the "**Invested Entity**") exists when the investor has power over the invested entity, has exposure to changing yields from his involvement in the invested entity and an ability to use his power in order to influence the level of the yields.

- The Standard stipulates provisions for examination of the existence of "actual control" where an entity holds less than half of the voting rights in another entity. For that purpose, the rate of the investor's holdings in the Invested Entity, the scope of the public holdings and level of dispersion shall be examined, *inter alia*.

- Potential voting rights in the Invested Entity will be taken into account for the purpose of establishing control where thei*r terms c*onfe**r** actual ability to direct the relevant activities of the entity in the present.

- The new standard does not include a change in the procedures of consolidation of financial statements.

This standard will be implemented by way of retroactive implementation other than exceptions as specified in the standard, in respect of annual reporting periods commencing on January 1, 2013 or thereafter. Early implementation is possible, for so long as it shall be implemented concurrently with IFRS 11 "joint arrangements", IFRS 12 "disclosures in respect of involvement with other entities" and IAS 28 (2011) "investments in associated companies and joint ventures".

At this stage the Company is not able to estimate the influence of the implementation of the standard on its financial position and business results.

Note 2 – Significant accounting principles – Contd.

b) IFRS 11 "Joint Arrangements"

The Standard determines that a joint arrangement is an arrangement in which two parties or more have joint control (as defined in IFRS 10). In addition, the Standard sets forth the following types of joint arrangements and the accounting handling thereof:

- Activity under joint control is a joint arrangement between parties with joint control which confers upon them rights for assets and liabilities in respect of the liabilities of the activity. An entity which holds joint control in business under joint control will recognize its share in the assets, liabilities, revenues and expenses of the business in its consolidated financial statements.

- A joint venture is a joint arrangement between parties with joint control in an arrangement, who hold rights for the net assets of the venture. An entity holding joint control over a joint venture will present its investment therein according to the book value method, according to IAS 28 (2011) "Investments in Associated Companies and in Joint Ventures".

This standard was implemented by way of retroactive implementation other than for exceptions as specified in the standard, in respect of annual reporting periods commencing on January 1, 2013, or thereafter. Early implementation is possible, for so long as it shall be implemented concurrently with IFRS 10 "consolidated financial statements", IFRS 12 "disclosures in respect of involvement with other entities" and IAS 28 (2011) "investments in associated companies and joint ventures".

At this stage, the Company's management is not able to estimate the influence of implementation of the Standard on its financial position and business results.

c) IFRS 12, Disclosures of interests in other entities

The standard stipulates disclosure requirements in respect of the interests of entities in consolidated companies, joint arrangements, associated companies and structured entities which are not consolidated. The purpose of the disclosures is to assist with the evaluation of the nature and the related risks in respect of the interests in the said entities and the influence of such interests on the financial statements of the reported entity.

This Standard was implemented by way of retroactive implementation in respect of annual reporting periods commencing on January 1, 2013

Note 2 – Significant accounting principles – Contd.

or thereafter. Early implementation is possible, for so long as it shall be implemented concurrently with IFRS 10 "Consolidated Financial Reports", IFRS 11 "Joint Arrangements" and IAS 28 (2011) "Investments in Associated Companies and Joint Ventures". However, entities may integrate any disclosure of the new disclosures into their financial statements prior to such date.

d) IFRS 13 "Fair Value Measurement"

The standard replaces the specific provisions of fair value measurement in the various international reporting standards, with provisions which will be combined into one standard which shall constitute a guide for measuring fair value. Accordingly, provisions were set for measuring fair value for all of the items measured at fair value in the report on the financial position or for disclosure purposes.

According to the standard, fair value is defined as the amount that would have been received from the sale of an asset or the amount that would have been paid for transfer of a liability in the ordinary course of business between market participants on the measurement date.

The standard stipulates the various approaches in which it is possible to measure fair value and states that use must be made of evaluation techniques which make the maximum use of observed market figures. In respect of non-financial assets, it was determined that in order to measure their fair value the optimal use in their respect must be estimated and on the basis thereof, the fair value be evaluated.

The standard will be implemented by way of "from now on" for annual periods commencing on January 1, 2013 or thereafter. Early implementation is possible.

At this stage the Company is not able to estimate the influence of the implementation of the standard on its financial position and business results.

e) IAS 28 (2011) "Investments in Associated Companies and Joint Ventures"

The Standard sets forth the following provisions pertaining to the implementation of the equity method:

- The equity method shall be implemented with regard to both associated companies and joint ventures.

Note 2 – Significant accounting principles – Contd.

- When an investment in a joint venture is classified as an investment in an associated company or vice versa, the rights of the entity in the investee are not re-measured.

- Upon a drop in the rate of the holdings in a joint venture or an associated company which does not lead to a termination of the implementation of the equity method the investor shall reclassify in profit or loss only a proportionate share of the amounts which were previously recognized in a different total profit.

- Part of the investment according to the equity method shall be classified as a noncurrent asset which is held for sale, provided that such part fulfills the conditions for its classification as such.

This Standard shall be implemented by way of a retroactive implementation, regarding annual reporting periods commencing on January 1, 2013, or thereafter. Early implementation is possible, provided that the same will be implemented simultaneously with IFRS 10 "Consolidated Financial Statements" IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

At this stage, the management of the Company is unable to estimate the effect of the implementation of the Standard on its financial position and business results.

f) IAS 19 (2011) "Employee Benefits"

The Standard modifies the provisions of IAS 19 "Employee Benefits" in its current format, in the following aspects:

- Actuarial profit or loss shall be attributed to other total profit and not be classified on a later date as profit and loss. Accordingly, the alternatives of the attribution of the actuarial profit or loss to profit and loss, immediately or in accordance with the corridor method, were cancelled.

- Interest revenues due to an asset of a defined benefit plan shall be recognized on the basis of the capitalization rate of the liability and not according to the expected return on the assets.

- Short term employee benefits shall include benefits which are expected to be fully discharged after 12 months shall have lapsed from the end of the year in which the entitling service shall have been provided by the employee.

Note 2 – Significant accounting principles – Contd.

- Benefits due to termination as a result of an offer to encourage voluntary retirement shall be recognized as a liability on the date on which the reporting entity is unable to withdraw the offer.

The Standard shall be implemented by way of a retroactive implementation, other than exceptions as specified in the Standard for annual periods commencing on January 1, 2013, or thereafter. Early implementation is possible.

