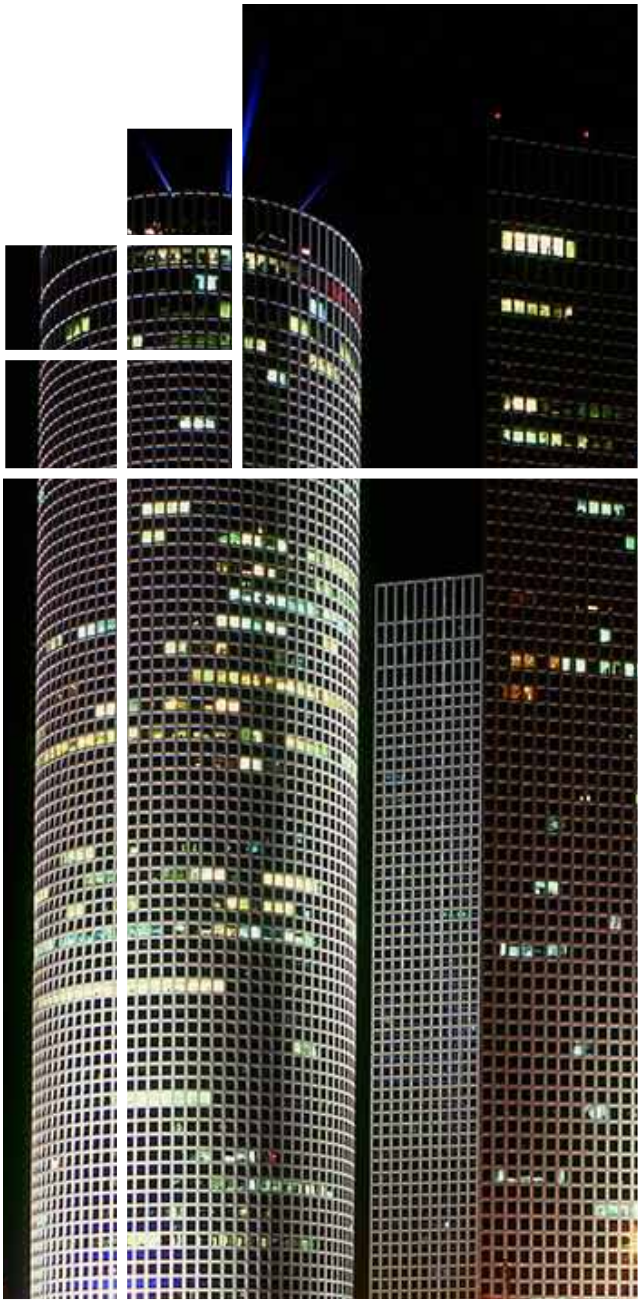
Azrieli Group Ltd.

Periodic Report

As of December 31, 2012



AZRIELI GROUP

Part A

Description of the Corporation's Business

Azrieli Group

All chapters of the report and the annexes hereto constitute a single whole and complement one another

CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the periodic report for the year 2012 and the financial statements annexed thereto (the "**Report**") of the Azrieli Group Limited. Please note that this document should not be regarded as a substitute for the complete, original, Hebrew version of the Report.

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

This translation was neither performed by the Company, nor checked by it, and accordingly, the Company does not undertake that the translation fully, correctly or accurately reflects the Report and its content. The full and legal version of the Report, in Hebrew, was released by the Company on March 20, 2013, and may be viewed on the MAGNA website.

The translation of the financial statements annexed to the Report (the "**Financial Statements**") was neither performed by Brightman, Almagor, Zohar and Co., Accountants (the "**Company's Auditors**"), nor checked by the Company's Auditors, and accordingly, they do not undertake that the translation of the Financial Statements fully, correctly or accurately reflects their content, and the Company's Auditors' report on the Financial Statements relates solely to the Company's Financial Statements in Hebrew. The full and legal version of the Financial Statements was released by the Company, as part of the Report, on March 20, 2013, and may be viewed on the MAGNA website.

