AZRIELI GROUP

Azrieli Group LTD

Report Q1/2012

Dated 31st March 2012

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Dated March 31st 2012

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PART A

BOARD REPORT

March 31, 2012

CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the quarterly report for Q1/2012 and the financial statements annexed thereto (the "**Report**") of 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 statements annexed thereto, of Azrieli Group Limited (The "Company") (the "Report"). The binding 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 any event of contradiction or inconsistency between this translation and the Hebrew version of the Report, 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 May 28, 2012 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 May 28, 2012 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 three months ended March 31, 2012

The board of directors of Azrieli Group Ltd. hereby respectfully submits the board of directors' report for the quarter ended March 31, 2012 (hereinafter: the "**Report Period**"), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in its scope and refers to events and changes that occurred in the state of the Company's affairs during the Report Period, whose effect is material, and should be inspected together with the Description of the Corporation's Business chapter in the periodic report for 2011 of December 31, 2011, the financial statements and the Report of the Board of Directors on the State of the Company's Affairs for the year ended on the same date (the "Periodic Report for 2011") and the update to the Corporation's Business chapter and the financial statements for March 31, 2012.

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 has income-producing properties abroad, and mainly lease space for offices in Houston Texas, USA. Also, the Company engages, through its holding in Granite HaCarmel Investments Ltd. ("**Granite**") in another business segment, which includes the energy, paint, water and environmental quality segments. The Company also holds minor holdings in financial corporations.

Azrieli Group's business has developed, *inter alia*, on the basis of the extensive knowledge and experience that it has accumulated for many years in the income-producing property industry in Israel, while using the experience and expertise of 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 March 31, 2012. 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.

As aforesaid, in the Periodic Report for 2011, the business segments of the Group reported as reportable business segments in the Company's financial statements are the commercial centers and malls sector in Israel, the office and other lease space sector in Israel and the income-producing property sector in the USA and the Granite Sector.

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 March 31, 2012.

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 a lot of 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 standalone statement is attached hereto as Annex E. This annex is not audited or reviewed by the Company's auditors.

The Company included, in the emphases below, the main provisions of this report. With respect to forward-looking information, including in connection with the progress of the projects under construction, see Section 1.1.3 below.

Main emphases for the Report Period ended on March 31, 2012

Approx. 9% increase in the net profit for the quarter	• Approx. NIS 198 million in the Report Period compared with the sum of approx. NIS 181 million in the same period last year.
Net profit in the quarter net of irregular effects	• The profit in the Report Period rose by 25% compared with the profit in the same period last year. For further details see Section 1.10 of the Report.
Approx. 14% additional growth in the NOI in the Report Period and approx. 16% growth in the revenues from the real estate segment	• NOI approx. NIS 269 million in the Report Period compared with the sum of approx. NIS 236 million in the same period last year, which growth derives from an increase in revenues from rent and from the acquisition and construction of new properties. For the increase in revenues, see the extended standalone statement, Annex E to this chapter.
Approx. 3% growth in the same property NOI, in the malls and commercial centers in Israel segment	• In the Report Period, the same property NOI in the **Malls and Commercial Centers in Israel** segment amounted to approx. NIS 164 million compared with approx. NIS 160 million in the same period last year.
Approx. 6% growth in the same property NOI figures in the office and other space for lease in Israel segment	• In the Report Period, the same property NOI **in the Office and Other Space for Lease in Israel** segment amounted to approx. NIS 69 million compared with approx. NIS 65 million in the same period last year.
Approx. 40% growth in the same property NOI figures in the income-producing real estate in the U.S. segment	• In the Report Period, the same property NOI in the **Income-Producing Real Estate in the U.S.** segment amounted to approx. NIS 7 million compared with approx. NIS 5 million in the same period last year.
(Average) occupancy rate remained very high	• The occupancy rate in the income-producing real properties in Israel owned by the Group as of March 31, 2012 is close to 100%.
Approx. 10% growth in the FFO attributed to the income-producing property business	• The FFO in the Report Period amounted to approx. NIS 174 million compared with approx. NIS 158 million in the same period last year. For details see Section 1.1.7.
Approx. 9.5% FFO yield attributed to the income-producing property business	• Relative to the Company's value on TASE in proximity to the date of release of this Report (May 17, 2012). For the calculation see Section 1.1.7.
Approx. 7.8% weighted cap rate deriving from the income-producing properties	• In the financial statements as of March 31, 2012. For the calculation see Section 1.1.6.
Rise in the value of the holdings in Bank Leumi	• In the Report Period, a rise was recorded in the value of the holdings which added approx. NIS 49

shares	million after tax to the comprehensive income.
Acquisition of office buildings in Houston, Texas, USA	• In January 2012, the Company expanded the income-producing property business in the U.S. and acquired 100% of the rights in an office building in Texas of a total area of approx. 32 thousand sqm. For details see Section 1.1.1.
Continued business initiation and development	• The Group invested, in the Report Period, approx. NIS 483 million in the acquisition of new properties and in the development of existing properties.

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

1.1 General

1.1.1 Main developments during the Report Period

Transactions in respect of investment property

Acquisition of an office building in Houston Texas, USA

On January 10, 2012, AG Plaza at Enclave, LLC, an American corporation indirectly held by the Company at the rate of 100%, closed the acquisition of an office building in Houston Texas, USA. For further details regarding the property, the financing thereof and the agreement for the acquisition thereof, see Note 5 to the financial statements for March 31, 2012 and the Company's reports of January 1, 2012 (ref.: 2012-01-000444) and of January 11, 2012 (ref.: 2012-01-012534).

Non-fulfillment of a condition precedent in the agreements for the acquisition of the rights in the "Ir Yamim" Mall

On August 15, 2011 and on September 11, 2011, the Company engaged in contingent sale agreements for the acquisition of all of the rights in the "Ir Yamim" mall in Netanya (the "**Mall**"). The agreements determined conditions precedent, including receipt of the Antitrust Commissioner's approval. On January 8, 2012, the Company withdrew the merger application it had submitted to the Antitrust Authority for approval of the acquisition of the Mall, in view of the Company's not agreeing to the conditions presented by the Antitrust Authority for approval of the acquisition thereof. Accordingly, the condition precedent for closing the transactions for the acquisition of the Mall was not fulfilled.

Current Operations

The Company has been consistently operating in recent years for the creation of growth engines additional to those existing in the Group in the core business, in order for them to constitute potential for significant future growth of the NOI of the Group – both through the purchase of land for initiation and development of new properties in the future as well as through the 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 in Israel and overseas 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.

1.1.2 Main Developments after the date of the Statement of Financial Position:

Contingent Agreement for the Acquisition of One Half of the Rights in the Science and Technology Campus Project in Petach Tikva

On May 1, 2012, Otzma & Co. Investments Maccabim Ltd., a private company wholly owned by the Company ("**Otzma**"), entered into an agreement whereby Otzma will acquire the additional rights (50%) in a property known as the Science and Technology Campus project in Petach Tikva, from third parties that are partners therewith in the said property. For further details see Note 7A to the financial statements for March 31, 2012 and the Company's immediate report of May 2, 2012 (ref.: 2012-01-113859).

Tender Offer by Granite Hacarmel to Purchase all of the shares of Tambour Ltd.

On May 23, 2012, Granite Hacarmel reported that the tender offer that it had announced on April 24, 2012 to purchase all of the shares of Tambour Ltd. ("**Tambour**") had been accepted. Upon consummation of the tender offer and performance of a forced purchase for the shares of the offerees that did not accept the same, Granite Hacarmel will hold (together with Tambour) all of the share capital and the voting rights of Tambour, Tambour will become a private company pursuant to Section 339 of the Companies Law, and its shares will be delisted from trade on the Tel Aviv Stock Exchange Ltd. For further details, see Note 7C to the financial statements for March 31, 2012 and the Company's immediate reports of April 24, 2012 (ref.: 2012-01-108060), May 16, 2012 (ref. no.: 2012-01-126747) and May 23, 2012 (ref. no.: 2012-01-133005).

1.1.3 Update of Properties under Initiation and Development

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period stood at approx. NIS 86 million. Thus, the Company also continued to pro-actively manage its existing properties, the improvement thereof, maintaining the high occupancy rate unique to the Group and strengthening the

cash flow generated from such properties.

As of the date of this Report, the Company operates towards the development of several properties under construction, as specified below.

Azrieli Sarona Center, Tel Aviv

The Company holds all of the lease rights in a lot of an area of approx. 9.4 dunam in Southern Hakirya in Tel Aviv (the "**Lot**"), which is designated for the construction of an office and commerce project at a scope of approx. 125 thousand sqm above-ground built-up (gross) area as well as approx. 61 thousand sqm underground floors. In the tender documents the Company undertook to complete the construction of the project within 60 months, and part of the work within 36 months. On March 1, 2012 a building permit was received for the construction of basements. As of the Report Publication Date, the Company has completed the obtaining of the approvals required in accordance with the requirements of the building permit for the construction of the basements and has begun the construction work. For further details, see Note 14g to the financial statements for December 31, 2011 and the Company's reports of May 29, 2011 and May 30, 2011 (ref.: 2011-01-165339 and 2011-01-167994 respectively), which are included herein by way of reference.

Azrieli Holon Center

The Group, through Canit Hashalom, is entitled to receive lease rights in a plot of land owned by the City of Holon of an overall area of approx. 34 dunams in the eastern industrial area of Holon which is designated for the construction of a business park in which framework buildings for the knowledge-intensive industry, offices, exhibition halls and commerce, service areas and parking areas, as well as additional uses will be built (the "**Project**").

Canit Hashalom will be entitled to receive 83% of the space to be built in the Project, while the City of Holon will be entitled to receive 17% of the space to be built as aforesaid. As of the Report Publication Date, the excavation and shoring work have been completed, and the Group is continuing construction of the foundations of the buildings and construction of the basements and the buildings, in accordance with the comprehensive building permit received for Stage A of the Project. For further details regarding the agreement and the terms and conditions thereof, see Note 34B(3) to the Financial Statements for December 31, 2011.

The construction of Azrieli Ramla Mall

The Group, through Otzem Initiation and Investments (1991) Ltd. ("**Otzem**"), holds all of the lease rights in a lot of an area of approx. 31,650 sqm in Ramla (the "**Lot**") and has begun the construction of

Azrieli Ramla Mall of a gross area of 31,500 sqm (main areas and service areas). As of the Report Publication Date, Otzem has submitted documents that are required for the purpose of modification of a zoning plan and for the purpose of settling issues in connection with the project, has received a permit for the fencing of the Lot and demolition of the buildings within the area thereof, and has begun the development work. In view of the local authority's position with respect to modification of the zoning plan for the purpose of settling certain issues in connection with the project, this proceeding will be carried out vis-à-vis the district zoning committee. In March 2012, a permit was received for the construction of a supermarket building (stage A) and two parking floors. The Israel Antiquity Authority has completed its tests in the Lot, and released the Lot for performance of the work, and shall return for further testing upon demolition of the existing Shufersal building on the Lot and the relocation of the access road to the site. For further details, see the Company's immediate reports of January 2, 2011 (ref.: 2011-01-000081) and May 26, 2011 (ref.: 2011-01-162048), which are included in this Report by way of reference.

Azrieli Rishonim Mall

The Group, through Canit Hashalom, is the owner of a plot of land of an area of approx. 19 dunams in Rishon Lezion (the "**Site**").

On August 24, 2009, a plan with respect to the Site was deposited, the approval of which will allow the construction of leasable areas at a scope of approx. 48,000 sqm (commerce and offices) and 82,095 sqm of above-ground and underground parking areas.

On January 8, 2012, an administrative petition, which was filed against the district committee, Canit Hashalom and others due to the approval of the plan under such conditions, was dismissed without prejudice for being premature, since the Ministry of Transport had not yet given its response in connection with approval of the plan. To the best of the Company's knowledge, the petitioners have the right to re-petition against the approval of the plan upon its final approval. In February 2012, the district committee decided to approve the plan which applies to the project without additional conditions. The Company is awaiting receipt of the district committee's comments on the amended plan documents and receipt of the language for announcement of approval of the plan. As of the Date of the Report, the Company has begun the construction of a temporary parking lot on the Site after receiving a building permit for such a temporary parking lot.

Azrieli Kiryat Ata

After the completion and opening to the public of the Azrieli Kiryat Ata Mall, during the Report Period, the Group is acting for the construction of an additional building within the project, of a total

leasable area of approx. 4,000 sqm, which will be used mostly as office space and will also include a commercial area that has been leased, as of the Report Publication Date, to a food chain. The additional building is expected to be completed in 2013. As of the Date of the Report, the Company has begun advancing the excavation and shoring work of the additional building, and has carried out various tasks on the land, in accordance with undertakings that were given thereby to the authorities, according to an agreement with the Ministry of Environmental Protection.

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

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of March 31, 2012 (****) (NIS in millions)	Estimated cost of completion of construction and (NIS in millions)
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	125,000	May 2012.	2016	570	900-945
Azrieli Kiryat Ata (Phase B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	2013	8	45-55
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 (permit for construction of temporary parking)	2015 (*)	71	415-445
Azrieli Center Holon (**)	Holon	Jun. 2008	Commerce Offices	83%	34,000	5,000 115,000	Phase A (***) – 2010 Phase B (***) – not yet determined	Phase A – 2013 Phase B – by 2016	166	450-485
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500(1)	Not yet determined	18 months from date of commencement of construction[1]	5	120-150

[1] As of the date of the report, a decision had been made to commence the planning proceedings of an additional floor and a decision had not been made yet regarding the scope of the Project.

Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	2014	103	210-230
Total						328,500			923	2,140-2,310

(*) Contingent to approval of the city zoning plan.

(**) The figures are for 100%

(***) Phase A – construction of 62,500 sqm of above-ground areas 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 figure reflects the value of the project on the books and not the cost that was invested in the project, as presented in the periodic report for December 31, 2011.

The Company's estimates stated in this section, inter alia with respect to the expected investments and costs for properties under construction, the manner of financing of the projects, the dates of completion of the construction, receipt of various regulatory approvals that are required for purposes of advancement of the projects under construction or the outcomes of administrative and legal proceedings are forward-looking information, as defined in the Securities Law, 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, including changes in market conditions, modifications of the Company's plans, the period of time that shall be required for approval of the building plan for performance and the construction input prices.

1.1.4 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2011[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, from the commercial centers and malls segment in Israel, from the office and other space for lease segment in Israel and from the income-producing property segment in the USA:

NIS in millions	For the three months ended		For the year ended
	March 31, 2012	March 31, 2011	Dec. 31, 2011
Commercial centers and malls in Israel	174	160	662
Growth rate	9%		
Office and other space for lease in Israel	69	65	272
Growth rate	6%		
Income-producing property in the USA	26	11	48
Growth Rate	136%		
Total NOI	269	236	982
Growth rate	14%		
For explanations pertaining to the increase in NOI, see Section 1.11.1, 1.11.2 and 1.11.3 below.			