At this stage, the management of the Company is unable to estimate the effect of the implementation of the Standard on its financial position and business results.

g) Amendment of IAS 1 (Amended) "Prese**ntation of Financial Statements" (regarding the presentation of the other total profit items in the total profit report)**

The amendment determines that items which are included in other total profit shall be separated and presented in one of the two groups:

- Items which will be classified in the future as profit and loss.
- Items which will not be classified in the future as profit and loss.

In addition, the amendment determines that in the event that the other total profit items are presented before tax effect, the tax effect shall be presented separately in respect of each one of the groups. The amended shall be implemented by way of a retroactive implementation, for annual periods commencing on January 1, 2013, or thereafter. Early implementation is possible.

Note 2 – Significant accounting principles – Contd.

e. Reclassification:

(1) In the financial figures as of September 30, 2010, deferred tax asset balances in the sum of NIS 38,274 thousand were reclassified against the deferred tax liability balance to correctly reflect the deferred tax balances which may be offset.

(2) In the statements of cash flows a sum of NIS 10,736 thousand for nine-month period that ended on September 30, 2010, was reclassified from income tax paid in current operations for investment activities.

(3) In the financial figures as of September 30, 2010, balances as specified below were reclassified in order to reflect retroactive amendment in the fair value of the assets and liabilities which were measured by temporary amounts in the condensed consolidated Interim Financial Statements as of September 30, 2010 pursuant to the acquisition of control of Via Maris Group and a rise in the holdings rate of the Group in Via Maris Group to 72.1% in the second quarter of 2010.

	As of September 30, 2010		
	As previously reported	Effect of classification	As reported in these financial statements
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Investments and loans	116,029	52	116,081
Long-term receivables in respect of franchise arrangement	548,945	(6,438)	542,507
Intangible assets	548,989	1,976	550,965
Liabilities			
Credit from banks and other credit providers	3,285,302	(4,410)	3,280,892

Note 2 – Significant accounting principles – Contd.

f. Rates of exchange and linkage basis:

(1) The balance of foreign currency or linked to it, are included in the financial statements according to the representative rates of exchange published by the Bank of Israel and which were in force on the balance sheet date.

(2) Balances linked to the consumer price index are presented according to the last known index on the balance sheet date (index of the month prior to 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 rates of exchange and the index:

	Representative rate of exchange of			Israeli index	
	Euro (1 euro = NIS)	Canadian dollar (1 Can dollar = NIS)	US dollar 1 US dollar = NIS)	"For" Basis 1993	"Known" Basis 1993
Date of the financial statements:					
As of September 30, 2011	5.0437	3.6417	3.712	216.27	216.68
As of September 30, 2010	4.9873	3.5636	3.665	210.11	209.52
As of December 31, 2010	4.7380	3.5550	3.549	211.67	210.89
Rates of change for the period of:	%	%	%	%	%
9 months ended:					
On September 30, 2011	6.45	2.44	4.59	2.17	2.75
On September 30, 2010	(8.35)	(1.09)	(2.91)	1.90	1.62
3 months ended					
On September 30, 2011	2.02	3.08	8.7	-	0.58
On September 30, 2010	4.83	(3.41)	(5.42)	1.23	1.23
For the year ended:					
On December 31, 2010	(12.94)	(1.33)	(5.99)	2.66	2.28

Note 3 – Additional information to the statement of cash flows

The following is additional information to the statement of cash flows regarding transactions which are not in cash:

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31,
	2011	2010	2011	2010	2010
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
	Unaudited		Unaudited		
Transactions not in cash:					
Payables for the purchase on credit of non- current assets	58,334	27,533	58,334	27,533	53,585
Receivables for the sale on credit of fixed assets and investment property	-	691	-	691	-
Payables in respect of the acquisition of shares in a consolidated company	-	-	-	-	4,795

Note 4 – Contingent liabilities

Following are details regarding new claims received during the report period, claims that were reported in the past and ended and significant changes in claims that were reported in the past, in so far as such exist. In the remainder of the claims there was no significant change as of the audited financial statements as of December 31, 2010 (see Note 36 of the annual financial statements)

a. **Claims against Sonol of IDF disabled who operate fuelling stations in the framework of an arrangement between the disabled and the Ministry of Defence, the Israel Lands Administration and the fuel companies:**

   IDF disabled who operate fuelling stations filed claims against Sonol, as specified in Note 36a of the annual financial reports. In March 2011, an additional claim for declaratory relief was filed. The management of the Company is in the opinion, based on the estimation of Granite management which relies on Sonol's legal advisors, that the prospects of the claim are estimated at less than 50%.

b. **Claims filed against Sonol (other than by IDF disabled) claiming a restrictive arrangement:**

   Claims were filed against Sonol (other than by IDF disabled) claiming a restrictive arrangement, as specified in Note 36b of the annual financial statements. In one of the claims the claim for dispossession was dismissed with prejudice, without costs, and a judgment was ruled according to which Sonol was liable and paid an immaterial amount.

c. **Class actions:**

   Motions for class actions were filed against the Group's companies, as specified in Note 36c of the annual financial statements.

Note 4 – Contingent liabilities (contd.)

The Parties	Amount of the Claim	Nature of the Claim	Prospects of the Claim
1. Claim against Sonol	A claim in the amount of approx. NIS 11 together with a motion for class certification in the amount of NIS 105 million	A claim against Sonol and its consolidated company regarding charging additional payment allegedly due to full service fuelling although the fuelling was made through automatic fuelling devices ("Dalkan") in self service pumps.	In September 2011, the court sanctioned a settlement agreement in the claim which does not have a significant effect on the results of operation of the Group.
2.Claim against Sonol and other fuel companies	The personal claim of the Plaintiff against Sonol alone is in the amount of NIS 585 and the amount of the class action in respect of Sonol is in the amount of approx. NIS 65 million.	Claim and motion to recognize it as a class action since October 2009, subject matter of which is the sale of mineral water bottles in fuelling stations next to the fuelling pumps, claiming that fuel vapour penetrates the plastic packages of the water bottles, contrary to the manufacturers' instructions and through violation of tortious provisions and the provisions of the Consumer Protection Law, 5741-1981.	In June 2011 the court sanctioned the settlement agreement between the parties. The settlement does not have a material effect on the business results of the Group.
3. Claim against Granite, Sonol and other fuel companies	A motion for class certification of November 2010 in the total estimated amount of approx. NIS 2.9 billion.	The motion concerns the claim that the fuel companies are violating the provisions of the Deposit Law by refusing to return the deposit fees paid for the beverage containers that were purchased at the convenience stores which are situated at the various gas stations. In addition, the motion includes a claim whereby the convenience stores charge V.A.T. also on the deposit fee component, contrary to the law.	In June 2011, a motion of the petitioner to withdraw the motion for class certification which was sanctioned as a judgment was approved.