CHAPTER A: BUSINESS DESCRIPTION OF THE COMPANY

General

Azrieli Group Ltd. hereby respectfully files the Description of the Corporation's Business Report as of December 31, 2012 (the "**Report Date**"), reviewing the description of the Group and development of business thereof, in 2012 (the "**Report Period**") until the Report Release Date. The Report is prepared pursuant to the provisions of Regulation 8a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 and the draft establishment of disclosure directive on investment property activity in securities regulations, as published on December 13, 2012, which was adopted by the Company even before the aforesaid amendment took effect. Figures appearing in the Report are true as of the Report Date. However, in certain cases details appear in the Report reviewing events which occurred subsequent to the Report Date and soon before the date of release thereof on March 20, 2013 (the "**Report Release Date**") and in such cases the Company states that these are provided as of the Report Release Date.

Materiality

The materiality of the information included in this Report, including a description of the material transactions and/or material projects, is evaluated from the point of view of the Company. It should be clarified that, in a part of the cases, the Company, in its exclusive discretion, decided to expand the description necessary, in order to give a more comprehensive picture of the subject being discussed.

Forward-Looking Information

The Description of the Corporation's Business in this Chapter A contains in part forward-looking information as defined in the Securities Law. Such information presented below and referred to as forward-looking information, includes forecasts, estimates, evaluations or other information which are uncertain information addressing a future event and which relies, *inter alia*, on the publications of the Central Bureau of Statistics, the publications of the Bank of Israel, publications of other relevant professional entities and also on internal evaluations of the Company which are based on the collection of statistics, experience and information accumulated by the Company along the years. The actual results may be significantly different from those predicted within the forward-looking information as aforesaid, as a result of a multitude of factors, including as a result from the risk factors, in whole or in part, as described in Section 26 below, all as shall be specified in the specific references to forward-looking information further along the chapter. Sentences containing expressions such as: "projected", "intends", "estimates", "forecasts", "expects" and similar expressions indicate that such is forward-looking information. Such information reflects the Company's current point of view, in respect of future events based on evaluations which are therefore subject to risks and uncertainty.

Definitions

In this Chapter, the following terms will be ascribed the meaning listed next thereto:

TASE	The Tel Aviv Stock Exchange Ltd.;
"**Granite Hacarmel"**	Granite Hacarmel Investments Ltd.;
"**Financial Statements**"	The consolidated financial statements of the Company as of December 31, 2012;
"**Company**"	Azrieli Group Ltd.;
"**Companies Law**"	The Companies Law, 5759-1999;
"**Securities Law**"	The Securities Law, 5728-1968;
"**Nadav Investments**"	Nadav Investments Inc., a private company incorporated under Canadian Law, fully owned and controlled by Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is fully owned and controlled by Mr. David Azrieli and his family members.
"**Azrieli Group**" or the **"Group**"	The Company and/or subsidiaries and/or companies affiliated thereto;
"**Prospectus**"	A public offering prospectus published by the Company on May 12, 2010 as amended on May 25, 2010.;

PART ONE: DESCRIPTION OF THE GENERAL DEVELOPMENT OF THE COMPANY'S BUSINESS

1. Business of the Company and description of the business development thereof

1.1 General

The Company was incorporated on January 6, 1983 as a private company according to the laws of the State of Israel. On June 3, 2010, the Company's shares were issued to the public for the first time, and the Company became a public company, within the meaning thereof in the Companies Law. Trade in the Company's shares on TASE began on June 7, 2010, and commencing from July 1, 2010, the shares of the Company are included in the Tel Aviv 25 Index.

As of the Report Date, the controlling shareholder of the Company is Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company, incorporated under Canadian law, which holds the entire share capital of Nadav Investments, the direct controlling shareholder of the Company. Azrieli Holdings is fully controlled and owned by Azrieli family members: Mr. David Azrieli, Chairman of the Company's Board of Directors, holds directly and indirectly, approx. 38.9% of the issued and paid-up share capital in Azrieli Holdings, and his four children holding, directly and indirectly, the balance of the share capital of Azrieli Holdings. As of the Report Date and as of the Report Release Date, Azrieli held holdings in 71.42% of the share capital and the voting rights of the Company in practice, on a fully diluted basis. For further details see, incorporated by reference, immediate report on interested party holdings dated January 7, 2013 (reference 2013-01-006597).