[2] Details regarding the use made of this figure and the manner of calculation thereof were provided at length in the report of the Company's board of directors for December 31, 2011.

1.1.5 Same property NOI Index

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

	For the three months ended	
NIS in Millions	March 31, 2012	March 31, 2011
Commercial centers and malls in Israel segment	164	160
Office and other space for lease in Israel segment	69	65
Income-producing property in the USA segment	7	5
Total	**240**	**230**
Increase rate	**4%**	

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

	2012	2011			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**
Same property NOI in all of the periods (*)	240	240	237	231	230
NOI from acquired properties	29	18	13	8	6
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**269**	**258**	**250**	**239**	**236**
(*) In all of the Company's operating segments.					

1.1.6 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property of the Group as of March 31, 2012**:**

	NIS in millions
Total Investment property in the "Expanded stand alone" statement (See Annex E) (*)	15,236
Net of value attributed to construction rights not utilized yet	(1)
Net of value attributed to investment property under construction	(923)
Net of the value attributed to land reserves	(25)
Total value of income-producing investment property (including fair value of vacant space)	**14,287**

Actual NOI for the quarter ended March 31, 2012	269
Addition to future quarterly NOI (**)	9
Total standardized NOI	278
Pro-forma annual NOI based on standardized NOI	**1,112**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.8%**

(*) As of the Date of the Report, the Company has made no new valuations and the figures are based on the valuations made as of December 31, 2011. For details regarding the parameters for examination of an update of the valuations in the quarterly reports, see Note 3C(9) to the periodic report for December 31, 2011.
The figure includes receivables which appear in the balance sheet item of "loans and receivables" in respect of averaging attributed to real estate.

(**) Adjustment to adjusted NOI that was included in appraisals as of December 31, 2011 for the income-producing property only (without properties under construction). The figure includes changes in rental fees that were renewed and signed until March 31, 2012 as well as the influence of the index as of March 31, 2012 which was not included in the NOI for Q1/2012. In addition, estimates were included for an addition of NOI for vacant space for population for one year for which value was credited in the valuations as of December 31, 2011 and which have not yet been fully populated (mainly for Tower E in Herzliya) and the NOI in respect of the acquisition of the office building in Texas that was acquired during the Report Period was weighted to a full year.
This figure does not constitute a forecast of the Company of the NOI for 2012 and its sole purpose is to reflect the NOI assuming full population for an entire year of all of the income-producing properties.

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

1.1.7 The FFO (Funds From Operations) Index for the real estate business

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	
NIS in millions	**March 31, 2012**	**March 31, 2011**
Net profit for period attributed to shareholders	**184**	**162**
Discounting the net profit from Granite HaCarmel attributed to shareholders (including amortization of surplus costs)	**(14)**	**(18)**
Adjustments to profit (1):		
Decline (increase) in investment property value	8	(16)
Depreciation and amortizations	1	1
Net non-cash-flow finance expenses	(2)	32
Deferred tax expenses (revenues)	11	(1)
Adjustments for equity-investees	--	1
Interest and dividend from financial assets held for trade net of tax (5)	(14)	(19)
Impairment (appreciation) of financial assets available for sale and held for trade, net	(8)	22
Plus benefit recorded for employee option plan	-	3
Net of dividend received from financial assets available for sale	(8)	(24)
Total adjustments to profit	**(8)**	**(1)**
Plus interest paid for real investments - (2)	**16**	**15**
Total FFO attributed to the income-producing property business (3)	**174**	**158**

FFO return for income-producing property in proximity to the Report Date (May 17, 2012)	
Company's value on the stock exchange	10,916
Net of the value of cash and negotiable securities (according to book value as of March 31, 2012)	(1,020)
Net of the value of the Company's holdings in Granite HaCarmel (according to stock exchange value)	(374)
Net of the value of the Company's holdings in Bank Leumi (according to stock exchange value)	(774)
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, 2011 - the company is not traded)	(483)
Market value attributed to real estate alone	8,265
Net of value of properties under construction and land – according to book value as of March 31, 2012	(949)
Total market value of income-producing properties	**7,316**
Total quarterly real estate FFO	174
Standardizing the quarterly FFO for a year	696
Annual income-producing property FFO return (4)	**9.5%**

Comments and assumptions:

1. The adjustments to profit below do not include the adjustments in respect of Granite, since its profits have been fully discounted.
2. Calculated according to weighted interest of the Group in respect of the real investments which include: Granite Hacarmel, Bank Leumi and Leumi Card, in respect of 65% of the cost of the investments. It shall be noted that in the Board of Directors' Report for March 31, 2011, a mistake occurred and due to a technical error the interest amount that was presented was not weighted at 65% and therefore real estate FFO was published for Q1/2011 in the sum of NIS 168 million instead of NIS 158 million.
3. Which is attributed to shareholders only.
4. The result produced by dividing the FFO attributed to the income-producing real estate activity only by the market value attributed to income-producing real estate activity only.
5. Interest and dividends in respect of transactions and actions in securities which were deducted from the real estate activity were discounted.

1.1.8 The EPRA indexes: 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 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 indexes which were specified above do 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 in millions)	For the three months ended	
	March 31, 2012	**March 31, 2011**
Equity attributed to the Company's shareholders in the financial statements	11,012	10,993
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,203	1,405
EPRA NAV	13,215	12,398
EPRA NAV per share (NIS)	109	102

1.1.9 Main market trends regarding income-producing property segment

The Company's board of directors estimates that no change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report for December 31, 2011.

According to the companies and business survey[3] (the "**Survey**"), the business activity in the Israeli economy expanded in Q1/2012, while curbing the trend of slowdown that was reflected from the survey in the second half of 2011. According to the Survey, the companies expect that the activity will continue to expand also in the coming quarter. These trends supported the decision of the Bank of Israel to leave the interest for the month of May at 2.5%. The consumer price index (known index) remained unchanged in Q1/2012, versus a rise of approx. 0.87% in the same period last year. The exchange rate of the dollar weakened against the NIS by approx. 2.77% during Q1/2012

[3] For details regarding the companies and business survey published by the Bank of Israel, see http://www.bankisrael.gov.il/deptdata/mehkar/articles/csurv52h.pdf.

while the exchange rate of the Canadian dollar weakened against the NIS by approx. 0.4% in this period. Following the growth in the economy and the growth in the business activity and in private consumption, the level of demand and the lease prices rose, in most of the properties a rise in turnover was recorded during the Report Period. However, it is still difficult to raise the rent in certain areas in which competition is increasing. In view of the global unclarity and the instability in the financial markets, the Company is unable to estimate, as of the date of approval of the financial statements, the expected effect of the events described above and the length of the period over which the said effects will last.

The financial figures in the U.S. have improved since Q4/2011. Q1/2012 brought with it improvement in the gross product and in the figures relating to the employment market versus the market expectations. The Federal Reserve is continuing to address the situation, leading a cautious monetary policy whose purpose is to reduce risks and prevent the monetary / financial crisis in Europe from spreading into the U.S. market, so far successfully. According to a publication of CBRE (Americas Economic Snapshot, March 2012) the expected growth in the U.S. market in 2012 was raised to 2.1% and to approx. 2.3% in 2013, and from 2014 far greater growth is expected.

Despite the foregoing instability, as of the Report Publication Date, this instability does not materially affect the Group's results of operations in its operating segments, due to its financial strength, its high liquidity, its status in the financial market and the stability and the growth in private consumption in Israel. In the income-producing property segments the Company also increased its revenues by a considerable rate compared with the same period last year, while maintaining high occupancy rates in its income-producing properties. However, the concerns in the market of a halt in the rate of the growth in the short/mid-term are expressed in a more challenging environment in negotiations vis-à-vis the tenants upon signing new lease agreements or renewal of existing contracts. The Company's management estimates that the broad dispersion of the property portfolio owned thereby, the active current management and maintenance of the properties, their being situated mainly in high-demand areas, the high business positioning of the properties, the high occupancy rates, the broad range of businesses in the malls and commercial centers and the capital structure contribute to reducing the exposure of the Group's business to the said crisis and/or instability.

1.1.10 Liquid means at Azrieli Group

As of March 31, 2012 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 1.3

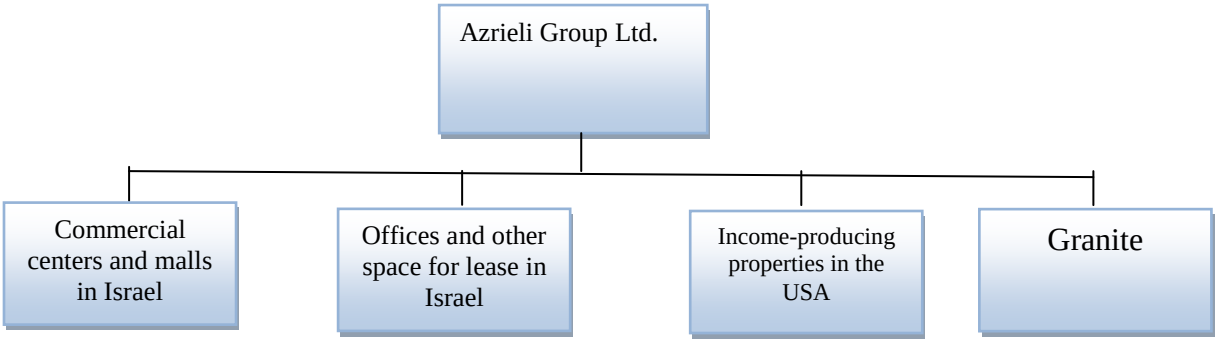
billion[4]. The Company regards its liquid means as important to its financial stability, great financial flexibility, due to its independence from the availability of outside sources also for the purpose of repayment of debts and the ability to take advantage of investment opportunities in different periods. With respect 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 17 of the Description of the Corporation's Business Chapter in Chapter A of the periodic report for 2011, the Company specified additional issues in connection with the financing activity at the Group.

In Chapter D of the periodic report for 2011, the Company reported that since the issue until the date of the periodic report for 2011 the Company had used the issue proceeds in accordance with the targets and in accordance with the policy that was determined in the Company's prospectus. During Q1/2012, the Company recorded financing revenues in a sum of approx. NIS 26 million due to a change in the value of negotiable securities and interests and dividends received from negotiable securities (compared with approx. NIS 3 million in the same period last year).

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 and in the USA, 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 Q1/2012.

[4] For details in regard to 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.

The Company's strength is affected mainly by the broad dispersion of the income-producing property in Israel (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.

In Q1/2012, improvement occurred in the Group's main business activity in the income-producing property segments and growth in the Group's NOI figures, *inter alia* due to the contribution of the new Azrieli Kiryat Ata Mall, Azrieli Akko Mall in Israel, and the office towers in Houston, USA, which the Company recently acquired.

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.

The main considerations of the Company's management in expansion of the real estate activity are based on:

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

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

1.2.2 Summary of the Group's business segments

Commencing from the financial statements as of December 31, 2011, the income-producing activity of the Company outside Israel (including adjustment of comparison numbers) is presented in a separately reportable segment, and as of this date, the Company has four main business segments which constitute its core business.

During the Report Period, no material changes occurred in the main operating segments which constitute the Group's core business, as specified in the Board of Directors' Report for December 31, 2011:

- **Commercial Centers and Malls in Israel Segment** – The Company has 13 malls and commercial centers in Israel of a total leasable area of approx. 256 thousand sqm (consolidated) and 255 thousand sqm (the Company's share), which are leased to approx. 1,750 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 9 income-producing properties in this segment in Israel, of a total leasable area of approx. 282 thousand sqm (consolidated) and 280 thousand sqm (the Company's share) leased to approx. 500 tenants;

- **Income-Producing Property in the USA Segment** – The Company has 6 income-producing properties in this segment, of a total leasable area of approx. 179 thousand sqm (consolidated) and approx. 168 thousand sqm (the Company’s share) leased to approx. 280 tenants;

- **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 2008 approx. 20% of the shares of Leumi Card and in 2009 passive minority holdings in Bank Leumi. The investments 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 and 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 said holdings.

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

	Investment value in the financial statements as of Dec. 31, 2011	Investments during the three months ended on March 31, 2012	Total investment as of March 31, 2012 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 March 31, 2012	Change in the fair value during the Report Period	Dividend received during the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	771	-	771	825	54	-
Investment in Leumi Card Ltd. (**)	483	-	483	483	-	8
Total	1,254	-	1,254	1,308	54	8

* The fair value of the investment in Bank Leumi le-Israel was determined according to the value of the share at the stock exchange as of March 31, 2012;

** 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, 2011.

1.3 The business results and the total assets during 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:		Rate of the segment's profit from the total consolidated net profit in the three months ended:	
	March 31, 2012	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
Commercial centers and malls in Israel	174	160	88%	88%
Office and other space for lease in Israel	69	65	35%	36%
Income-producing property in the USA	26	11	13%	6%
Granite	72	75	36%	41%
Total attributed profit	341	311	172%	171%
Changes in fair value	(8)	18	(4%)	10%
Net financing expenses	(70)	(123)	(35%)	(68%)
Tax expenses	(54)	(29)	(27%)	(16%)
G&A income (expenses), net	(11)	4	(6%)	3%
Net profit per period	**198**	**181**	**100%**	**100%**

The Group's revenues for the Report Period amounted to approx. NIS 2,210 million, compared with approx. NIS 1,783 million in the same period last year, an increase of approx. NIS 427 million, deriving mainly from an increase in the income-producing property segment for commercial centers and malls in Israel in the sum of approx. NIS 21 million (mainly due to the opening of the Azrieli Akko Mall and Azrieli Kiryat Ata Mall in Q3/2011 and an increase in revenues from existing properties), an increase in the income-producing property for office and other space for lease segment in Israel in the sum of approx. NIS 4 million (mainly from the increase in revenues from existing properties), from growth in the income-producing properties segment in the USA in the amount of approx. NIS 23 million (mainly due to the purchase of additional office buildings in February 2011 and in January 2012) and an increase in the Granite segment in the sum of approx. NIS 378 million (Due to an increase in all of the business sectors of Granite).

As of March 31, 2012, the total assets on the balance sheet were approx. NIS 23.5 billion, compared with approx. NIS 23.2 billion as of December 31, 2011.

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 out of the total assets, on a consolidated basis, as of	
	March 31, 2012	**Dec. 31, 2011**	**March 31, 2012**	**Dec. 31, 2011**
Commercial centers and malls in Israel	9,439	9,424	40%	41%
Office and other space for lease in Israel	4,342	4,280	18%	18%
Income-producing property in the USA	1,455	1,092	6%	5%
Granite	5,810	5,497	25%	24%
Others	2,490	2,887	11%	12%
Total	**23,536**	**23,180**	**100%**	**100%**

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

	As of March 31, 2012	As of March 31, 2011	As of Dec. 31, 2011
Current assets	3,914	4,427	4,072
Non-current assets	19,621	17,655	19,108
Current liabilities	4,120	3,372	3,863
Non-current liabilities	7,961	7,258	7,852
Capital attributed to the Company's shareholders	11,012	10,993	11,034
Capital attributed to the Company's shareholders from the total balance sheet (in percents)	47%	50%	48%

The Group finances its business activity mostly by its equity, cash and marketable securities 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 March 31, 2012, the cumulative scope of cash, cash equivalents, and financial assets held for trade and short-term deposits and investments amounted to approx. NIS 1.3 billion[5].