Note 4 – Contingent liabilities (contd.)

4. Claim against Sonol and other fuel companies	The remedy claimed is a declaratory remedy, to instruct the fuel companies to cease charging for fuel not provided, as well as a monetary remedy in an amount of NIS 124 million, while Sonol's *pro rata* share is approx. NIS 24 million.	A claim and motion for class certification since October 2009, in respect of a charges made by the fuel companies upon the fuelling through automatic fuel pumps, while the meter commences operation and charging the customers prior to fuel going out of the pump. The Plaintiff claims that such conduct constitutes breach by the fuelling companies of their undertakings towards their customers and of the provisions of the Competition Promotion Law, and committed several tortious wrongs.	The parties are in the midst of advanced negotiations to settle the case. The Company's management estimates, based on the estimate of Granite which is based on Sonol's legal advisors, that there is a higher than 50% chance that the case will end in a settlement arrangement that shall be sanctioned by the court. The amounts by which Sonol would be charged in the framework of the settlement arrangement, insofar as shall be signed and sanctioned, are not material to the Group.
5. Claim against Sonol and other fuelling companies	Motion for class certification from December 2010 in an aggregate amount estimated at approx. Nis 66.7 million.	The subject matter of the motion is in the claim that the fuelling companies breached and continue to breach the provisions of Sections 2 to 4 of the Consumer Protection Law 5741-1981, by misleading the consumer public in respect of the nature, quantity and quality of the fuels that they sell, and by not publicizing the fact that the fuels sold thereby are sold at the environment's temperature, while upon their purchase they are calculated according to a temperature of 15°C. According to their claim, the fuelling companies unduly received money for a product which they sold while misleading consumers, therefore, they had unjustifiably enriched, contrarily to the provisions of Section 1 of Unjust Enrichment, 5739-1979.	The Company's management estimates, based on the estimation of Granite's management which relies on the legal advisors of Sonol, in spite of the preliminary stage in which the proceeding is in, that the prospects for granting the motion for class certification are lower than 50%.
6. Claim against Sonol and other fuel companies	Motion for class certification from January 2011 in a total amount estimated at approx. NIS 200 million.	According to the Plaintiffs' claim, the companies breached the law in all matters pertaining to water contamination and caused the contamination of underground water and damage. The claim was filed following an indictment filed against the Company and 3 other fuel companies.	The Company's management estimates based on the estimation of Granite's management which relies on Sonol's legal advisors, the prospects of the claim are estimated at less than 50%.

Note 4 – Contingent liabilities (contd.)

7. Claim against Sonol	Claim and motion for class certification from March 2011 at an overall amount estimated by the Plaintiff at approx. NIS 899 million.	The subject matter of the Claim is the claim of a "Dalkan" customer that Sonol had charged him (and others fuelling through the Dalkan system) a price for diesel oil which is higher than that which was customary in the stations and bound the Dalkan customers, and therefore, they are entitled to reimbursement of funds from Sonol.	The Company estimates, based on the estimation of Granite's management which relies on Sonol's legal advisors, at the preliminary stage in which the proceeding is at, and *inter alia* due to the amendment of the motion for certification by the plaintiffs, it is not possible to estimate the chances of the motion for class certification.
8. Claim against Sonol and other fuel companies	A claim and a motion for class certification of October 2010 in the total amount of approx. NIS 1.2 billion.	The claim concerns the claim that the fuel companies engaged with station owners in prohibited restrictive arrangements which prejudice competition in the fuel industry and prevent reduction of the fuel price for end-consumers and the competitors' ability to effectively enter the market.	The Company's management estimates, based on an estimate of Granite's management, which is based on the legal advisors of Sonol, that the chances of the claim are less than 50%.
9. Claim against Sonol	A claim and a motion for class certification of April 2011 in the amount of NIS 33.6 million.	The claim concerns the petitioner's claims that Sonol charges customers who are bound therewith in a Dalkan agreement a payment due to "night", "Sabbath" or "holiday" additions, also when these customers use in self service pumps and without being served by the station's workers, and this in contrast to "random" customers who use self service.	The Company's management estimates, based on the estimate of Granite's management which is based on Sonol's legal advisor, that at the proceeding's current preliminary stage it is impossible to assess the chances of the claim.
10. Claim against Sonol and other fuel companies	A claim and a motion for class certification from August 2011, in the amount of NIS 1 billion.	A claim and a motion for class certification against Sonol and other fuel companies, alleging that they had misled the regulator over the years, thus loading prohibited expenses onto the marketing margin charged thereby. It was also argued that they sold gasoline at a price higher than permitted.	The Company's management estimates, based on the estimate of Granite's management which is based on Sonol's legal advisors, at the preliminary stage in which the proceeding is at, it is not possible to estimate the chances of the Claim.

Note 4 – Contingent liabilities (contd.)

11. Claim against a subsidiary of Sonol	A claim and a motion for class certification from September 2011 in the amount of NIS 6 million.	The subject matter of the Claim and the motion for certification is the claim that the subsidiary violates its duty pursuant to the Consumer Protection Regulations (Price per Measurement Unit), 5768-2008, to mark the prices of the products sold in its stores per measurement unit in addition to the product's price. It shall be noted that the alleged violation refers to stores with floor area bigger than 100 sqm.	The Company's management estimates, based on an estimate of Granite's management, which is based on the legal advisors of Sonol, at the preliminary stage in which the proceeding is it is not possible to estimate the chances of the Claim.
12. Claim against Supergas	A claim and a motion for class certification against Supergas and its subsidiary from June 2010, in an amount of approx. NIS 168 million.	The subject matter of the Claim is the claim that Supergas charged commission from clients who are paying the gas account through the bank, as opposed to the provisions of the law.	In July 2011, after it had been clarified to the petitioner's attorney that a motion for class certification in a similar cause had been rejected, the petitioner filed an agreed motion for abandonment of action and of the certification motion, with no order for expenses. The court granted the motion.

Note 4 – Contingent liabilities (contd.)