As of the Report Date, the Company is engaged, both on its own and through its subsidiary and investee companies, primarily in the income-producing property segment, with most of the business operations of the Company being in the retail center and mall segment in Israel and in the office and other space for lease segment both in Israel and overseas. In addition, the Company is engaged, through its holdings in Granite Hacarmel, in an additional segment, which comprises, as an intrinsic part, the direct marketing of petroleum distillates, fuelling and commerce complexes, painting and building-finishing, water and sewage etc. and also, the holding of minority interests in financial entities, all of which will be specified below.

As mentioned, the Company belongs to Azrieli Group and its business has developed, *inter alia*, on the basis of the substantial know-how and experience accumulated thereby over many years in the income-producing property industry in Israel, while using the experience and expertise of its principal controlling shareholder, Mr. David Azrieli, who founded and established the Company from the beginning of its business. Mr. David Azrieli and Ms. Dana Azrieli undertook, in

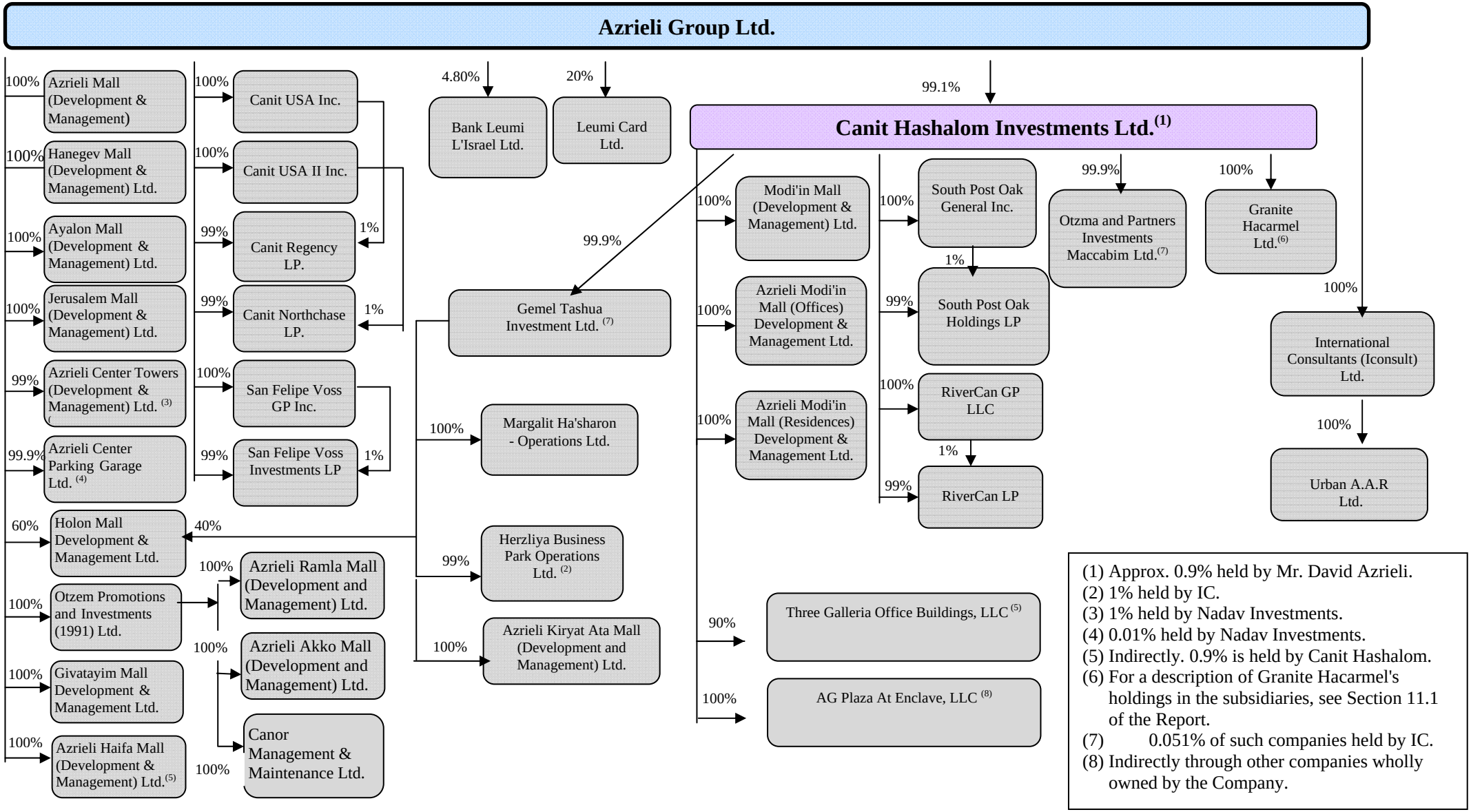
connection with the management agreements for providing services to the Company, not to operate in part of the Company's operating segments, namely, in the retail centers and malls segment and in the office and other space for lease segment in Israel, subject to the size of the area of the leasable properties and the rate of their holdings in such properties. It should be clarified that the aforementioned undertaking does not apply to operations in additional segments in which the Company is active, including operations in the foreign real estate segment. See Delineation of Business section in Chapter E of this Report for further details.