The Company estimates that its liquid means, the considerable cash flow from

[5] For details in regard to an amount which shall not be less than 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.

current operations and its non-pledged assets (in a total value of approx. NIS 9.4 billion in addition to NIS 1.3 billion specified above), allow it a high financial flexibility and an 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 March 31, 2012 (NIS in millions) as presented in the financial statements
Property in commercial centers and malls segment in Israel	5,501
Property in the office and other space for lease segment in Israel	1,689
Income-producing real properties in the U.S. and in England	81
Company's holdings in Leumi Card	483
Company's holdings in Granite	780
Company's holdings in Bank Leumi	825
Total	**9,359**

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 December 31, 2011 (Without the square tower which was included in the non-pledged assets) at approx. NIS 3.8 billion, whereas the loans for it, as of March 31, 2012 (without the square tower), amounted to approx. NIS 820 million).

Dividends:

The Company:

On March 21, 2012, the board of directors of the Company approved, after accepting the recommendation of the finance committee, a cash distribution at an overall amount of NIS 240 million (NIS 1.979 per share) which constitutes approx. 48% of the net profit for the shareholders in 2011 after discounting revaluation profits, discounting unusual effect of changing the rate of the corporate tax (following the Trachtenberg Committee) and discounting the tax effect thereon and approx. 36% of the FFO for the real estate business as specified in Section 1.1.7 above. On April 30, 2012, the Company paid the dividend to its shareholders.

According to the Company's financial statements as of March 31, 2012, the Company has surplus of approx. NIS 8.3 billion.

Granite: According to the dividend distribution policy set forth for the held company Granite, Granite shall distribute every year cash dividend in such

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

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. In the Report Period, the Company did not receive a dividend from Granite.

Leumi Card: To the best of the Company's knowledge, on May 24, 2010, the Leumi Card's board of directors adopted, annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed, subject to the instructions of the Supervisor on the Banks, regulatory provisions and the requirements of the Companies Law. To the best of the Company's knowledge, this policy was updated on May 22, 2011 so that the dividend distribution will be allowed subject to limitations of a "risk appetite" policy which was approved by the board of directors of Leumi Card, according to which a capital to risk components ratio would be maintained at a range of between 14% and 14.5% and a capital core ratio which would be no less than 12% as well as the requirements of supervision on the banks which determine that the Company must adopt Bank Leumi's capital adequacy objectives.

On February 23, 2012, Leumi Card decided on the distribution of a dividend in the amount of NIS 40 million (the Company's share - NIS 8 million) for the profits of 2011, which were distributed on March 29, 2012.

Bank Leumi: During the Report Period, the Company did not receive a dividend from Bank Leumi.

Cash flows

Net cash flows generated for the Group from current operations In the three months ended March 31, 2012, amounted to the sum of approx. NIS 488 million, compared with the sum of approx. NIS 470 million which derived from current operations in the same period last year (an increase of approx. NIS 18 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property (approx. NIS 269 million), with the addition of cash flows generated from current operations from the sale of financial assets held for trade in the sum of approx. NIS 390 million.

The main increase in cash flows from current operations in the three months ended on March 31, 2012 compared with the same period last year resulted from the sale of financial assets held for trade in the sum of approx. NIS 390 million in the Report Period, compared with the sale of financial assets held for trade in the sum of approx. NIS 266 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 33 million), compared with the same period last year. On the other hand, in the Granite segment a decrease of approx. NIS 60 million was recorded, deriving mainly from changes in working capital as follows: (1) increase in trade receivables and inventory, mainly due to the increases in the prices of oil distillates and expansion of the operation volumes in all of the business segments of Granite.

(2) increase in receivables in respect of a franchise arrangement for the desalination of water which derives from the expansion of the desalination plant of Via Maris. According to the accounting standardization, the capitalized amount of the supplementary income in respect of the fixed component of the price of the water, which derives from this expansion, is presented as a financial asset – receivables in respect of a franchise arrangement and therefore is presented as current operations. The gross addition to the financial asset, in Q1/2012, which derives from the expansion, amounts to the sum of approx. NIS 40 million. This effect will continue throughout the period of the expansion of the desalination plant and is due to end in mid-2013.

Net cash flows used by the Group for investment activity In the three months ended March 31, 2012, amounted to approx. NIS 539 million, compared with approx. NIS 807 million in the same period last year.

The decrease in the sum of approx. NIS 268 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 486 million compared with approx. NIS 737 million in the same period last year.

Net cash flows used by the Group for financing activity In the three months ended March 31, 2012, amounted to the sum of approx. NIS 18 million, compared with net cash flows deriving from financing activity in the sum of approx. NIS 375 million in the same period last year. The decrease in the sum of approx. NIS 393 million resulted from a decrease in short- and long-term loans/bonds received (net of loans repaid) in the sum of approx. NIS 366 million compared with the same period last year.

The decrease in the real estate segments derives mainly due to lower credit which the Company took for the purpose of the acquisition of the office building in Texas during the Report Period versus the loan amount taken for the acquisition of office buildings in Texas during the same period last year, as well as from an increase in the payments of short-term loans.

In the Granite segment, an increase in loans was recorded in the sum of approx. NIS 81 million in the Report Period versus the same period last year, which derived from surplus credit received over repayments and interest payments.

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

	March 31, 2012		**December 31, 2011**	
	NIS in millions	**% of total balance sheet**	**NIS in millions**	**% of total balance sheet**
Short-term credit from banking corporations and other credit providers	2,377	10.1%	2,445	10.5%
Long-term credit from banking corporations and other credit providers	3,949	16.8%	3,758	16.2%

Bonds	1,643	7.0%	1,707	7.4%
Total	7,969	33.9%	7,910	34.1%

The increase in the sum of approx. NIS 59 million in the Report Period results mainly from an increase in credit from banking corporations and other credit providers in the Granite segment in the sum of approx. NIS 205 million, which resulted mainly from the additional working capital required for financing the increase in trade receivables and inventory in light of the increases in the oil distillates prices and in light of the expansion of the business in all of the business sectors of Granite. On the other hand, in the real estate segments, loans were repaid during the Report Period in a higher amount than the amount of the loan that was taken to finance the acquisition of the office building in Texas.

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"). During Q4/2011 Maalot updated the rating and raised it to stable AA. As of the date of the Report, the rating was as follows: the rating of Midroog: Aa2 with a stable horizon; the rating of Maalot: stable AA-. 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 annual follow-up report and the raise in the rating, see the Company's immediate report of November 23, 2011 (ref. no. 2011-01-336291).

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 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 Company's report of June 30, 2011, ref. no. 2011-01-198045. On January 12, 2012, Midroog expanded the rating frame of commercial securities of the Company from NIS 135 million to NIS 200 million. For detail see immediate report dated January 12, 2012, reference 2012-01-013743.

Liabilities and Financing

Financial liabilities of the Group (except for Granite) as of March 31, 2012, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans				25	401	--	426	426
Long Term Loans	3,468	922	30			4,420	--	4,420
Total	**3,468**	**922**	**30**	**25**	**401**	**4,420**	**426**	**4,846**

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and current assets, 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 March 31, 2012, short-term loans accounted for approx. 9% 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 98 million in the three months ended March 31, 2012, compared with the sum of approx. NIS 204 million in the same period last year (a decrease in the sum of approx. NIS 60 million is attributed to Granite – see explanation regarding the cash flows, above, while the balance of the decrease in the sum of approx. NIS 46 million is attributed mainly to the increase in the tax that was paid and to the decrease in dividends from available for sale properties).

- A material part of the real estate property of the Group (not including Granite) is not pledged (approx. NIS 7.3 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.

- The balance of the cash and financial assets held for trade as of March 31,

2012 is approx. NIS 1.3 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 March 31, 2012, was approx. NIS 483 million, as well as Bank Leumi shares, whose value in the financial statements as of March 31, 2012was approx. NIS 825 million).

- The Group's entire holdings of Granite shares which are not pledged and are presented in the financial statements as of March 31, 2012, according to a value of approx. NIS 780 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 have occurred, during the Report Period, in the description that the Company included in the Board of Directors' Report for December 31, 2011.

1.7 General and Administrative Expenses

The Company's consolidated administrative expenses (without Granite) amounted to approx. NIS 16 million in the Report Period versus approx. NIS 19 million in the same period last year. The decrease in the sum of approx. NIS 3 million mainly derives from a decrease in donations in the sum of approx. NIS 3.4 million, and a decrease in the liability in respect of a share-based payment in the sum of approx. NIS 2 million, net of an increase in payroll, consulting and other expenses in the sum of approx. NIS 1.8 million.

1.8 Net Financing Expenses

The Group's net financing expenses during the Report Period amounted to the sum of approx. NIS 70 million, compared with approx. NIS 123 million in the same period last year. The decrease in the financing expenses results mainly from profits from negotiable securities (plus interest and dividend in respect thereof) in the amount of approx. NIS 26 million during the Report Period compared with a profit of approx. NIS 3 million in the same period last year, as well as from the lack of change in the rate of the rise of the known index during the Report Period compared with an increase of approx. 0.87% in the same period last year.

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

1.9 Taxes on Income

The Group's income tax expenses during the Report Period amounted to the

sum of approx. NIS 54 million, compared with tax expenses in the sum of approx. NIS 29 million in the same period last year.

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

	For the period of three months ended		For the year ended
	March 31, 2012	**March 31, 2011**	**Dec. 31, 2011**
Net profit for the period attributed to the Shareholders	184	162	596
Net profit attributed to the Shareholders and rights which do not confer control	198	181	623
Basic profit per share (NIS)	1.52	1.34	4.91
Total profit for Shareholders and rights which do not confer control	231	152	204

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

	For the three months ended on		
	March 31, 2012	March 31, 2011	Difference
Consolidated Net Profit	198	181	17
Unusual effects: **Loss (profit) from real estate value increase net of tax**	6	(14)	20
Loss (Profit) from negotiable securities net of tax	(7)	17	(24)
Interest and dividend from negotiable securities net of tax	(14)	(20)	6
Dividend from financial assets available for sale	(8)	(24)	16
Total unusual effects (consolidated)	(23)	(41)	18
Total increase in profit net of unusual effects	175	140	35

Total profit

The Company's capital and total profit 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 profit for the three months ended March 31, 2012 amounted to the sum of approx. NIS 231 million, compared with a net profit (including rights which do not confer control) in the sum of approx. NIS 198 million in the same period. The aforesaid difference results mainly from profit in the sum of approx. NIS 49 million due to a rise in the fair value of financial assets available for sale (change in the fair value of the investment in Bank Leumi le-Israel) net of tax.

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 in Israel

Summary of the segment's business results:

	For the three-month period ended		For the year ended
	March 31, 2012	**March 31, 2011**	**Dec. 31, 2011**
Revenues	215	194	814
% change	11%		
NOI	174	160	662
% change	9%		

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 1.1.4 above.

The increase in the NOI results mainly from an improvement in the revenues of the existing commercial centers and malls and from the revenues of commercial centers and malls that were added to the Group due to completion of the construction and population thereof during 2011 (Azrieli Akko Mall and Azrieli Kiryat Ata Mall).

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

	For the three-month period ended	
	March 31, 2012	**March 31, 2011**
For the segment's properties owned by the Company as of the beginning of the period[7]	164	160
For properties whose construction was completed in 2011	10	-
For properties that were purchased or whose construction was completed in 2012	-	-
Total	**174**	**160**

In the Quarter ended March 31, 2012, the NOI increased compared with the same quarter last year, resulting mainly from the increase in revenues from existing properties and from the opening of Azrieli Akko and Kiryat Ata Malls .

In the Company's estimation, the same property NOI in the malls and commercial centers segment in Israel 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 (the known index in the period from March 2011 to March 2012 rose by approx. 1.66%).
- Operational streamlining in the management companies.
- Population of areas that were vacated in the same period last year in order to perform changes in the tenant mix.

The balance of the assets of commercial centers and malls segment in Israel – amounted as of March 31, 2012, to the sum of approx. NIS 9.5 billion, compared with approx. NIS 9.4 billion on December 31, 2011.

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

The loss 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 7 million, compared with a profit of approx. NIS 0.3 million in the same period last year. Most of the loss in the Report Period derives from investments in the Azrieli Akko Mall. The properties are presented according to valuations as of December 31, 2011.

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

1.11.2 Office and Other Space for Lease Segment in Israel:

Summary of the segment's business results:

	For the three-month period ended		For the year ended
	March 31, 2012	**March 31, 2011**	**Dec. 31, 2011**
	NIS in millions		
Revenues	82	78	325
% change	5%		
NOI	69	65	272
% change	6%		

The increase in revenues derives mainly 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-month period ended	
	March 31, 2012	**March 31, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[8]	69	65
Due to assets which were purchased or whose construction was completed in 2011	-	-
Due to assets which were purchased or whose construction was completed in 2012	-	-
Total	**69**	**65**

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 1.1.4 above.

The same property NOI in the office and others segment in Israel 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 contracts).
- Most lease contracts are linked to the consumer price index (the known index in the period from March 2011 to March 2012 rose by approx. 1.66%).
- Continuation of occupation of Tower E in Herzliya Business Park.
- Completion of construction of an additional office floor over the Givatayim Mall.
- Operational streamlining of the management companies.

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

The balance of the Group's investment property in the office and other space for lease segment in Israel – amounted on March 31, 2012 to the sum of approx. NIS 4.3 billion, similarly to approx. NIS 4.3 billion on December 31, 2011.

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

No profit was recorded from the fair value adjustment of the investment property and property under construction, both in the Report Period and in the same period last year. The properties are presented according to valuations as of December 31, 2011.

1.11.3 Income-producing property segment in the USA:

Summary of the business results of the segment:

	For a period of three months ended on		For the year ended on
	March 31, 2012	**March 31, 2011**	**December 31, 2011**
		NIS millions	
Revenues	43	20	102
Percentage of change	115%		
NOI	26	11	48
Percentage of change	136%		

The increase in revenues derives mainly from revenues of office space for lease which were added to the Group due to the acquisition, during the Report Period, of an office building in Texas (Plaza) in January 2012 as well as due to the acquisition of office buildings in Texas in February 2011 (the three office buildings at Galleria), from the improvement of 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-month period ended on	
	March 31, 2012	**March 31, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[9]	7	5
Due to assets which were purchased or whose construction was completed in 2011	12	6
Due to assets which were purchased or whose construction was completed in 2012	7	-
Total	**26**	**11**

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 1.1.4 above.

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

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

- Increase in the American exchange rate (which rose during the period between March 31, 2011 and March 31, 2012 by approx. 6.7%).
- Increase in revenues from tenants.