13. Claim against the Supergas and other gas companies	A claim and a motion for class certification from December 2003 in a total estimated amount of approx. NIS 1 billion.	Motion for class certification claiming that between 1994 and 2003 there were restrictive arrangements in the field of the private gas market and the commercial gas market.	The parties entered another amended settlement agreement that was filed with the court in September 2011. In September 2011, the court ruled that there are deficiencies in the motion for the approval of the settlement agreement and demanded that the parties file an amended motion, or else the motion shall be summarily dismissed with prejudice. The Company's management estimates, based on the estimate of Granite's management which relies on Supergas' legal advisors, the chances that the court approves the amended settlement agreement exceed 50%. The Group's financial statements included a provision which reflects the Company's management estimates, based on an estimate of Granite's management, which relies on Supergas' management, in respect of the projected costs due to the settlement arrangement. Insofar as there shall be additional costs, then they are not expected to be material.
14. Claim against Supergas and other gas companies	Claim and a motion for class certification from November 2008 in an amount of approx. NIS 62 million. No specific amount was attributed to Supergas, however, according to an arithmetic calculation it may be assumed that the subject matter is approx. NIS 5.5 million.	Motion for class certification due to supposed illegal charge of various charges from customers.	The parties signed a settlement arrangement which was filed with the court. The parties are awaiting the court decision in respect of approval of the settlement agreement. The said settlement arrangement will not have a material effect on Supergas' results.

Note 4 – Contingent liabilities (contd.)

15. Claim against Supergas and its subsidiary	Claim and motion for class certification from September 2010 against Supergas and a subsidiary of Supergas in the amount of approx. NIS 30 million.	The claim concerns a claim for non compliance with the provisions of law in respect of providing a free phone service for Supergas customers.	In August 2011, a settlement agreement was signed between the parties and a motion for the approval of the settlement agreement was field with the court. According to the court's instructions a first notice was released in the press in respect of the agreement, and it was delivered to the Attorney General for his comments. The cost of the settlement agreement is not material to Supergas. The Company's management estimates, based on the estimate of Granite management which is based on Supergas' legal advisors, the probability that the settlement be sanctioned by the court is higher than 50% (subject to certain changes that may be requested in the framework of the proceeding).
16. Claim against Supergas and other gas companies	Claim and a motion for class certification from November 2010 against Supergas and other gas companies in an amount of approx. NIS 89.5 million (the share attributed to Supergas is approx. NIS 27 million).	The subject matter of the Claim is a claim that there is an "indirect" binding between the gas companies and the purchasers of apartments in condominiums, as a result of which the apartment purchasers are allegedly affected, while paying excess funds beyond the amount customary under terms of competition both for the initial connection and for consumption.	The Company's management estimates, based on the estimation of Granite management which is based on Supergas' legal advisors, the probability that the motion for class certification be dismissed is higher than 50%.
17. Claim against Supergas and other gas companies	Claim and motion for class certification from February 2011 against Supergas and other gas companies in an amount which has not been quantified yet.	The claim concerns a claim that the gas companies market to their customers LPG at a temperature and atmospheric pressure that are higher than the terms under which, as argued, the gas companies purchase the LPG and/or the terms under which the LPG must be sold according to international trade standards, and therefore, according to the plaintiffs' claim, the gas companies sell a product which is inferior to the product which they purchase, contrarily to the Consumer Protection Law, and thereby unjustifiably enrich themselves, according to the plaintiffs' claim.	The Company's management estimates, based on the estimation of Granite's management which is based on the legal advisors of Supergas, it is not possible at this preliminary stage to estimate the prospects of the claim.

Note 4 – Contingent liabilities (contd.)

18. Claim against Supergas	Claim and motion for class certification against Supergas from March 2011 in the amount of approx. NIS 42 million.	The claim concerns a claim that the gas companies, including Supergas, systematically breach the provisions of Section 8 of the Order for Stability of Prices of Goods and Services (Temporary Order) (Maximum Prices for Oil Products), 5756-1996 and charge their customers for services provided thereby to customers, in addition to the charge in respect of the gas supply, and thereby breach a statutory duty and unjustifiably enrich on account of the customers.	In July 2011 the claim was dismissed for neglect to prosecute.
19. Claim against Sonol	Motion for class certification against Supergas from November 2011 in an estimated total amount of approx. NIS 1 billion.	Motion for class certification filed by a "Dalkan" customer claiming that in accordance with his set of agreements with Sonol, Sonol had charged him for diesel oil a price higher than that which was customary in the stations, and therefore, he and the other members of the group (customers using the "Dalkan" system) are entitled to reimbursement of funds from Sonol.	The Company's management estimates, based on the estimation of Granite's management which is based on the estimate of Sonol's management, it is not possible at this preliminary stage to estimate the prospects of the claim.
20. Claim against Sonol	Motion for class certification from November 2011 in an estimated total amount of approx. NIS 42.5 million.	Motion for class certification by a customer who filled her car with 95 octane fuel using a self service pump and paid the station worker in cash. She claims that they had charged her a price higher than the maximum consumer price permitted by law for self service fuelling.	The Company's management estimates, based on the estimation of Granite's management which is based on the estimate of Sonol's management, it is not possible at this preliminary stage to estimate the prospects of the claim.

Note 4 – Contingent liabilities (contd.)

d. Other claims

The parties	Amount of the Claim	Nature of the Claim	Prospects of the Claim
1. Claim against Sonol	Approx. NIS 18 million.	A claim against Sonol for the alleged breach of a lease agreement. This claim was filed following a claim of Sonol against the Plaintiffs in the amount of NIS 4 million.	In July 2011 Sonol's claim was dismissed and the claim against thereto was partially granted, and accordingly, Sonol paid NIS 2 million plus interest and linkage differentials.
2. Claim against Sonol	A claim against Sonol from June 2010 for monetary relief in the amount of approx. NIS 9 million.	A financial claim in respect of various amounts that, according to the plaintiff, Sonol owes it. In view of a judgement in a claim of Sonol against the plaintiff, which constitutes *res judicata* in a way which compels the denials of the vast majority of the plaintiff's arguments in the claim against Sonol, the plaintiff requested to amend its claim and to file an amended statement of claim.	The Company's management estimates, based on the estimation of Granite management's estimation which is based on Sonol's legal advisors, the prospects of the claim against Sonol are less than 50%.
3. Claim against Sonol	Claim for declaratory relief in respect of the manner of linking the lease fees as well as a monetary relief in the amount of approx. NIS 6.7 million.	The owner of a land on which a fuelling station stands filed a claim against Sonol, claiming that Sonol did not comply with its obligation to pay the Plaintiff linkage differential for lease fees at the fuelling station, contrarily to the contractual system between the parties.	The parties signed a letter of agreement according to which Sonol paid the plaintiff for linkage differentials until September 2011. The amount paid does not materially exceed the amount in the provision. In addition, the parties reached an agreement in respect of a future linkage mechanism for the lease fees and a motion was filed with the court for dismissal of the claim against the Company.
4. Claim against Sonol.	Approx. NIS 18 million.	In March 2011 a claim for monetary relief was filed against Sonol by a company with whom an agreement was signed for the construction and operation of a fuelling station, claiming that Sonol had breached the agreement therewith.	The Company's management estimates, based on the estimate of Granite's management, which is based on Sonol's legal advisors, at this preliminary stage the prospects of the claim are estimated at less than 50%.