The operations of the Group are carried out by means of a managerial headquarter that is comprised of professionals having a great deal of seniority and managerial experience, most of whom have been associated with the Company and the Group's companies for many years. See Section 15 of this Chapter for additional details in connection with the human capital of the Company.

Commencing from 2008 (transition date January 1, 2007), the Company's financial statements have been prepared according to International Accounting Rules (IFRS), according to which, inter alia, the investment property is presented at its fair value.

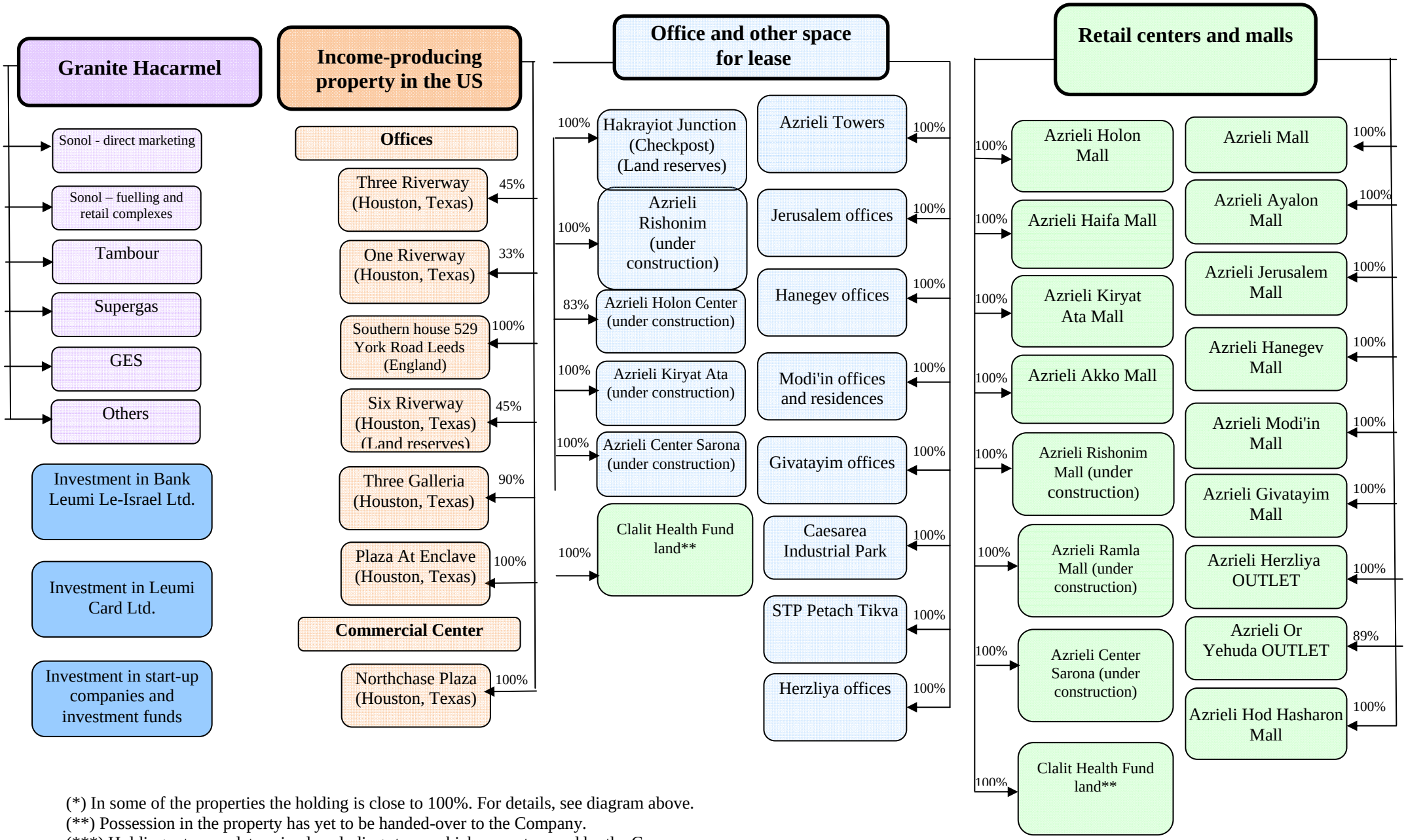
1.2 A diagram of the structure of holdings of the Group Companies prior to the Report Release Date[1]