The investment property balance of the Group in the segment – amounted, on March 31, 2012, to the sum of approx. NIS 1.5 billion compared with approx. NIS 1.1 billion on December 31, 2011. The increase mainly derives from the purchase of an office building (Plaza) in Houston, Texas, USA.

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

The loss from the adjustment of fair value of investment properties of the segment amounted, during the Report Period, to the sum of approx. NIS 1 million (deriving from the costs of the transaction for the acquisition of the Plaza offices in Texas, U.S.), compared with a profit of approx. NIS 17 million, in the same period last year.

The properties are presented according to valuations as of December 31, 2011, with the exception of the office building in Texas, which was acquired during the Report Period and is presented according to the value of the acquisition.

For detail regarding transactions pertaining to real estate properties during the report period, see Note 5A to the financial statement for March 31, 2012.

1.11.4 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 14 million, compared with a profit of approx. NIS 18 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 year ended
	March 31, 2012	March 31, 2011		December 31, 2011
	NIS in millions		%	NIS in millions
Revenues	1,869	1,491	25%	6,305
Operating Profit	76	82	(7%)	208
Net Profit	28	38	(26%)	39

Summary of Granite's business results:

The main rise in Granite's revenues during the Report Period compared with the same period last year derived from an increase in revenues in all of Granite's operating segments, and mainly due to the increase in the quantities that Sonol sold in its two operating segments and due to the rise in the prices of the distillates.

Gross profit

Granite's gross profit amounted, in the Report Period, to a sum of approx. NIS 300 million, compared with approx. NIS 294 million in the same period last year. An increase at a rate of approx. 2% during the Report Period which was influenced mainly by:

(1) In Sonol's fuelling and commercial complexes, the gross profit declined mainly due to the negative effects of the decline in the margins, including due to the reduction of the marketing margin of gasoline at the fuelling stations, and due to the decline in inventory profits (which amounted to approx. NIS 7.9 million in the reported quarter versus approx. NIS 10.4 million in the same quarter last year). The decline was offset by a rise of approx. 10% in the quantities sold and a rise of approx. NIS 2.5 million in the profit from the convenience stores in the Sogood chain. Sonol is acting to reduce the negative effects of the reduction of the marketing margin, *inter alia* by reducing the discounts given to customers and through streamlining actions and reducing expenses.

(2) In direct marketing, Sonol recorded a rise in profit both due to an increase in the quantities of diesel oil sold and due to an increase in the marketing margins. The rise was offset by a decline in inventory profits (approx. NIS 3.9 million in the quarter compared with approx. NIS 5.1 million in the same quarter last year).

The gross profit in Sonol's segments also declined due to a decline in profits from changes in the exchange rate of the dollar, which is the purchase currency of oil distillates. Sonol hedges against such changes through future currency transactions that are performed as economic hedging. The results of the transactions are included in the financing item.

(3) In Supergas, the gross profit increased at the rate of approx. 5.5% compared with last year and was mainly affected by the rise in the quantities of LPG that were sold. There was a slight decline in the gross margin, mainly due to rises in the LPG prices that were partly absorbed by Supergas and were not translated to a rise in the prices to the consumer. The profit in the quarter includes insignificant profit from the activity in the solar field.

(4) In Tambour, the gross profit declined versus the same period last year, mainly due to the increase in the prices of raw materials in the paint segment which was not translated to a rise in the prices to the consumer. In the gypsum and complementary products segments, there was a rise in profitability.

(5) In GES, the gross profit increased at the rate of approx. 101% compared with last year, mainly due to the effect of the increase in the desalinated quantities at Via Maris as aforesaid, and due to the increase in profit in the projects segment, *inter alia* due to expansion work at Via Maris and commercial operation, for the first time, of Dan Viro, the Shafdan sludge treatment plant.

Sales, general and administrative expenses

In the Report Period selling, general and administrative expenses in the Granite segment amounted to approx. NIS 227 million compared with approx. NIS 218 million in the same period last year.

For general reports of the Company regarding reports that Granite has released, see the update to the Description of the Corporation's Business Chapter in Chapter B of this Report.

1.12 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, 5728-1968, 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 will have an effect on the Company's cash flow.

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

2.1 General

In the quarter ended March 31, 2012, no material changes occurred in the risk factors, in the Company's policy on the management of the market risks, in the means of supervision and in the implementation of policy, versus the description in the board of directors' report on the state of the corporation's affairs for the year ended December 31, 2011 and in 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

In the quarter ended March 31, 2012, no material changes occurred in the analysis of sensitivity tests and fair value effects versus the description in the board of directors' report on the state of the corporation's affairs for the year ended December 31, 2011, with the exception of an analysis of the sensitivity to changes in the fair value of the rates of the negotiable securities and changes in the rates of index-linked and nominal securities, as specified in Annex C to the Board of Directors' Report.

2.4 Linkage bases table

See attached hereto Annex D to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 Report Process of approval of the financial statements in the corporation

As of the date of the report, no change has occurred in the structure of the Committee and its members, as published in the periodic report for 2011.

Process of approval of the financial statements

The Committee convened on May 21, 2012 to review the financial statements as of March 31, 2012 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 delivered to the Committee members several days prior to the date scheduled for the committee meeting.

At the committee meeting of May 21, 2012, all of the committee members participated. Also attended the meeting, according to the committee chairman's request, Mr. Shlomo Sherf, the Company CEO, Mr. Yuval Bronstein, the CFO, Ms. Danna Azrieli, Active Vice Chairman of the Board, the internal auditor, Mr. Gali Gana, the General Counsel, Ms. Michal Kamir, representatives of the Company's auditor as well as relevant office holders at the Company, such as the Company's comptrollers, PA to the CEO, as well as an external attorney of the Company. During the meeting, the Company CEO and CFO reviewed the reports and additional issues and answered questions of the committee members, to the extent such was required.

At 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, and 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 there were any changes 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. The Committee also discussed the aspects of the effectiveness of the control on the financial reporting and disclosure, including in the very material processes for the purposes of reporting.

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 March 31, 2012. The recommendations of the finance committee sitting as a committee for review of the financial statements, were forwarded to the members of the board on May 21, 2012, according to the timeframe determined as "reasonable" by the board of directors (approx. 2 business day) in light of the scope and complexity of the recommendations, in preparation for the board meeting which took place on May, 24, 2012.

For details regarding the board members see article 26 of Chapter D in the Company's Periodic Report for 2011. Advanced drafts of the financial statements, the notes thereto, the board report and annexes thereto, and any report and presentation related thereto are sent to the board members several days prior to the date scheduled for the board meeting.

The board meeting of May 24, 2012 was also attended by the persons invited to the meeting of the 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 vice chairman of the board of directors, Mr. Menachem Einan, active deputy chairman of the board, Ms. Sharon Azrieli, director, Ms. Naomi Azrieli, director, Mr. Yossi Kucik, director, Mr. Josef 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 of the Company for March 31, 2012 were approved, subject to minor changes, if any. The board further authorized the CEO and CFO to reconvene in the morning hours of May 28, 2012, together with the auditors, in order to approve the authorized signatories to sign the statements.

3.2 **Internal Enforcement Plan at the Company**

As of the date of release of the report, the Company's board of directors has discussions regarding an enforcement outline and an enforcement team procedure adapted to the unique structure of the Company and the line of business thereof and appointed a designated committee of the board for the issue of compliance and enforcement. The Company is acting these days towards the adaptation of the procedures currently prevailing at the Company into updated procedures which shall constitute part of an overall enforcement system at the Company as well as the formulation of new enforcement procedures in additional fields, to the extent required.

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

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

For events and developments during the Report Period and updates to the Description of the Corporation's Business Chapter as of December 31, 2011, see Chapter B of the report and Note 5 to the financial statements for March 31, 2012.

4.2 Report on the Group's liabilities

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

4.3 Legal claims

For details see Note 4 to the consolidated financial statement for March 31, 2012.

4.4 Critical accounting estimates

In the quarter ended March 31, 2012, no changes occurred versus the description in the Board of Directors' Report for the year ended December 31, 2011.

4.5 Disclosure pertaining to very material valuations

As of the date of the Report, no change has occurred in the parameters for disclosure and attachment of valuations as published in the periodic report for 2011. As of the date of the Report and after the above determination was examined, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely- including the Azrieli Mall) only. This valuation was attached to the periodic report for the year ended December 31, 2011.

The Company has not updated the valuations of its properties as of March 31, 2012. For details regarding the parameters for examination of an update of the valuations in the quarterly reports, see Note 3C(9) to the periodic report for December 31, 2011.

As of March 31, 2012, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2011) was in the amount of approx. NIS 4.3 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall,), out of a fair value of investment properties in the amount of approx. NIS 15.2 billion (approx. 28% of the

Company's total investment properties).

4.6 **Events after the date of the financial statements**

See Note 7 to the consolidated financial statement for March 31, 2012.

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 to 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 to:

The 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 March 31, 2012.

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

Date: May 28, 2012

Annex A

Separate interim financial information

March 31, 2012

(Unaudited)

The Azrieli Group Ltd.

Separate Interim Financial Information

As of March 31, 2012

(unaudited)

Prepared pursuant to the provisions of Section 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Separate Interim Financial Information
As of March 31, 2012
(unaudited)

Contents

Deloitte.
Brightman Almagor Zohar

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

Ladies and Gentlemen

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 interim separate financial information, which is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970, of **Azrieli Group Ltd.** (hereinafter- "the Company") as of March 31, 2012 and for the period of three months ended on such 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 such interim period, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, the sum of the investments in which amounted to approximately NIS 476 million as of March 31, 2012 and the profit from such investee companies amounted to approximately NIS 16 million for the period of three months ended on such date. The financial statements of those companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

Conclusion

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, May 28, 2012

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Azrieli Group Ltd.

Information on the Financial Position

	As of March 31		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	39,822	140,294	109,398
Financial assets held for trade	941,408	1,948,138	1,322,083
Trade receivables	5,679	7,797	5,279
Other receivables	41,201	14,732	34,100
Total current assets	1,028,110	2,110,961	1,470,860
Non-current assets			
Available for sale financial assets	1,310,740	1,765,270	1,256,346
Financial assets designated as at fair value through the statement of income	18,162	19,585	16,737
Investment property and investment property under construction	6,168,700	5,340,575	6,152,957
Investments in investee companies	4,535,326	4,026,382	4,401,133
Loans to investee companies	1,671,739	1,323,235	1,517,786
Fixed assets	5,148	4,360	5,276
Other receivables	7,810	17,251	25,129
Total non-current assets	13,717,625	12,496,658	13,375,364
Total assets	14,745,735	14,607,619	14,846,224
Liabilities and capital			
Current liabilities			
Credit from banking entities and other providers of credit	585,359	531,849	831,238
Trade payables	12,972	4,437	15,776
Other payables	48,975	38,725	38,713
Dividend declared	240,000	240,000	-
Liabilities in respect of current taxes	12,324	29,296	2,646
Total current liabilities	899,630	844,307	888,373
Non-current liabilities			
Loans from banking entities	1,248,759	1,368,661	1,309,484
Bonds	607,929	640,563	651,359
Other liabilities	18,223	18,160	18,001
Deferred tax liabilities	940,145	727,931	927,399
Employee benefits	19,164	14,644	17,819
Total non-current liabilities	2,834,220	2,769,959	2,924,062
Capital			
Ordinary share capital	18,223	18,223	18,223
Premium	2,477,664	(*) 2,477,664	2,477,664
Capital reserves	176,704	(*) 534,457	143,030
Retained earnings	8,339,294	7,963,009	8,394,872
Total capital attributed to the holders of the Company	11,011,885	10,993,353	11,033,789
Total liabilities and capital	14,745,735	14,607,619	14,846,224

(*) Reclassified

May 28, 2012

Date of approval of the separate financial information	David Azrieli Chairman of the Board of Directors	Shlomo Scharf CEO	Yuval Bronstein Chief Financial Officer

Azrieli Group Ltd.

Information on the Comprehensive Profit

	For a period of three months ended on March 31		For the year ended on December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From rental, management and maintenance fees	108,764	105,484	429,467
Net profit (loss) on the adjustment of the fair value of investment property and investment property under construction	(108)	182	188,839
Financing revenues	48,758	28,330	102,337
Other	8,000	24,002	44,855
Total revenues	165,414	157,998	765,498
Costs and expenses			
Cost of revenues from rental, management and maintenance fees	2,304	2,140	10,283
Selling and marketing	1,586	575	968
Administrative and general	12,197	18,628	53,910
Financing expenses	30,020	51,203	212,601
Total costs and expenses	46,107	72,546	277,762
Profit before Company's share of the profits of investee companies	119,307	85,452	487,736
Share of profits of investee companies, net of tax	90,383	87,088	444,675
Profit before taxes on income	209,690	172,540	932,411
Tax on income – expense	25,268	10,191	336,557
Net profit for the period	184,422	162,349	595,854
Other comprehensive profit (loss), net of tax			
Change in fair value of available for sale financial assets, net of tax	48,906	(18,426)	(439,145)
Actuarial loss in respect of defined benefit plan, net of tax	-	-	(18)
Translation differences in respect of foreign operations	(6,817)	(8,042)	3,991
Share of other comprehensive profit (loss) of investee companies, net of tax	(8,410)	(1,300)	12,416
Other comprehensive profit (loss) for the period, net of tax	33,679	(27,768)	(422,756)
Total comprehensive profit for the period attributed to the holders of the Company	218,101	134,581	173,098

Azrieli Group Ltd.

Information on Cash Flows	For the three months period ended on March 31		For the year ended on December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows from operating activities			
Net profit for the period	184,422	162,349	595,854
Depreciation and amortization	193	156	713
Capital gain on the disposal of fixed assets	-	(32)	(7)
Net loss (profit) on the adjustment of the fair value of investment property	108	(182)	(188,839)
Financing and other revenues, net	(16,051)	(25,719)	(37,093)
Dividend received from available for sale financial assets	8,000	23,970	43,145
Interest and dividends received from financial assets that are held for trade	18,960	25,330	68,642
Share of profits of investee companies, net of tax	(90,383)	(87,088)	(444,675)
Taxes that have been recognized in the statement of income	25,268	10,191	336,557
Income tax paid, net	(8,222)	(3,883)	(67,768)
Change in financial assets that are held for trade	380,675	286,719	912,774
Change in trade and other receivables	(7,654)	(3,886)	(12,525)
Change in trade and other payables	8,746	2,687	4,613
Imputation of benefit due to share based payment	274	2,225	2,587
Change in financial assets that have been designated as at fair value through the statement of income	(1,072)	746	1,443
Change in employee provisions and benefits	1,071	(81)	2,709
Net cash - operating activities	504,335	393,502	1,218,130
Cash flows - investment activities			
Consideration from the disposal of fixed assets	-	254	460
Investment in investment property and investment property under construction	(15,526)	(7,173)	(622,322)
Purchase of fixed assets	(65)	(611)	(2,315)
Investment in company consolidated for the first time	(37,692)	(64,453)	(67,453)
Extension of long term loans	-	(8,647)	(9,033)
Investment in investee companies	-	(369)	(1,306)
Investment (investment) in financial assets that have been designated as at fair value through the statement of income	(354)	(2,923)	(1,674)
Extension of long-term loans to investee companies	(139,764)	(102,135)	(213,676)
Collection of long term loans and receivables, net	-	-	(8,187)
Net cash - investment activities	(193,401)	(186,057)	(925,506)
Cash flows from financing activities			
Dividend distribution to shareholders	-	-	(240,000)
Repayment of bonds	(43,474)	(42,764)	(42,764)
Repayment of long-term loans from banking corporations	(60,387)	(58,976)	(137,605)
Short-term credit from banking entities, net	(246,218)	(16,394)	277,667
Deposits from customers, net	222	(364)	(811)
Interest paid	(30,857)	(32,756)	(123,560)
Net cash generated by financing activities	(380,714)	(151,254)	(267,073)
Increase (decrease) in cash and cash equivalents	(69,780)	56,191	25,551
Cash and cash equivalents at the beginning of the period	109,398	83,105	83,105
Impact of changes in exchange rates on cash balances that are held in foreign currency	204	998	742
Cash and cash equivalents at the end of the period	39,822	140,294	109,398
Non-Cash Activities			
Dividend payables	240,000	240,000	-

Azrieli Group Ltd.