Note 4 – Contingent liabilities (contd.)

5. Claim against Sonol and a consolidated company thereof (a counterclaim in a claim proceeding of Sonol and the consolidated company against the aforesaid plaintiff)	NIS 7 million.	In the framework of a claim in the amount of approx. NIS 4.8 million filed by Sonol against the operators of fuelling stations between the years of 1991 and 2002 who also acted as an agency for distribution of fuels in the north, due to a debt for the purchase of fuels and oils, the defendant filed a counterclaim, *inter alia*, for setoff of amounts which they claim were not credited in the ongoing settlement of accounts between Sonol and them during the operation of the fuelling stations, fuel transportations to another fuelling station and loss of future profits from the operation of the fuelling station.	In September 2011 a judgment was ruled in the claim and the counterclaim, whereby Sonol was paid an amount of approx. NIS 5.8 million (including linkage and interest).
6. Municipality against Supergas	Municipality demands in the amount of approx. NIS 68 million from 2011.	Supergas filed an appeal for a building permit by virtue of National Outline Plan 32c for above ground concealing of gas tanks. As a precondition for issuance of the permit,, the local committee and the municipality sent demands for payment on three issues: Use fees at a sum total of approx. NIS 4.5 million; fees and development levies in the amount of approx. Nis 4 million; betterment levy in the amount of approx. NIS 59 million.	The Company's management estimates, based on the estimation of Granite's management relying on Supergas' legal advisors, even though Supergas denies the demand for betterment levy, it is not possible to quantify the chances of the claim for betterment levy and the monetary scope of the liability for such levy, if prescribed. In respect of the fees and development levies – it is possible to estimate at a probability higher than 50% that the liability to remain, if any, will be much lower than the requested amount, but at this stage it is early to estimate the monetary scope thereof. In respect of the usage fees demand – at this stage it is not possible to estimate the chances of the demand and the monetary scope thereof, if liability shall be determined. It shall be stated that the demands for betterment levy and fees and development levies, are not imposed on Supergas, so that if it shall withdraw the appeal for a permit, no monetary liability on these matters shall apply thereto.

Note 4 – Contingent liabilities (contd.)

7. Indictment against Supergas and the directors thereof	Criminal.	In October 2011 the City of Kiryat Ata filed two proceedings against Supergas at the Domestic Affairs Court in the Krayot – (1) Indictment pursuant to Business Licensing Law due to the operation of the gas farm in Kiryat Ata without business license. This proceeding was filed both against the Company and against the directors thereof. (2) Motion for an order ceasing operation of a business in which it is sought that an order be issued against Supergas, ordering it to immediately cease the gas farm activity due to the absence of a business license. This motion was filed as an interim motion in the framework of the above-mentioned indictment proceeding.	The Company's management estimates, based on the estimate of Granite's management which is based on Supergas' legal advisors, at this preliminary stage it is impossible to estimate the prospects of such proceedings.
8. Arbitration proceeding against G.E.S	Approx. $1.5 million (and a claim on behalf of G.E. S in the amount of approx. NIS 4 million)	An arbitration proceeding between G.E.S. and a third party in respect of a contractual system which addresses the construction of two water treatment facilities in the US.	The Company's management estimates, based on the estimate of Granite's management which is based on GES legal advisors, that it appears that G.E.S will not be required to bear financial resources (insofar as they shall be charged against it) since such (if any) are expected to be set off against the claim of G.E.S itself.
9. Claim against Nitron Chemtech (a subsidiary of G.E.S) and former officers	Approx. NIS 6 million (in the context of a counterclaim from April 2011 in a claim of Nitron against the Plaintiff in the amount of NIS 4 million, for enforcement, declaratory relieves and a perpetual injunction.)	Claim for alleged damage caused to the counter-plaintiff due to alleged non-compliance of Nitron with the agreement therewith.	The Company's management estimates, based on the estimate of Granite's management which is based on Nitron's legal advisors, that in light of the preliminary stage in which the proceeding is at, it is impossible to estimate the prospects of the claim.

e. Additional claims and debt demands from local municipalities (mostly legal and in insignificant amounts) arising from the ordinary course of business have been submitted against the Group's companies.

f. The Company's management estimates that the provisions made to settle the outcome of the claims outlined above are fair.

Note 5 – Significant transactions and events during the period of report

A. Purchase of Land in South Hakirya:

In May 2011, the Company won the tender on behalf of the Israel Land Administration for the purchase of the long-term lease rights in the lot in the Southern part of HaKirya in Tel Aviv (in the area of approximately 9.4 dunam) (the "Lot").

The Lot is designated for the construction of an office and commercial project in the scope of approximately 125 thousand sqm of above ground built-up area (gross) and approximately 61 thousand sqm of underground floors. In consideration for leasing the Lot for a period of 49 + 49 years, the Company paid the Israel Land Administration a total amount of approx. NIS 522 million (not including VAT) and approx. NIS 39 million for development expenses.

In respect of the purchase the Company paid in July 2011 a purchase tax in the amount of approx. NIS 27 million.

In the tender documents the Company undertook to complete the establishment of the project within 60 months, some of the work, it undertook to complete within 36 months.

As of the date of the report, the Company financed the purchase of the Lot from the independent sources and through bank financing and it intends to finance the construction through bank financing and/or independent financing.

B. Purchase of Land in Ramla

In January 2011, a consolidated company executed an agreement for the acquisition of the rights in a lot of an area of approximately 31,650 sqm in Ramla, which constitutes part of the area known as the Gindi City Project (the “Sale Agreement” and the “Lot”) from Gindi Project Investments 2006 Ltd. (the “Seller”).

The transaction was closed in May 2011 and all of the consideration, in the sum of NIS 100 million (plus V.A.T), was paid while only part of it is held in deposit in escrow for securing the issuance of the tax certificates and the performance of the transfer of rights by the Seller.

In June 2011, the consolidated Company paid a purchase tax in the amount of NIS 5 million.

The Lot is designated for the construction of a mall of a gross area of 31,500 sqm (main areas and service areas).

As of the date of the report, the consolidated company financed the purchase of the Lot through financing from the Company and it intends to finance the construction through bank financing and/or financing from the Company.

Note 5 – Significant transactions and events during the period of report – Contd.

C. Purchase of Three Office Towers in Houston, Texas, USA:

In February, 2011 Three Galleria Office Buildings, LLC., a U.S. company indirectly held at the rate of 90% by the Company (the "Purchaser") closed with a third party (the "Seller") a purchase of three office towers in Houston, U.S. (the "Agreement"), all as specified below:

(1) The Purchased Properties

Pursuant to the Agreement, the Purchaser purchased all of the rights in three towers used for offices, of a total area of approx. 99,000 sqm (1,065,789 sqf) (with no additional building rights), located in the Galleria area in Houston, Texas, USA, which constitute part of a complex which includes commercial areas, two luxury hotels and parking lots (in the legal structure of a condominium). Approximately 3,774 parking spaces serve the towers according to a long-term agreement with the owners of the commercial property which constitutes part of the condominium structure which was assigned to the Purchaser.

(2) The Consideration

The consideration for the properties was a total sum of U.S. $176 million, from which the sum of approx. U.S. $22 million was offset and deposited in escrow in respect of existing liabilities of the Seller to existing lessees and to brokers which the Purchaser has assumed.

(3) Financing of the Purchase

The purchase was financed through a (non recourse) loan in the sum of approx. U.S. $130 million and the balance through equity. The interest on the loan is fixed interest at the rate of 5.998%. The loan is for a period of 10 years, with only interest being paid in the first year, and thereafter principal + interest according to amortization of 30 years.

In order to secure the loan, the Purchaser pledged the Purchased Properties and all of the related rights deriving therefrom. In addition, the Company provided a limited guarantee in the sum of approx. U.S. $5 million, exercisable only in specific cases defined in the loan agreement, and the Company undertook to indemnify the financer for its damage in the event of certain breaches of the Purchaser's undertakings in the loan agreement.

(4) Brokerage Fees

In respect of location of the property, initiation and promotion of the transaction, the Company paid initiation and brokerage fees to the owners of the management company in the sum of approx. U.S. $1.4 million.

Note 5 – Significant transactions and events during the period of report – Contd.

(5) Agreement for the management of the Purchased Properties, the partners in the Purchaser

The remaining 10% of the rights in the Purchaser are indirectly held by the owners of the management company (the "Partner").

The Company provided the Partner with a loan in the sum of approx. U.S. $2.5 million to finance part of the Partner's share in the capital required for the purchase of its share in the interests (the "Partner's Loan"). The Partner's Loan bears an annual interest at the rate of 6.998% per annum. In order to secure the Partner's Loan, it pledged its rights in the Purchaser in favour of the Company, including its rights to receive distributions therefrom, and provided a personal guarantee.

During the third quarter, the Partner repaid the aforesaid loan and at the same time the pledge on its interests expired and the guarantee it provided was cancelled.

In addition, the Purchaser engaged with the management company in an agreement for the management of the purchased properties, in consideration for a management fee at the rate of 2.25% of the gross income from the purchased properties. The management agreement further determines that each party may terminate the management agreement at any time by advance notice of 30 days.

(6) In these financial statements, the fair value of the purchased properties was determined by an appraisal of an independent appraiser (which was done in the first quarter of 2011) in the sum of approx. U.S. $183 million (NIS 637 million).

D. Engagement in two agreements for the purchase of "Ir Yamim" mall in Netanya, under construction:

In August 2011, the Company engaged in a contingent sale agreement for the purchase of half the rights at the "Ir Yamim" mall in Netanya (the "Mall") at an area of 58,060 sqm (the "Sold Property") from Shikun Upituach for Israel Ltd. (the "Seller") in consideration for an amount of approx. NIS 350 million (the "First Agreement").

In September 2011 the Company engaged in a contingent sale agreement for the purchase of the other half the rights at the Mall from Shikun & Binui Real Estate (Investments) Ltd. in consideration for an amount of approx. NIS 370 million (the "Second Agreement").

The consideration will be paid, partly in cash and partly through the Company's stepping into to the sellers' shoes in respect of the sellers' liabilities vis-à-vis Bank Leumi in the bank financing agreement for building the Mall.

Note 5 – Significant transactions and events during the period of report – Contd.

The Mall is at the last stages of construction. As of the date of the report, the Sold Property includes a gross commercial area for lease of approx. 24,000 sqm. As of the date of the report, lease agreements have been signed in respect of approx. 65%-70% of the commercial area of the Mall.

In addition, the Sold Property has future interests that are expected to be approved within the deposited Zoning Plan (the "Deposited Plan"), subject to the approval of which will confer rights for increasing the Mall, including commerce and office area, and will confer rights for additional areas designated for senior housing. In that respect it was determined in the First Agreement that the Company shall pay an interest bearing advance payment at an annual rate of 7%, in the amount of NIS 20 million, in consideration for the Seller's share in the interests (50%) to the extent such shall be allocated to the Mall's land, according to the Deposited Plan (the "Advance Payment"). Insofar as the Deposited Plan will not be approved within the dates stipulated in the First Agreement, the Seller shall return the Advance Payment to the Company together with interest, without derogating from its undertaking to pay the additional consideration on the date of approval of the Deposited Plan. Insofar that after the Deposited Plan will be approved, it shall be found out that the value of the additional rights approved pursuant to the Plan is higher than the balance of the Advance Payment, the Company shall pay additional consideration.

In respect of the other 50% in the additional interests in the Deposited Plan, the Second Agreement provides, that insofar as the plan is approved, the Company shall pay the Seller additional consideration whose value will be determined through the agreed-upon mechanism, and if rights to senior housing are also approved, one half of them (25% in total) will remain in the Seller's hands jointly with the Company.

The Company intends to finance the costs of purchasing the Sold Property (in addition to the credit from Bank Leumi according to the financing agreement or after payment thereof) from its own sources and/or through bank financing.

In respect of the two transactions, and subject to the closing thereof, the Company is expected to pay related expenses (including purchase tax and brokerage fees) at a total amount of approx. NIS 40 million.

The performance of the sale agreements is contingent upon two conditions – receipt of the approval of the Antitrust Commissioner, if required, and receipt of the consent of Bank Leumi le-Israel Ltd. which provided to the owner of the Mall a bank financing agreement for building the Mall.