Additional information for the Separate Financial Statements

A. General

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

This separate financial information must be inspected in the context of the Company's separate financial information as of December 31, 2011, and for the year ended on such date, and the additional figures that were attached thereto.

B. Definitions

The Company	-	The Azrieli Group Ltd.
Investee company	-	As defined in Note 1 to the Company's consolidated financial statements as of December 31, 2011.

C. Accounting Policy

The separate financial information is prepared in accordance with the accounting policy specified in Note B of the Annual Financial Statements of the Company, except for the financial policy specified in Note 2 of the Consolidated Condensed Financial Statements as of March 31, 2012, released together with this separate financial information.

D. Events during the report period:

1. In January 2012, AG Plaza at Enclave, LLC, an American corporation indirectly held at a 100% rate by the Company was incorporated for the purpose of purchase of an office building in the USA - see Note 5A of the Consolidated Financial Statements as of March 31, 2012.

2. On March 21, 2012, the Company's board of directors decided on the distribution of a dividend in the amount of NIS 240 million, (representing NIS 1.98 per share), which was paid on April 30, 2012.

Annex B

The Group's positions in its derivatives
March 31, 2012

Annex B
The Group's Positions in Derivatives
As of March 31, 2012

The Group's positions in derivatives as of March 31, 2012:

Granite HaCarmel and consolidated companies perform, as aforesaid, 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 March 31, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
359,800	NIS	May 2012 – October 2012	(3,202)

The maximum holding of derivatives, during the period of the report, of all of the NIS purchase positions was NIS 459,800 thousand.

A consolidated company of Granite HaCarmel entered into interest swap contracts whose payment dates correspond to the payment dates of certain loans, and they were therefore recognized as hedge accounting.

Below is a specification of the transactions as of March 31, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
31,300	NIS	2014-2016	264

During the year, consolidated companies of Granite HaCarmel entered into future currency transactions for protective purposes (which were not recognized as hedge accounting).

Below is a specification of the engagements as of March 31, 2012:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
197,550	Dollar	NIS	April-August 2012 (mainly April-May 2012)	(10,440)
3,000	Euro	NIS	April-August 2012	71

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$197,550 thousand, and of the total purchase positions for purposes of protection of the Euro-NIS exchange rate was €3,650 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

Update- Sensitivity Tests

March 31, 2012

Annex C – Sensitivity Tests

Sensitivity to changes in securities' value as of March 31, 2012

	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	21,606	10,803	216,059	(10,803)	(21,606)	Market value
Governmental Bonds	33,842	16,921	338,422	(16,921)	(33,842)	Market value
Corporate Bonds	42,292	21,146	422,918	(21,146)	(42,292)	Market value
Convertible Bonds	11	5	107	(5)	(11)	Market value
Participation certificates in trust fund	4,414	2,207	44,142	(2,207)	(4,414)	Market value
Total	102,165	51,082	1,021,648	(51,082)	(102,165)	

Sensitivity to Rates of Index-Linked Securities as of March 31, 2012

	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	7,766	3,883	388,336	(3,883)	(7,766)	Market value
Index linked convertible bonds	2	1	107	(1)	(2)	Market value
Total	7,768	3,884	388,443	(3,884)	(7,768)	

Sensitivity to Nominal Securities rates as of March 31, 2012

	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	5,914	2,957	295,661	(2,957)	(5,914)	Market value
Shares	4,274	2,137	213,654	(2,137)	(4,274)	Market value
Trust Funds	406	203	20,257	(203)	(406)	Market value
Others	48	24	2,403	(24)	(48)	Market value
Total	10,642	5,321	531,975	(10,642)	(5,321)	

Annex D

Reporting according to Linkage Bases

March 31, 2012

(IFRS 7)

Annex D
Reporting according to Linkage Bases
as of March 31, 2012 according to IRFS 7
(NIS thousands)

	As of March 31, 2012					
	Israeli Currency		Foreign Currency		Other items	
	Non linked	Index linked	Dollar	Other(1)	Others	Total
Current Assets						
Cash and cash equivalents	107,475	-	33,702	13,559	-	154,736
Financial assets held for trade	531,975	388,443	10,172	91,058	-	1,021,648
Short term deposits and investments	87,150	-	-	-	-	87,150
Trade receivables	1,853,942	7,856	104,200	5,971	-	1,971,969
Accounts receivables	32,357	23,532	34,542	-	50,546	140,977
Receivables for work in Progress	4,857	1,543	7,628	939	-	14,967
Inventory	-	-	-	-	498,613	498,613
Current tax assets	-	-	-	-	24,259	24,259
Total current assets	2,617,756	421,374	190,244	111,527	573,418	3,914,319
Non-current assets						
Investments in equity investees	-	-	-	-	23,474	23,474
Loans to equity investees	12,873	19,862	-	-	-	32,735
Investments and loans	57,033	52,467	19,914	-	27,981	157,395
Limited investments	29,020	22,091	-	-	-	51,111
Financial Assets available for sale	1,356,765	-	-	2,813	-	1,359,578
Financial assets designated at fair value through profit and loss	1,169	-	16,993	-	-	18,162
Long term Receivables in respect of a Franchise Arrangement	71,970	475,778	8,392	18,801	2,831	577,772
The Fuel Administration	-	-	128,526	-	-	128,526
Investment Real Estate and Investment Real Estate under Construction	-	-	-	-	15,267,477	15,267,477
Fixed Assets	-	-	-	-	1,371,502	1,371,502
Intangible assets	-	-	-	-	537,646	537,646
Prepaid Lease Fees and Deferred Expenses	-	-	-	-	35,001	35,001
Deferred Tax Assets	-	-	-	-	60,965	60,965
Total Non-Current Assets	1,528,830	570,198	173,825	21,614	17,326,877	19,621,344
Total assets	4,146,586	991,572	364,069	133,141	17,900,295	23,535,663

(1) Mainly CAD and Euro

Annex D
Reporting according to Linkage Bases
as of March 31, 2012 according to IRFS 7
(NIS thousands)

(Contd.)

	As of March 31, 2012					
	Israeli Currency		Foreign Currency		Other items	
	Non-linked	Index linked	Dollar	Other(1)	Others	Total
Current liabilities						
Credit from banks and other credit providers	1,765,949	465,895	120,623	24,885	-	2,377,352
Trade payables	325,173	20,893	579,899	32,235	-	958,200
Account payables	90,041	32,334	34,053	531	215,338	372,297
Deposits from customers	-	105,937	-	-	-	105,937
Provisions	-	-	-	-	31,256	31,256
Dividend declared	240,000	-	-	-	-	240,000
Current taxes liabilities	-	-	-	-	35,343	35,343
Total current liabilities	2,421,163	625,059	734,575	57,651	281,937	4,120,385
Non-current liabilities						
Loans from banks and other credit providers	471,444	2,539,058	924,963	13,869	-	3,949,334
Bonds	-	1,643,233	-	-	-	1,643,233
Employee benefits	-	-	-	-	60,011	60,011
Other liabilities	10,840	45,483	5,561	-	216	62,100
Deferred tax liabilities	-	-	-	-	2,245,823	2,245,823
Total non-current liabilities	482,284	4,227,774	930,524	13,869	2,306,050	7,960,501
Total liabilities	2,903,447	4,852,833	1,665,099	71,520	2,587,987	12,080,886
Total exposure in the statement on the financial position	1,243,139	(3,861,261)	(1,301,030)	61,621	15,312,308	11,454,777

(1) Mainly Euro and Pound Sterling.

Annex E

Financial Statements – expanded Solo
March 31, 2012

Annex E

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS rules, except for the investment in Granite which is presented on the basis of the balance sheet value method *in lieu* of consolidation of the reports thereof with the Company's reports (the remaining investments are presented with no change to the report presented pursuant to the IFRS rules). These reports do not constitute separate reports in their meaning in the international accounting standard 27 and do not constitute separate financial statements pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The reports are not part of the information that is required to be published according to securities laws, however, the Company's management believes that analysts, investors, shareholders and bond holders might receive valuable information from the presentation of such figures.

The figures in this annex have not been audited and reviewed by the Company's auditors.

Balance sheet:

	As of March 31		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and Cash equivalents	78,643	169,452	145,072
Financial Assets held for Trade	941,408	1,948,138	1,322,083
Trade Receivables	30,405	26,116	30,101
Other Receivables	56,401	46,300	62,139
Current Taxes Assets	7,315	3,536	6,599
Total Current Assets	1,114,172	2,193,542	1,565,994
Non Current Assets			
Investment in Investee Companies	779,915	784,021	767,112
Loans and Debit Balances	41,863	38,381	30,579
Financial Assets Available for Sale	1,310,740	1,765,270	1,256,346
Financial Assets designated in fair value through profit and loss	18,162	19,585	16,737
Investment Real Estate and Investment Real Estate under Construction	15,194,369	12,852,017	14,766,056
Fixed Assets	44,513	43,214	44,909
Deferred Taxes Assets	1,726	1,691	1,723
Total Non Current Assets	17,391,288	15,504,179	16,883,462
Total Assets	18,505,460	17,697,721	18,449,456

Annex E

Extended Standalone Financial Statements

Balance Sheet: Contd.

	As of March 31		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Equity			
Current Liabilities			
Credit from Banking Corporations and other credit providers	762,727	771,565	1,004,671
Trade Payables	62,816	33,087	76,900
Other Payables	74,068	82,793	81,013
Dividend Declared	240,000	240,000	-
Current Taxes Liabilities	20,096	44,432	35,019
Total Current Liabilities	1,159,707	1,171,877	1,197,603
Non Current Liabilities			
Loans from Banking Corporations and other Credit Providers	3,064,267	2,890,414	2,912,228
Bonds	1,018,723	1,092,165	1,074,461
Other Liabilities	38,986	35,080	38,229
Employee Benefits	23,581	19,524	22,155
Deferred Taxes Liabilities	2,127,667	1,443,623	2,111,119
Total Non Current Liabilities	6,273,224	5,480,806	6,158,192
Equity			
Ordinary "A" Share Capital	18,223	18,223	18,223
Premium on Shares	2,518,015	2,518,015	2,518,015
Capital Funds	136,353	494,106	102,678
Surplus	8,339,294	7,963,009	8,394,872
Equity attributed to the Parent Company's shareholders	11,011,885	10,993,353	11,033,788
Rights that do not Confer Control	60,644	51,685	59,873
Total Equity	11,072,529	11,045,038	11,093,661
Total Liabilities and Equity	18,505,460	17,697,721	18,449,456

Annex E

Extended Standalone Financial Statements

Income Statement:

	For the three months period ended On March 31		For the year ended On December 31
	2012	2011	2011
	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues			
From rent, management and maintenance fees	340,853	293,078	1,245,546
Net profit (loss) from the adjustment of fair value of investment and under construction real estate	(7,944)	17,202	848,638
Financing Revenues	28,242	4,604	4,222
Share in the results of Affiliated Companies, Net of Taxes	26,177	34,320	24,228
Other	8,004	24,001	44,855
Total Revenues	395,332	373,205	2,167,489
Costs and Expenses			
Cost of revenues from rent, management and maintenance fees	71,683	56,415	259,833
Sales and Marketing	2,717	983	2,480
General and Administrative	15,521	19,234	70,705
Financing Expenses	62,425	94,006	369,460
Other	-	-	34
Total Costs and Expenses	152,346	170,638	702,512
Profit before Tax on Income	242,986	202,567	1,464,977
Income Tax Expense	(44,512)	(21,470)	(841,965)
Net Profit for the Period including the Minority	198,474	181,097	623,012

PART B

Update - Description of the Corporation's Business

March 31, 2012

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, 2011 (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 three months that ended on March 31, 2012 and until the Report Release Date, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided. In this chapter: the "**Report Release Date**" – May 28, 2012; the "**Date of Report on the Financial Condition**" and the "**Report Date**" – March 31, 2012.

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

Update to Sections 1.3.1 and 1.3.2 of the Description of the Corporation's Business Chapter:

(a) **Purchase of Office Building in Houston, Texas, USA**

On January 10, 2012, AG Plaza at Enclave, LLC., a U.S. corporation indirectly held at the rate of 100% by the Company, closed a purchase of an office building in the total area of approx. 31,986 sqm (344,296 sqf) and at an occupancy rate of 100% in Houston, Texas, USA, in consideration for a total sum of approx. U.S. $107.5 million (in addition to transaction costs which added up to the amount of approx. U.S. $544 thousand). For further details regarding the property, its financing and the agreement for the purchase thereof, see the Company's reports dated January 1, 2012 (reference: 2012-01-000444), and January 11, 2012 (reference: 2012-01-012534) which are included herein by way of reference, and Note 5A to the financial statements as of March 31, 2012.

[1] As released on March 22, 2012 (reference number 2012-01-075486).

(b) **Non-fulfillment of a condition precedent in agreements to purchase the rights in the "Ir Yamim" Mall.**

On August 15, 2011, and on September 11, 2011, the Company engaged in contingent sale agreements for the purchase of all of the rights in the "Ir Yamim" mall in Netanya (the "**Mall**"). The agreements set forth conditions precedent, *inter alia*, the obtaining of the approval of the Antitrust Commissioner. On January 8, 2012, the Company withdrew the merger application which it filed with the Antitrust Authority to approve the Mall purchase, in view of the Company's disagreement with the conditions posed by the Antitrust Authority for the approval of the purchase thereof. Pursuant to the aforesaid, the condition precedent for closing the transactions for the purchase of the Mall was not fulfilled.