As of the date of approval of the financial statements, the above-mentioned conditions have not yet been fulfilled.

Note 5 – Significant transactions and events during the period of report – Contd.

During the report period, the parties to the two sale agreements agreed to give extensions to the Antitrust Authority, to issue a decision in the merger proposals they submitted.

E. Appointment of an Active Deputy to the Chairman of the Company's Board of Directors:

On January 16, 2011, the Company's board of directors approved, after the approval and recommendation of the Company's audit committee, that Mr. Menachem Einan, the former CEO of the Company ("Mr. Einan") be promoted and appointed as active deputy to the chairman of the Company's board instead of his position as the Company's CEO. In such position, Mr. Einan will be deemed as one of two deputies to the board's chairman who the board may elect, as stated in the Company's articles of association, in addition to Ms. Danna Azrieli who has served, as of the date of this report, as an active deputy chairperson to the chairman of the board since June 2010. Mr. Einan will be responsible, in his new position, for the strategic fields related to the continued business development of the Group and realization of its long-term vision. The appointment took effect on April 1, 2011. According to a management agreement that was signed between the Company and Mr. Einan on March 1, 2010, the terms of the management agreement with Mr. Einan shall remain in effect.

F. Appointment of the Company's CEO and approval of the terms of his office:

On January 16, 2011 the Company's board of directors approved the appointment of Mr. Shlomo Sherf ("Mr. Sherf") to the position of CEO commencing from April 1, 2011, as well as the terms of the Company's engagement in an agreement for the provision of management services with a company wholly owned by Mr. Sherf (the "Management Company").

The Management Company is entitled to a fixed monthly payment of NIS 250,000 linked to the consumer price index, published on February 15, 2011, and is entitled to related benefits, including the provision of a car (Group 7) or, alternatively, the Company will bear any and all costs of the expenses of the car purchased by Mr. Sherf or by the Management Company (including depreciation) and phones.

In addition, the Management Company is entitled, once a year, to annual remuneration in the sum of NIS 1,000,000 to be paid in two semi-annual instalments. Such amount will be linked to the consumer price index.

Similarly to the terms of the Company's existing phantom units allotment plan, in April 2011 the Management Company was granted 284,527 phantom units of a total value of NIS 9 million according to a base price determined according to an average share price in March 2011, which was NIS 98.

The management agreement is for a period of three years from the date of the agreement's taking effect (the "First Period") and will automatically be renewed for one year each time.

Note 5 – Significant transactions and events during the period of report – Contd.

Each one of the parties to the agreement will be able to terminate the agreement, at its discretion, by advance written notice to be delivered to the other party 6 months in advance.

In addition, the Management Company will be entitled to adjustment compensation in an amount equal to 3 monthly payments.

In the event that termination of Mr. Sherf's office shall be at the Company's initiative, Mr. Sherf will be entitled to adjustment compensation as follows:

(1) Should the notice be given during the First Period - an amount equal to 6 monthly payments.

(2) Should the notice be given after the First Period – an amount equal to 12 monthly payments.

The aforesaid notwithstanding, Azrieli Group will be entitled to terminate the agreement immediately without advance notice and without payment of the consideration in respect of advance notice or adjustment compensation, upon the occurrence of one of the following:

(1) The Company and/or the manager shall have been convicted of a criminal offense involving moral turpitude.

(2) The Company and/or the manager shall have committed a fundamental breach of the fiduciary duty to the Azrieli Group.

G. On March 29, 2011 the Company's board of directors decided upon the distribution of a dividend in the sum of NIS 240 million (reflecting NIS 1.98 per share), which was paid on April 27, 2011.

H. On June 7, 2011, Granite (a subsidiary) distributed to the shareholders thereof a dividend in the amount of NIS 15 million after the approval of Granite's board of directors dated May 18, 2011. The part of the non-controlling interests in the dividend amounted to the sum of approx. NIS 5.9 million.

I. After receipt of the approval of the audit committee and the Company's board of directors dated June 28, 2011, the general meeting approved an amendment to the wording of the exemption and indemnification letters that the Company had granted and still grants to the officers and directors in the Company, including to the officers and directors in the Company who are deemed as controlling shareholders and/or that the controlling shareholders of the Company have a personal interest in their grant, as shall serve from time to time, in order to adapt them to the provisions of Section 56(h) of the Securities Law in a manner that they shall include an undertaking for indemnification for payments to parties affected by breach and expenses in respect of administrative enforcement proceedings including reasonable litigation expenses.

Note 5 – Significant transactions and events during the period of report – Contd.

J. On august 31, 2011, Sonol received an amendment to the Order for Supervision on Maximum Prices in Fuelling Stations, which decreased, effective September 1, 2011, the marketing margin for gasoline 95 octance for self service by 18.5 Agorot per litre (including V.A.T.) and for full service by 11.5 Agorot per litre (including V.A.T).

Sonol, like the other fuel marketing companies, filed a petition to the high court of justice against this decision to reduce the marketing margin. On September 19, 2011, the court decided to return the issue of examining the marketing margin for a renewed hearing vis-à-vis the Ministry of Infrastructures and the prices committee based on an updated database, determined a schedule for completing the process, and decided that pending completion of the proceeding, the Order of Supervision on Prices shall remain in effect.

Sonol has and is taking steps to minimize the effect of the marketing margin reduction, while at this stage it is impossible to estimate the effect of the margin reduction.

Note 6 – Segmental reporting

a. General:

The Company has adopted IFRS 8 "Segmental Operations" ("IFRS 8"). According to the provisions of the Standard, operating segments are identified on the basis of the internal reporting about the Group's components, which are regularly reviewed by the Chief Operations Decision Maker of the Group in order to allocate resources and evaluate performances of the operating segments.

The Company's business operations mainly focus on the income-producing property segment in Israel, where most the Group's business operations is in the commercial centers and malls segment, mainly in Israel, and in the office and other space for lease segment, mainly in Israel. In addition the Company is engaged through its holdings in Granite Hacarmel in other fields of operations, which include the fields of paint and construction finishing, energy, water and the environment.

The following are the details of the Company's operating segments:

Segment A' – commercial centers and malls
Segment B' – office and other space for lease segment
Segment C' – Granit Hacarmel

Note 6 – Segmental reporting – Contd.

b. Operating segments:

	For the period of nine months ended September 30, 2011				
	Commercial centers and malls	Office and other space for lease	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)				
Revenues:					
Total revenues from outsiders	598,337	311,266	4,632,950	706	5,543,259
Total segment expenses	109,871	75,714	4,461,020	53	4,646,658
Segment income	488,466	235,552	171,930	653	896,601
Net income (loss) from adjustment of fair value of investment property and investment property under construction	376,893	86,195	(724)	-	462,364
Non-attributed expenses					(50,054)
Financing expenses, net					(427,894)
Other revenues, net					50,694
The Company's share in the results of associated companies, net of tax					(13,169)
Income before taxes on revenues					918,542
Additional information:					
Segment assets (*)	9,295,787	5,015,230	5,488,895	-	19,799,912
Unallocated assets (**)					2,866,509
Total consolidated assets					22,666,421

(*) The total sum of the properties of the office and other space for lease segment, as of September 30, 2011, is approx. NIS 5 billion, compared to approx. NIS 3.7 billion on December 31, 2010. The difference derives mainly from the acquisition of the office towers in Texas and land in South Hakirya, as clarified in Note 5 of the financial statements.

(**) Mainly financial assets held for trade in the sum of approx. NIS 1,269 million and available for sale financial assets in the sum of approx. NIS 1,348 million.

Note 6 – Segmental reporting – Contd.

	For the period of nine months ended September 30, 2010				
	Commercial centers and malls	Office and Other Space for lease	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)				
Revenues:					
Total revenues from outsiders	563,535	249,593	3,905,911	398	4,719,437
Total segment expenses	106,496	49,825	3,783,525	-	3,939,846
Segment income	457,039	199,768	122,386	398	779,591
Net income (loss) from adjustment of fair value of investment property and investment property under construction	109,384	24,163	(3,358)	-	130,189
Non-attributed expenses					(49,163)
Financing expenses, net					(272,773)
Other revenues, net					26,836
The Company's share in the results of associated companies, net of tax					(14,134)
Income before taxes on revenues					600,546
Additional information:					
Segment assets	7,789,100	3,577,226	(*)4,961,932	-	16,328,258
Unallocated assets (**)					4,119,102
Total consolidated assets					20,447,360

(*) Reclassified (see Note 2e).

(**) Mainly financial assets held for trade in the sum of approx. NIS 2,226 million and available for sale financial assets in the sum of approx. NIS 1,657 million.

Note 6 – Segmental reporting – Contd.

	For the period of three months ended September 30, 2011				
	Commercial centers and malls	Office and Other Space for lease	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)				
Revenues:					
Total revenues from outsiders	210,236	109,056	1,611,721	238	1,931,251
Total segment expenses	41,667	27,783	1,564,874	17	1,634,341
Segment income	168,569	81,273	46,847	221	296,910
Net income (loss) from adjustment of fair value of investment property and investment property under construction	103,778	2,983	(538)	-	106,223
Non-attributed expenses					(13,119)
Financing expenses, net					(134,822)
Other revenues, net					549
The Company's share in the results of associated companies, net of tax					(3,443)
Income before taxes on revenues					252,298

	For the period of three months ended September 30, 2010				
	Commercial centers and malls	Office and Other Space for lease	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)				
Revenues:					
Total revenues from outsiders	198,523	84,330	1,302,199	258	1,585,310
Total segment expenses	40,999	17,914	1,241,717	-	1,300,630
Segment income	157,524	66,416	60,482	258	284,680
Net income (loss) from adjustment of fair value of investment property and investment property under construction	116,542	36,536	(833)	-	152,245
Non-attributed expenses					(16,310)
Financing expenses, net					(96,584)
Other revenues, net					636
The Company's share in the results of associated companies, net of tax					(4,897)
Income before taxes on revenues					319,770

Note 6 – Segmental reporting – Contd.

	For the year ended December 31, 2010				
	Commercial centers and malls	Office and Other Space for lease	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands				
Revenues:					
Total revenues from outsiders	758,837	331,973	5,252,470	642	6,343,922
Total segment expenses	141,223	67,869	5,074,980	49	5,284,121
Segment income	617,614	264,104	177,490	593	1,059,801
Net income (loss) from adjustment of fair value of investment property and investment property under construction	773,498	118,278	(1,080)	-	890,696
Non-attributed expenses					(71,297)
Financing expenses, net					(362,802)
Other revenues, net					52,243
The Company's share in the results of associated companies, net of tax					(21,378)
Income before taxes on revenues					1,547,263
Additional information:					
Segment assets	8,489,001	3,674,878	4,921,319	-	17,085,198
Unallocated assets (*)					4,258,180
Total consolidated assets					21,343,378

(*) Mainly financial assets held for trade in the sum of approx. NIS 2,235 million and available for sale financial assets in the sum of approx. NIS 1,790 million.

Note 7 – Material events after the end of the reporting period

a. With respect to legal claims received after the date of the financial statements, see Note 4 to the financial statements.

b. On September 26, 2011, the recommendations of the Committee on Economic, Social and Cultural Rights headed by Prof. Manuel Trajtenberg were published. These recommendations include several proposed changes in the field of taxation, which if adopted, may have a significant effect on the financial statements and the reported results of many entities.

Following are the main recommendations of the committee in respect of corporate taxation:

1. Cancelling the decreases planned over the coming years in income tax and corporate income tax starting from 2012.

2. Increasing the corporate income tax in 2012 to 25%.

3. Increasing the rates of capital gain tax and betterment tax to the rate specified in Section 2 above.

On October 30, 2011, these recommendations were adopted by the Government of Israel, and as of the date of release of the financial statements, they do not have legal effect. For the recommendations to be accepted and become valid, they need to undergo an enactment process which is not guaranteed to take place, and it is further possible that it shall be performed in a different manner to that recommended by the committee.

The Group's deferred tax balances as of September 30, 2011, do not take into account the above recommendations of the committee, since until the end of the reporting period, the enactment thereof was not in fact completed.

Had the enactment proceedings in respect of the new tax rates been completed in fact until September 30, 2011, and the said changes in the corporate income tax rate been included in the legislative amendments as stated in the Government Resolution, the effect of the change on the consolidated Interim Financial Statements as of September 30, 2011, would have resulted in an increase in the net deferred tax liabilities in a sum total of approx. NIS 583 million, of which a sum of approx. NIS 572 million would have been carried as an expense to the income statement and a sum of approx. NIS 11million would have carried as a loss to other comprehensive profit.

c. In November 2011, Maalot updated the rating of the Company's Series A Bonds and raised it to stable AA (see also Note 22(b)(1) of the annual financial statements as at December 31, 2010).