(c) Contingent agreement to purchase one half of the rights in the Science and Technology Park Project in Petah Tikva

On May 1, 2012, after the Date of Report on the Financial Condition, Otzma & Co. Investments Maccabim Ltd., a private company wholly owned by the Company ("**Otzma**") engaged in an agreement whereby Otzma shall purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva, from third parties who are partners therewith in the said property, in consideration for the sum of NIS 48 million (plus V.A.T). The aforesaid sum shall be paid to the sellers within 10 days from the date of fulfillment of the conditions precedent of the transaction, other than an aggregate sum of approx. NIS 10 million to be deposited in escrow for the purpose of various payments required by the transaction. The sale agreement is conditioned upon conditions precedent, which are required to be fulfilled within 120 days, that are related to the bank in whose favor a pledge is registered on the sellers' rights and to the holder of rights in the rest of the property. Subsequent to the closing of the transaction, Otzma shall hold 100% of the rights in the property. For further details see the Company's Immediate Report dated May 2, 2012 (reference: 2012-01-113859) and Note 7A to the financial statements as of March 31, 2012.

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 May 7, 2012, after the Date of Report on the Financial Condition, Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the Company, transferred 2,728,260 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 (the "**Foundation**"). It is clarified, that as conveyed to the Company, neither Mr. David Azrieli nor

any of his relatives are control holders of the Foundation, and therefore the Foundation shall not be considered an interest holder or controlling shareholder of the Company. As of the Report Date, Nadav Investments holds 71.42% of the Company's share capital. For further details, see immediate report of the Company dated May 8, 2012, as amended on May 10, 2012 (reference no.: 2012-01-120162, 2012-01-122850, respectively), which is included herein by way of reference.

3. Dividends

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

Following the Company's report as of March 22, 2012, on April 30, 2012, the Company paid to its shareholders a total sum of 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

Update to Section 7.8 of the Description of the Corporation's Business Chapter

Azrieli Sarona Center

As of the Report Release Date, the Company obtained the certificates required in accordance with the requirements of the building permit for the establishment of the basements.

Azrieli Mall Ramla

In view of the local authority's position pertaining to the modification of the zoning plan for the purpose of the regulation of specific issues in connection with the project, such procedure shall be performed vis-à-vis the district zoning committee.

Azrieli Mall Rishonim

In February 2012, the district committee decided to approve the plan which applies to the project with no further conditions. The Company is awaiting receipt of the district committee's comments on the amended plan documents and receipt of the language for announcement of approval of the plan.

Azrieli Kiryat Ata

As of the Report Release Date, the Group executed a lease agreement with a food chain in the commercial area of the additional building.

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. 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 March 31, 2012	For the year ended on December 31, 2011
Property Value (NIS in thousands)	2,485,892	2,484,608
NOI in the period (NIS in thousands)	45,332	186,461
Revaluation profit in the period (NIS in thousands)	-	186,655
Average occupancy rate in the period (%)	~ 100%	~100%
Rate of return (%)	7.29%	7.5%
Average rent per sqm per month (NIS) (**)	92	91
Average rent per sqm per month in contracts signed in the period (NIS)	106	100

(*) The corporation's share in the property – 99.1%. The rest of the rights in the property are held by Mr. David Azrieli;
(**) Not including the hotel's rent. Had the average included the hotel's rent, the average for Q1 of 2012 would have been approx. NIS 89 per sqm and for 2011 approx. NIS 88 per sqm.

The valuation for this property and details regarding the valuation were released in the financial statements of the Company as of December 31, 2011. In Q1 of 2012 the valuation was not updated.

6. Developments in the area of activity of Granite Hacarmel

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

Date of Report	Reference Number
Apr. 4, 2012	2012-01-093981
Apr. 8, 2012	2012-01-098106
Apr. 24, 2012	2012-01-108060
May 16, 2012	2012-01-126747
May 22, 2012	2012-01-131175
May 23, 2012	2012-01-133005

b. On April 8, 2012, after the Date of Report on the Financial Condition, the Company reported, in accordance with the report of Granite Hacarmel, that on April 5, 2012, Sonol Israel Ltd. ("**Sonol**"), a (private) subsidiary of

Granite Hacarmel, received a report from the Fuel Administration, which was also forwarded to the other fuel marketing companies, which includes a recommendation to reduce the marketing margin by an additional amount of 1.4 Agorot for one liter of self service 95 gasoline and of 10 Agorot for one liter of full service gasoline . This is a draft for a hearing which the fuel marketing companies were invited to address. As has been relayed to the Company by Sonol, Sonol objects to such recommendations and has forwarded its comments to the price committee. On May 6, 2012, an additional hearing was held for Sonol before the price committee and as of the Report Release Date, the committee's decision has not yet been released. Hence, as Sonol informed the Company, it is not possible to know whether the new recommendations will be adopted and what will be the effect of the additional examination on Sonol's financial results. For details see also the Company's immediate report dated April 8, 2012 (reference no: 2012-01-098106) which is included herein by way of reference.

c. On May 23, 2012, after the Date of Report on the Financial Condition, a full tender offer was accepted, which was made by Granite HaCarmel, to purchase all of the shares of Tambour Ltd. ("**Tambour**"), a public subsidiary of Granite Hacarmel, at the price of NIS 6 per Tambour share in cash, for a total consideration of approx. NIS 61,260 thousand, and all pursuant to the terms which Granite Hacarmel announced in the aforesaid tender offer (the "**Tender Offer**"). Upon consummation of the Tender Offer and performance of a forced purchase of the shares of the offerees not having accepted the same, Granite HaCarmel shall hold (jointly with Tambour) the entire share capital and voting rights of Tambour, Tambour will become a private company according to Section 339 of the Companies Law, and its shares will be delisted from trade on the Tel Aviv Stock Exchange Ltd.

   For details see the Company's immediate reports dated April 24, 2012 (reference no: 2012-01-108060), May 16, 2012 (reference no: 2012-01-126747) and May 23, 2012 (reference no: 2012-01-133005), which are included herein by way of reference, and Note 7C of the financial statements as of March 31, 2012.

7. Reportable credit which was provided to the Company

Update to Section 17.3 of the Description of the Corporation's Business Chapter:

In the period of the report the Company paid short term credit from banking corporations in the amount of approx. NIS 310 million.

8. Reportable credit which was provided to the companies in the Group

Update to Section 17.4 of the Description of the Corporation's Business Chapter:

In January 2012, an American corporation (AG Plaza at Enclave, LLC.), which is indirectly held at the rate of 100% by the Company, engaged with an American financial institution in an agreement pursuant to which a loan in the amount of approx. $U.S. 70 million shall be made available thereto, to purchase a property in Houston, Texas, U.S.A. The loan is at the interest rate of 3.6% a year to be paid each month. The principal of the loan shall be paid in monthly installments commencing from March 1, 2013, according to the Spitzer Table for 30 years. The loan is due on February 1, 2017. For further details regarding the property, its financing and the agreement for the purchase thereof, see the Company's reports dated January 1, 2012 (reference: 2012-01-000444), and January 11, 2012 (reference: 2012-01-012534) which are included herein by way of reference.

9. Maturity of commercial securities

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

As provided in the Periodic Report, the Company issued, in January 2012, an additional amount of NIS 65 million rated commercial securities, after an expansion by Midroog of the rating framework for this series of commercial securities from 135 to 200 million NIS. As of March 31, 2012, the balance of the liability due to the issue of rated commercial securities was in the sum of NIS 200 million. For details on the expansion of the rating framework, see the Company's Immediate Report dated January 12, 2012 (reference number: 2012-01-013743) which is included herein by way of reference.

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

Update to Section 17.5.2 of the Description of the Corporation's Business Chapter:

In the report period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.5.2 of the Description of the Corporation's Business Chapter. As of March 31, 2012, the balance of the par value of the Series A Bonds of the Company is NIS 555 million. According to the terms thereof, the final maturity date of the Company's Series A Bonds is March 31, 2017. The remaining details in connection with the Company's Series A Bonds and the payment dates thereof are specified in Section 17.5.2 of the Description of the Corporation's Business Chapter.

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

Update to Section 17.6.1 of the Description of the Corporation's Business chapter:

In the report period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.6.1 of the Description of the Corporation's Business Chapter. As of March 31, 2012, the balance of the par value of the Series A Bonds of Canit Hashalom is approx.

NIS 385 million. According to the terms thereof, the final maturity date of the Series A Bonds of Canit Hashalom is June 30, 2015. The remaining details in connection with the Series A Bonds of Canit Hashalom and the payment dates thereof are specified in Section 17.6.1 of the Description of the Corporation's Business Chapter.

12. Quality of the environment – Azrieli Akko Mall

Update to Section 19 of the Description of the Corporation's Business chapter:

The hearing of the Ministry of Environmental Protection's appeal regarding the Azrieli Akko Mall was held on May 9, 2012, and it was determined therein that the Strauss plant shall present to the Ministry of Environmental Protection risk reduction scenarios for its environment as the Ministry ordered in the context of the conditions of the poison permit issued to the plant, and that the Ministry of Environmental Protection shall file its official position on the matter to the Appeals Committee within thirty days from the date of the hearing.

13. Business Licensing

Update to Section 20.1.7 of the Periodic Report

Azrieli Haifa Mall – the effect of the temporary license was extended until July 1, 2012.

PART C

Financial Statements

March 31, 2012

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as at March 31, 2012

(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 March 31, 2012 and the condensed consolidated comprehensive income statement, changes in equity and cash flows for the period of three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation of financial information for this interim period 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 the interim periods, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise approx. 23% of all the consolidated assets as at March 31, 2012 and whose revenues included in the consolidation comprise approx. 84% of all the consolidated revenues for the period of three months then ended. Moreover we did not review the condensed financial information for the interim period of associated companies in which the investment in them is approx. NIS 56,209 thousand as at March 31, 2012 and the Group's share in their results is about NIS 2,755 thousand for the period of three months then ended. The condensed financial information for the interim period 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, May 28, 2012

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As at March 31		As at December 31,
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	154,736	216,586	224,430
Financial assets held for trading	1,021,648	2,022,619	1,401,786
Short-term deposits and investments	87,150	64,885	84,271
Trade receivables	1,971,969	1,566,653	1,719,764
Other receivables	140,977	133,881	144,684
Receivables for work in progress	14,967	34,775	32,649
Inventories	498,613	374,517	439,933
Current tax assets	24,259	13,142	24,626
Total current assets	3,914,319	4,427,058	4,072,143
Non-current assets			
Investments in associated companies	23,474	14,368	13,140
Loans to associated companies	32,735	29,185	33,080
Investments, loans and receivables	157,395	127,139	122,126
Restricted investments	51,111	49,713	50,930
Financial assets available for sale	1,359,578	1,803,579	1,305,184
Financial assets designated at fair value through profit and loss	18,162	19,585	16,737
Long-term receivables in respect of franchise arrangement	577,772	526,030	534,596
The Fuel Administration	128,526	121,266	132,720
Investment property and investment property under construction	15,267,477	12,925,249	14,839,570
Fixed assets	1,371,502	1,405,455	1,427,028
Intangible assets	537,646	548,716	540,406
Lease fees paid in advance	35,001	37,539	36,603
Deferred tax assets	60,965	46,935	55,450
Total non-current assets	19,621,344	17,654,759	19,107,570
Total assets	23,535,663	22,081,817	23,179,713

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As of March 31		As at Dec. 31
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	2,377,352	1,810,892	2,445,422
Trade payables	958,200	738,980	854,724
Other payables	372,297	396,864	385,849
Deposits from customers	105,937	104,173	105,995
Provisions	31,256	29,720	29,288
Declared dividend	240,000	240,000	-
Current tax liabilities	35,343	51,749	42,107
Total current liabilities	4,120,385	3,372,378	3,863,385
Non-current liabilities			
Loans from banks and other credit providers	3,949,334	3,784,118	3,757,837
Bonds	1,643,233	1,789,431	1,706,726
Benefits to employees	60,011	56,795	59,312
Other liabilities	62,100	99,509	100,122
Deferred income taxes	2,245,823	1,527,849	2,228,273
Total non-current liabilities	7,960,501	7,257,702	7,852,270
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	136,353	494,106	102,678
Retained earnings	8,339,294	7,963,009	8,394,872
Total capital attributed to the shareholders of the parent company	11,011,885	10, 993,353	11,033,788
Non-controlling interests	442,892	458,384	430,270
Total capital	11,454,777	11,451,737	11,464,058
Total Liabilities and capital	23,535,663	22,081,817	23,179,713

May 28, 2012			
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 three months ended March 31		For the year ended Dec. 31
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
Revenues			
From sales, labor and services	1,865,961	1,487,839	6,291,304
From rental, management and maintenance fees	343,701	295,657	1,255,966
Net profit (loss) from the adjustment to fair value of investment property and investment property under construction	(8,369)	17,592	848,859
Financing income	50,823	36,124	101,661
Other	11,513	30,877	54,608
Total revenues	2,263,629	1,868,089	8,552,398
Costs and Expenses			
Costs of revenues from sales, labor and services	1,569,096	1,197,538	5,205,350
Costs of revenues from rent, management and maintenance fees	73,400	58,021	266,842
Selling and marketing	194,867	182,821	764,650
General and administrative	50,119	54,181	200,288
Share in results of associated companies, net of tax	2,755	4,849	17,512
Financing expenses	120,452	158,989	591,159
Other	19	1,456	7,504
Total costs and expenses	2,010,708	1,657,855	7,053,305
Income before taxes on income	252,921	210,234	1,499,093
Expenses of taxes on income	(54,447)	(29,137)	(876,081)
Net income for the period	198,474	181,097	623,012
Other comprehensive income (loss), net of tax			
Change in fair value of financial assets available for sale, net of tax	48,906	(18,426)	(431,783)
Actuarial loss due to defined benefit plan, net of tax	-	-	(2,769)
The effective share of the change in the fair value of the cash flow hedge, net of tax	(1,851)	-	(143)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	132	-	88
Translation differences from foreign operations	(14,942)	(10,338)	15,917
Other comprehensive income (loss) for the period, net of tax	32,245	(28,764)	(418,690)
Total comprehensive income for the period	230,719	152,333	204,322

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 three months ended March 31		For the year ended Dec. 31
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
Net income for the period attributed to:			
Shareholders of the parent company	184,422	162,349	595,854
Non-controlling interests	14,052	18,748	27,158
	198,474	181,097	623,012
Total comprehensive income for the period attributed to:			
Shareholders of the parent company	218,101	134,581	173,098
Non-controlling interests	12,618	17,752	31,224
	230,719	152,333	204,322
	NIS	NIS	NIS
Basic and diluted earnings of one ordinary share of NIS 0.1 par value each attributed to shareholders of the parent company	1.52	1.34	4.91
Average weighted share capital used in calculating basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the period of three months ended March 31, 2012									
	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									
	(Unaudited)									
Balance as of January 1, 2012	18,223	2,518,015	138,608	(3,220)	(30,921)	(1,789)	8,394,872	11,033,788	430,270	11,464,058
Net profit for the period	-	-	-	-	-	-	184,422	184,422	14,052	198,474
Change in fair value of available for sale financial assets, net of tax	-	-	48,906	-	-	-	-	48,906	-	48,906
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	(1,135)	-	(1,135)	(716)	(1,851)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	67	-	67	65	132
Translation differences due to foreign operations	-	-	-	(14,159)	-	-	-	(14,159)	(783)	(14,942)
Total comprehensive income for the period	-	-	48,906	(14,159)	-	(1,068)	184,422	218,101	12,618	230,719
Dividend to the shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Capital reserve due to transactions with related parties	-	-	-	-	(4)	-	-	(4)	4	-
Total transactions with shareholders of the Company	-	-	-	-	(4)	-	(240,000)	(240,004)	4	(240,000)
Balance as of March 31, 2012	18,223	2,518,015	187,514	(17,379)	(30,925)	(2,857)	8,339,294	11,011,885	442,892	11,454,777

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 March 31, 2011									
	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									
	(Unaudited)									
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	-	-	-	-	-	-	162,349	162,349	18,748	181,097
Change in fair value of available for sale financial assets, net of tax	-	-	(18,426)	-	-	-	-	(18,426)	-	(18,426)
Translation differences due to foreign operations	-	-	-	(9,342)	-	-	-	(9,342)	(996)	(10,338)
Total comprehensive income for the period	-	-	(18,426)	(9,342)	-	-	162,349	134,581	17,752	152,333
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(2,076)	-	(2,076)	(637)	(2,713)
Dividend to the shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	17,280	17,280
Capital reserve due to transactions with related parties	-	-	-	-	(93)	-	-	(93)	93	-
Total transactions with shareholders of the Company	-	-	-	-	(93)	(2,076)	(240,000)	(242,169)	16,736	(225,433)
Balance as of March 31, 2011	18,223	2,518,015	554,899	(26,192)	(31,093)	(3,508)	7,963,009	10,993,353	458,384	11,451,737

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, 2011									
	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	Right which do not give control	Total
	NIS 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 income for the year	-	-	-	-	-	-	595,854	595,854	27,158	623,012
Change in the fair value of available for sale financial assets, net of tax	-	-	(434,717)	-	-	-	-	(434,717)	2,934	(431,783)
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	(1,642)	(1,642)	(1,127)	(2,769)
Translation differences due to foreign operations	-	-	-	13,630	-	-	-	13,630	2,287	15,917
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	(72)	-	(72)	(71)	(143)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	45	-	45	43	88
Total comprehensive income for the year	-	-	(434,717)	13,630	-	(27)	594,212	173,098	31,224	204,322
Acquisition of non-controlling interests in consolidated companies	-	-	-	-	-	(330)	-	(330)	(36,501)	(36,831)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	17,628	17,628
Dividend to shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(5,898)	(5,898)
Capital reserve due to transactions with related parties	-	-	-	-	79	-	-	79	(79)	-
Total transactions with shareholders of the Company	-	-	-	-	79	(330)	(240,000)	(240,251)	(24,850)	(265,101)
Balance as at Dec. 31, 2011	18,223	2,518,015	138,608	(3,220)	(30,921)	(1,789)	8,394,872	11,033,788	430,270	11,464,058

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 three months ended March 31		For the year ended December 31
	2012	2011	2011
	NIS thousands		
	(Unaudited)		
Cash Flows - Current Operations			
Net income for the period	198,474	181,097	623,012
Depreciation and amortization	32,621	34,543	134,680
Impairment in value of fixed and intangible assets	-	-	1,620
Impairment of investments and loans in associated companies	-	-	73
Net loss (profit) from adjustments to fair value of investment property and investment property under construction	8,369	(17,592)	(848,859)
Financing and other expenses, net	77,525	87,244	314,290
Impairment of available for sale financial assets	-	-	1,496
Dividend received from available for sale financial assets	8,126	23,970	44,564
Interest and dividend received from financial assets held for trading	18,960	25,330	68,642
Loss (profit) from realizing fixed assets, investment property and intangible assets, net	(2,403)	(213)	1,610
Share in losses of associated companies accounted by the equity method	2,755	4,849	17,512
Change in recording of benefit in respect of share-based payment	667	2,596	(449)
Tax expenses recognized in the income statement	54,447	29,137	876,081
Change in financial assets held for trading	380,138	287,804	908,637
Income taxes paid, net	(53,706)	(10,651)	(103,092)
Erosion of Fuel Administration balance	3,563	2,303	(9,151)
Revaluation of financial assets designated at fair value through profit and loss	(1,072)	746	1,443
Change in inventory	(58,794)	(28,553)	(93,436)
Change in trade and other receivables	(271,124)	(258,054)	(415,950)
Change in receivables in respect of franchise arrangement	(35,677)	696	(8,529)
Change in trade and other payables	122,647	109,849	179,144
Change in provisions and benefits to employees	2,316	(4,930)	(6,435)
Net cash - current operations	487,832	470,171	1,686,903

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 three months ended March 31		For the year ended December 31
	2012	2011	2011
	NIS thousands		
	(Unaudited)		
Cash flows - investment activities			
Proceeds from realizing fixed and intangible assets	590	584	4,234
Realizing the Fuel Administration	631	-	-
Purchase and investment in investment property and investment property under construction	(485,903)	(736,934)	(1,707,785)
Purchase of fixed and intangible assets	(52,953)	(37,384)	(148,355)
Investment in and granting of loans to associated companies	(12,084)	(5,712)	(20,123)
Change in short-term deposits	(2,863)	(16,595)	(35,942)
Change in restricted investments	(2)	24	(8)
Receipt (payment) for settling derivative financial instruments, net	(975)	(13,065)	18,568
Investment in financial assets designated at fair value through profit and loss	(354)	(2,923)	(1,674)
Granting long-term loans	(500)	(1,310)	(8,343)
Collection of long-term loans	4,979	5,257	29,836
Interest received	10,465	1,553	38,178
Net cash - investment activities	(538,969)	(806,505)	(1,831,414)

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 three months ended March 31		For the year ended December 31
	2012	2011	2011
	NIS thousands		
	(Unaudited)		
Cash flows from financing activities			
Distribution of a dividend to shareholders	-	-	(240,000)
Repayment of bonds	(64,593)	(83,435)	(197,313)
Receipt of long-term loans from banks	345,510	603,766	873,198
Repayment of long-term loans from banks	(130,845)	(184,810)	(594,883)
Short-term credit from banks and others, net	(64,636)	114,698	773,333
Repayment of deposits from customers	(400)	(1,068)	(2,970)
Deposits from customers that were received	1,141	1,022	5,388
Acquisition of non-controlling interests (including loans)	-	(2,305)	(65,093)
Dividend to holders of non-controlling interests	-	-	(5,898)
Proceeds from issue of shares in a consolidated company to holders of non-controlling interests	-	8,633	9,337
Interest paid	(104,617)	(81,249)	(364,085)
Net cash provided by financing activities	(18,440)	375,252	191,014
Increase (decrease) in cash and cash equivalents	(69,577)	38,918	46,503
Cash and cash equivalents at beginning of the period	224,430	177,858	177,858
Effect of changes in the rates of exchange on cash balances held in foreign currency	(117)	(190)	69
Cash and cash equivalents at end of the period	154,736	216,586	224,430

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 and is included in the "Tel Aviv 25" index. The Group's consolidated financial statements as at March 31, 2012 include those of the Company and of its subsidiaries (jointly, the "Group"), and the Group's rights in associated companies and jointly controlled entities.

The Company is held at the rate of approx. 71.4% (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 therein directly and indirectly, approx. 39% of the issued and paid up capital, and his son who holds approx. 14% and his three daughters each holding directly and indirectly, approx. 16% of the issued and paid up capital.

These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as at December 31, 2011, and for the year ended on that date, and the notes accompanied thereto.

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

(1) In the development, construction, acquisition, management and lease in the commercial centers and malls segment in Israel.

(2) In the development, construction, acquisition, management and lease in the office and other space for lease segment in Israel.

(3) In the acquisition, management and lease in the income-producing property segment in the U.S.

(4) 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 consolidated companies engage primarily in:

- The sale of fuels at the fuelling stations and the sale of various consumer goods at the convenience stores and on the fuelling station platforms.

- Domestic purchase and import of fuels and oils, direct marketing and distribution thereof.
- Domestic purchase and import of LPG, the establishment of an infrastructure for distribution and marketing of natural gas, as well as initiation and construction of solar energy production plants.

- Manufacture and marketing of paints, coatings powders and sealants, supplementary building products, gypsum and drywall etc.

- Engineering planning, manufacture and operation of water desalination plants and systems, for improvement and purification of water and for 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 Consolidated Statements") were 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, 2011 and for the year then ended.

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.

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, 2011.

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

To implement the standards, the amendments to the standards and the new clarifications, which are in force, which can be seen in Note 2(ao) to the consolidated financial statements as at December 31, 2011 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:

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, 2011 and for the year ended on the same date:

- IFRS 9 “Financial Instruments”;
- IFRS 10 “Consolidated Financial Statements”;
- IFRS 11 “Joint Arrangements”;
- IFRS 12 “Disclosure of Interests in Other Entities”;
- IAS 28 (2011) “Investments in Associates and Joint Ventures”;
- IFRS 13 “Fair Value Measurement”;
- IAS 19 (2011) “Employee Benefits”;
- Amendment of IAS 1 (amended) “Presentation of Financial Statements” (regarding presentation of other comprehensive income items in the statement of compensative income);
- Amendment of IAS 32 "Financial Instruments: Presentation" (offsetting financial assets and financial liabilities);
- Amendment of IFRS 7 “Financial Instruments: Disclosures” (offsetting financial assets and financial liabilities).

e. Rates of exchange and linkage basis:

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

(2) Balances that are linked to the consumer price index are presented according to the last known index on the date of the statement of financial position (the index for the month preceding the month of the date of the financial statements) or according to the index for the last month of the period of report

(the index for the month of the month of the date of the financial statements) according to the terms of the transaction.

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

	Representative exchange rate of the			Israeli Index	
	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:					
March 31, 2012	4.953	3.724	3.715	217.10	216.27
March 31, 2011	4.949	3.594	3.481	213.15	212.73
December 31, 2011	4.938	3.739	3.821	216.27	216.27
Rates of change:	%	%	%	%	%
For the period of 3 months ended March 31, 2012	0.30	(0.40)	(2.77)	0.38	-
For the period of 3 months ended March 31, 2011	4.46	1.10	(1.92)	0.70	0.87
For the year ended December 31, 2011	4.23	5.19	7.66	2.17	2.55

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 three months ended March 31		For the year ended December 31,
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	Unaudited		
Transactions not in cash:			
Payables for the purchase on credit of non-current assets	20,332	29,284	72,293
Receivables for the sale on credit of fixed assets and investment property	850	-	850
Receivables for the sale of a financial asset	-	-	7,337
Payables for purchase of non-controlling interests	100	410	100
Payable for dividends	240,000	240,000	-
Loan to holders of non-controlling interests for acquiring non-controlling interests	-	8,647	-

Note 4 – Contingent liabilities

Following are details regarding new claims received, claims which were ended and significant changes in claims, if any. In the remainder of the claims there was no significant change as of the audited financial statements as of December 31, 2011 (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 Defense, the Israel Lands Administration and the fuel companies

IDF disabled who operate fuelling stations filed claims against Sonol, as specified in Note 36a to the annual financial statements.

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 to the annual financial statements.
After the date of the financial statements, in May 2012, the court approved a settlement agreement between the parties in a claim for a declaratory remedy against Sonol. The results of the settlement are immaterial.

c. Class actions

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

Note 4 – Contingent liabilities (contd.)

c. Class actions (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol and other fuel companies	The relief claimed is declaratory relief to order the fuel companies to cease raising charges for fuel not supplied, and a monetary claim totalling approx. NIS 124 million, with the proportional share of Sonol being approx. NIS 24 million.	A claim and a motion for class certification of October 2009, concerning the plaintiff's claim whereby the fuel companies require the customers when refuelling at the automatic refuelling pumps, with the meter starting to operate and charge the customers even before fuel had come out of the pumps. The plaintiff alleges that with this conduct, the refuelling companies breached their obligations vis-à-vis their customers and the provisions of the Competition Law, and caused a number of civil torts.	The Company estimates, based on an assessment of Granite's management, which is based on Sonol's legal advisors, that the chances of the claim being accepted are higher than 50%. In February 2012, the parties reached a settlement whereby Sonol was supposed to pay an immaterial amount. The court dismissed the settlement arrangement. However, the Company estimates, based on Granite's management, which is based on the legal advisors of Sonol, Sonol is not expected to incur material amounts.
2. Claim against Sonol	A claim in the total sum, which estimated by the Plaintiff at approx. NIS 899 million.	A claim and a motion for class certification of February 2011. The action concerns a claim of a "Dalkan" customer whereby Sonol charged him (and all other customers using the Dalkan system) a higher price for the purchase of diesel oil than that which was customary at stations and restrained the Dalkan customers, and therefore they are entitled to restitution of money from Sonol.	The Company estimates, based on an assessment of Granite's management, which is based on Sonol's legal advisors, that the chances of the claim and motion are lower than 50%.
3. Claim against a subsidiary of Sonol	A Claim in the sum of NIS 6 million.	A claim and a motion for class certification of September 2011. The action concerns a claim that the subsidiary of Sonol is in breach of its duty pursuant to the Consumer Protection Regulations (Price per Measurement Unit), 5768-2008 to mark the prices of the products sold at its stores per measurement unit, in addition to the price of the product. It shall be stated that the alleged breach pertains to stores whose floor area exceeds 100 sqm.	In February 2012, the claim was closed in a settlement that was approved by the court, whereby the subsidiary was charged with an immaterial amount.
4. Claim against Sonol and a subsidiary of Sonol	A claim in the sum of approx. NIS 42.5 million	A claim and a motion for class certification of November 2011. The action concerns a claim regarding overcharging for self-service fuelling, such that when the consumer refuels at a self-service pump and pays in cash, a payment is collected from him for full service.	The Company estimates, based on an assessment of of Granite's management, which is based on Sonol's legal advisors, that the chances of the claim and motion are lower than 50%.
5. Claim against Sonol	A claim in the sum of approx. NIS 1 billion.	A claim and a motion for class certification of November 2011. The action concerns a claim whereby Sonol charged the Dalkan customers, for fuels, significantly higher prices than the prices that it charges from its "walk-in" customers, who are not bound therewith in a Dalkan agreement, and that such charge is against the law.	The Company estimates, based on an assessment of Granite's management, which is based on Sonol's legal advisors, that the chances of the claim and motion are lower than 50%.

6. Claim against Supergas and other gas companies	A claim in the estimated sum of approx. NIS 821 million (Supergas' share, approx. NIS 193 million). In July 2009, the petitioners sought to reduce the amount of the claim to approx. NIS 709 million.	Claim and motion for class certification of March 2009, claiming failure to credit gas consumers (who are not central-gas consumers) for gas left over in the cylinder. In July 2009, the petitioners raised new claims whereby the gas cylinders are, from the outset, were not completely filled.	The parties are in final stages of forming a settlement arrangement in this proceeding. The Company estimates, based on on an assessment of Granite's management, which is based on Supergas' management, that when such settlement arrangement is formed, Supergas will not bear material costs, beyond the provision already recorded in its books.

d. Other claims

Against the Group's companies, motions for claims were filed, as specified in Note 36d of the annual financial statements.

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol	A claim in the sum of approx. NIS 10 million	A monetary claim of December 2005 alleging that Sonol unlawfully terminated an agreement signed with the plaintiff concerning the construction of a fuelling station on the land of the plaintiff and operation thereof by Sonol in consideration for payments to the plaintiff.	In April 2012 the court had dismissed the claim in full and charged the plaintiff to pay Sonol an immaterial amount.
2. Claim against Sonol	A claim in the sum of approx. NIS 6 million	In April 2012, a monetary claim was filed against Sonol, claiming that Sonol had breached the lease contract entered into between it and the plaintiff, and in order to reduce its damage was forced to engage with another company in less favourable terms.	The Company estimates, based on an assessment of Granite's management, which is based on Sonol's legal advisors, that at this preliminary stage, it is impossible to estimate the chances of the claim.
3. Hearing in the Israel Antitrust Authority against Supergas and officers thereof	Criminal	In March 2012, the Israel Antitrust Authority had notified Supergas and officers thereof, that it intends to prosecute them due to offences pursuant to the Antitrust Law. A hearing prior to filing of indictment was set for June 2012.	The Company estimates, based on an assessment of Granite's management, which is based on Supergas' legal advisors, that in view of the preliminary stage of the proceeding, it is impossible to estimate the results or extent of possible exposure of the company.
4. Claim against GES and others	Approx NIS 10 million	A claim of December 2009 with respect to damage which, according to the Plaintiff, was caused to an orchard as a result of penetration of ballast water to water provided to the orchard, by causing them to flow through the agricultural sludge treatment facility in the water pipes designated for irrigation.	In March 2012 a judgment was given whereby due to non compliance with the court's ruling regarding preliminary proceedings, the claim will be dismissed. The plaintiffs filed a motion for annulment of the judgment. A decision in this motion has not yet been given.

e. In 2008, a claim for bodily injury totalling NIS 10 million was filed against two consolidated companies of the Company. The subject matter of the Complaint is a claim for alleged liability of the Companies in relation to the acts of suicide of two youths of whose heirs are the plaintiffs in the Complaint. The claim has been recognized as an insurance event and is being conducted through attorneys on behalf of the defendants' insurance company. The court had dismissed, with a reasoned judgment, the claim against the companies. The father of one of the youths who committed suicide filed an appeal to the Supreme Court that has not yet been heard. The amount of the claim is included within the framework of the insurance cover per insurance event.

f. On September 21, 2011, after the opening of Azrieli Akko Mall, the Ministry of Environmental Protection filed an appeal against Akko Local Zoning Committee to grant an occupancy permit to Azrieli Akko Mall, while cancelling the need for the approval of the Ministry of Environmental Protection, due to the proximity of the mall to the Strauss plant where there are ammonia cooling systems. The company filed its response to such appeal and it is acting for its dismissal towards thereto. On May 9, 2012, a hearing was held on the appeal and the minutes of the hearing and the decision were not yet received.

g. Additional claims (mostly legal and in immaterial amounts) arising from the ordinary course of business have been submitted against the Group companies.

h. In the opinion of the Company management, the provisions made to settle the outcome of the claims outlined above are fair.

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

a. Purchase of an Office Building in Houston:

On January 10, 2012, AG Plaza at Enclave, LLC, a U.S. corporation indirectly held at the rate of 100% by the Company (the "Buyer") closed the acquisition of an office building with an occupancy rate of 100% in the city of Houston, Texas, U.S. (the "Agreement") in consideration for the sum of approx. NIS 412 million (approx. U.S. $107.5 million) in addition to transaction costs (including the loan raising costs) in the sum of approx. NIS 2 million (approx. U.S. $544 thousand).

Pursuant to the Agreement, the Buyer acquired all of the rights in an office building of a total area of approx. 31,986 sqm (344,296 sqf), including approx. 1,500 parking spaces which are located in a separate parking building, which is situated in a central business district in the city of Houston, Texas, U.S., whose construction was completed in 2008 (the "Office Building").

There are four tenants in the property as follows:

- A main tenant (87%), which is a world-leading agro-chemical company by the name of Dow Chemical Company, which is traded on the NYSE, which has a long-term lease agreement expiring in May 2026, with no possibility of early departure. The lease agreement includes an option to extend the agreement for additional periods.

- Three tenants (13% in total) who have lease agreements for periods ranging between 6-7 years, with some of the tenants having an option for early departure after approx. 5 years and all having an option to extend the agreements for additional periods.

The lease agreements include fixed mechanisms for rent increases throughout the terms of the agreements, such that the total average annual NOI for all of the contracts throughout the terms of the lease will be in the sum of approx. U.S. $8 million.

For the purpose of purchasing the building, the Company took a loan from an American financing institution in the sum of approx. NIS 268 million (approx. U.S. $70 million). The loan is for a period of approx. five years and shall bear fixed interest of 3.6%. In favor of the loan, the Buyer had pledged the Office Building.

b. On March 21, 2012 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 30, 2012.

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.

Following the expansion of the Company's business in the U.S., which is expressed in the acquisition of several office buildings in the U.S., the internal reporting format has been updated, per the request of the Chief Operations Decision Maker, such that the results of operations of the properties in the U.S. shall be presented to him separately. In view of the aforesaid, from the annual financial statements for 2011, the disclosure made in connection with the results of the Group's operating segments has been updated.

The above change is expressed in the fact that the income-producing property business in the U.S., which was previously included in the framework of the commercial centers and malls and office and other space for lease segments, is presented in these statements as a separate reportable segment.

The Company's business operations mainly focus on the income-producing property segment, while 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. The Company also has income-producing property in the U.S. (mainly office space for lease). In addition, the Company engages, through its holdings in Granite Hacarmel, in another operating segment, which includes the segments of paint, energy, water and the environment.

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

Segment A – Commercial centers and shopping malls in Israel.

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

Segment C – Income-producing property in the U.S.

Segment D – Granit Hacarmel.

Note 6 – Segmental reporting (contd.)

b. Operating segments:

	For the period of three months ended March 31, 2012 (unaudited)					
	Commercial centers and shopping malls in Israel	Office and Other Space for lease in Israel	Income-producing property U.S.	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	214,876	81,744	43,358	1,869,438	246	2,209,662
Total segmental expenses	41,077	13,057	17,536	1,797,561	19	1,869,250
Segmental profit (NOI)	173,799	68,687	25,822	71,877	227	340,412
Net income from adjustment of fair value of investment property and investment property under construction	(6,817)	(17)	(1,110)	(425)	-	(8,369)
Non-attributed expenses						(18,232)
Financing expenses, net						(69,629)
Other revenues, net						11,494
The Company's share in the results of associated companies, net of tax						(2,755)
Income before taxes on revenues						252,921
Additional information:						
Segment assets (**)	9,439,259	4,341,711	1,454,792	5,810,119	-	21,045,881
Unallocated assets (*)						2,489,782
Total consolidated assets						23,535,663

(*) Mainly financial assets held for trading in the sum of approx. NIS 941 million and available for sale financial assets in the sum of approx. NIS 1,131 million.

(**) The total sum of the properties of the income-producing property in U.S. operating segment, as of March 31, 2012, is approx. NIS 1.5 billion, compared to approx. NIS 1.1 billion as at December 31, 2011. The difference derives from the acquisition of an office building in Texas, as explained in Note 5a to the financial statements.

Note 6 – Segmental reporting (contd.)

b. Operating segments: (contd.)

	For the period of three months ended March 31, 2011 (unaudited)					
	Commercial centers and shopping malls	Office and Other Space for lease	Income-producing property U.S.	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	194,132	77,720	20,218	1,491,188	238	1,783,496
Total segmental expenses	34,545	12,790	9,062	1,415,929	18	1,472,344
Segmental profit (NOI)	159,587	64,930	11,156	75,259	220	311,152
Net income from adjustment of fair value of investment property and investment property under construction	346	112	16,744	390	-	17,592
Non-attributed expenses						(20,217)
Financing expenses, net						(122,865)
Other revenues, net						29,421
The Company's share in the results of associated companies, net of tax						(4,849)
Income before taxes on revenues						210,234
Additional information:						
Segment assets	8,506,262	3,454,420	917,064	5,168,415	-	18,046,161
Unallocated assets (*)						4,035,656
Total consolidated assets						22,081,817

(*) Mainly financial assets held for trading in the sum of approx. NIS 1,948 million and available for sale financial assets in the sum of approx. NIS 1,765 million.

Note 6 – Segmental reporting (contd.)

b. Operating segments: (contd.)

	For the year ended December 31, 2011					
	Commercial centers and malls in Israel	Office and Other Space for lease in Israel	Income-producing property U.S.	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	813,847	325,382	102,244	6,304,842	955	7,547,270
Total segmental expenses	152,389	53,513	53,859	6,104,112	72	6,363,945
Segmental profit (NOI)	661,458	271,869	48,385	200,730	883	1,183,325
Net income from adjustment of fair value of investment property and investment property under construction	554,600	217,987	76,051	221	-	848,859
Non-attributed expenses						(73,185)
Financing expenses, net						(489,498)
Other revenues, net						47,104
The Company's share in the results of associated companies, net of tax						(17,512)
Income before taxes on revenues						1,499,093
Additional information:						
Segment assets	9,424,443	4,279,980	1,091,725	5,497,368	-	20,293,516
Unallocated assets (*)						2,886,197
Total consolidated assets						23,179,713

(*) Mainly financial assets held for trading in the sum of NIS 1,322 million and available for sale financial assets in the sum of approx. NIS 1,256 million.

Note 7 – Events after the end of the reporting period

a. On May 1, 2012, Otzma & Co. Investments Maccabim Ltd., a private company wholly owned by the Company ("Otzma") engaged in an agreement whereby Otzma shall purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva from third parties who are partners therewith in the said property, in consideration for a sum of NIS 48 million (plus V.A.T) to be paid to the sellers within 10 days from the date of fulfillment of the conditions precedent of the transaction, other than an aggregate sum of approx. NIS 10 million to be deposited in escrow for the purpose of various payments required by the transaction.

The sale agreement is conditioned upon conditions precedent, which are required to be fulfilled within 120 days, that are related to the bank in whose favor a pledge is registered on the seller's rights and to the holder of rights in the rest of the property.

Subsequent to the closing of the transaction, Otzma shall hold 100% of the rights in the property.

b. As a result of the High Court of Justice's ruling ordering the price committee to review the marketing margin of the gasoline based on updated data of the fuel companies, a renewed hearing was held on February 14, 2012. After the date of the report, in April 2012, Sonol received a report from the Fuel Administration with the renewed review results ordering to reduce the marketing margin by an additional amount of 1.4 Agorot per liter of self service 95 gasoline and of 10 Agorot per liter of full service 95 gasoline. This is a draft for a hearing which the companies were requested to forward their comment thereto. Sonol is opposing the committee's decision, claiming that mistakes had occurred in analyzing the data that were submitted to the committee, and it forwarded its comment to the committee. On May 6, 2012, an additional hearing was held for Sonol before the committee. As of the Report Release Date, the committee's decision has not yet been released. Hence, it is not possible to know whether the new recommendations will be adopted and what will be the effect of the additional examination on Sonol's financial results.

c. On May 23, 2012, after the Date of Report on the Financial Condition, a full tender offer was accepted, which was released by Granite Hacarmel, to purchase all of the shares of Tambour Ltd. ("Tambour"), a public subsidiary of Granite Hacarmel, at the price of NIS 6 per Tambour share in cash (and for a total consideration of approx. NIS 61,260 thousand), and all pursuant to the terms which Granite Hacarmel announced in the aforesaid tender offer (the "Tender Offer"). Upon consummation of the Tender Offer and performance of a forced purchase of the shares of the offerees not having accepted the same, Granite Hacarmel shall hold (jointly with Tambour) the entire share capital and voting rights of Tambour, Tambour will become a private company according to Section 339 of the Companies Law, and its shares will be delisted from trade on the Tel Aviv Stock Exchange Ltd.

PART D

Effectiveness of the internal control over the financial reporting and disclosure

March 31, 2012

Attached herein is a quarterly report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to Regulation 38C(a):The management, under the supervision of the board of directors of Azrieli Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the financial reporting and disclosure within the Corporation.

For this purpose, members of the management are:

1. Shlomo Sherf, CEO;
2. Yuval Bronstein, CFO;
3. Michal Kamir, General Counsel and Company Secretary;
4. Irit Sackler Philosof, Chief Comptroller for Accounting and Financial Statements.

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

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

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

In the annual report on the effectiveness of internal control over financial reporting and the disclosure which was attached to the periodic report for the period ended on December 31, 2011 (the "Last Annual Report on Internal Control"), the board of directors and the management assessed the internal control in the Corporation. Based on that assessment the board of directors and management of the Corporation have reached the conclusion that the internal control as aforesaid, as of December 31, 2011 is effective.

Until the date of the Report, the board of directors and the management have not been informed of any event or matter that may change the assessment of effectiveness of the internal control, as presented within the Last Annual Report on Internal Control.

As of the date of the report, based on the assessment of effectiveness of the internal control in the Last Annual Report on Internal Control, and based on information brought to the attention of the management and the board of directors, as aforesaid, the internal control is effective.

Statement of Managers:

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

I, Shlomo Sherf, represent that:

(1) I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for the Q1/2012 (the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees of the Corporation, based on my most current assessment of the internal control over financial reporting and disclosure:

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

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

(5) I, either alone or jointly with others in the Corporation:

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

b. Have determined controls and procedures or confirmed the determination and existence, under my supervision, of controls and procedures, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial

Statements according to the provisions of the law, including in accordance with GAAP.

c. I have not been informed of any event or matter which occurred during the period between the date of the periodic report for 2011 and the date of this report, that may change the conclusion of the board of directors and the management regarding the effectiveness of the internal control over the financial reporting the disclosure of the Corporation.

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

May 28, 2012 _____

Shlomo Sherf, CEO

Statement of Managers:

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

I, Yuval Bronstein, represent that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim period reports of Azrieli Group Ltd. (the "Corporation") for Q1/2012 (the "Reports" or the "Interim Period Reports");

(2) To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Period Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Period Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees of the Corporation, based on my most current assessment of the internal control over financial reporting and disclosure:

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

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

(5) I, either alone or jointly with others in the Corporation:

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

by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence under our supervision of controls and procedures, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP;

c. I have not been informed of any event or matter which occurred during the period between the date of the periodic report for 2011 and the date of this Report, addressing the Interim Financial Statements and any other financial information included in the Interim Period Reports, which may change, the conclusion of the board of directors and the management in respect of the effectiveness of the internal control over the financial reporting and disclosure of the corporation.

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

May 28, 2012

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Yuval Bronstein, CFO