As of the Report Release Date, the diagram of the structure of holdings of the Company and the Group Companies is as follows:



[1] The diagram does not include inactive companies as of the Report Release Date.

As of the Report Release Date, the diagram of the holdings of the Group in the properties in final succession(*) is as follows:



(*) In some of the properties the holding is close to 100%. For details, see diagram above.
(**) Possession in the property has yet to be handed-over to the Company.
(***) Holding rate was determined excluding stores which are not owned by the Company.

1.3 Main developments occurring in the Company's structure and business in 2012 and until the Report Release Date

1.3.1 Tender offer for Granite Hacarmel shares

On September 24, 2012, a full tender offer was accepted which the Company published together with Canit Hashalom Investments Ltd. ("**Canit Hashalom**"), a company controlled by the Company (the Company together with Canit Hashalom shall be referred to below as the "**Offerors**"), for the purchase of all of the shares that are not held by the Offerors, in consideration for the amount of 549 *Agorot* for an NIS 1 share of Granite, and for the total consideration of approx. NIS 318 million. Accordingly, as of the Report Date the Company holds, through Canit Hashalom, all of the share capital and voting rights of Granite, which became a private company in accordance with Section 339 of the Companies Law and its shares were delisted from TASE. For details see Note 40 of the Company's Financial Statements as of December 31, 2012, and the Company's immediate reports dated August 15, 2012 (reference no: 2012-01-211812), September 9, 2012 (reference no: 2012-01-233448), and September 27, 2012 (reference no: 2012-01-244941), which are included in the context of this Report by way of reference.

1.3.2 Tender offer from Granite Hacarmel for the purchase of all of the shares of Tambour Ltd.

On May 22, 2012, the tender offer published by Granite Hacarmel on April 24, 2012 (and an amendment thereto dated May 16, 2012) for the purchase of all of the shares of Tambour Ltd. ("**Tambour**"), was accepted. Accordingly, as of the Report Date, Granite holds (together with Tambour) all of the share capital and voting rights of Tambour, which became a private company in accordance with Section 339 of the Companies Law and its shares were delisted from the Tel Aviv Stock Exchange Ltd. For further details see Note 40 of the Financial Statements as of December 31, 2012, and the immediate reports of the Company 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 in this Report by way of reference.

1.3.3 Purchase of income-producing property

1.3.3.1 Office Building, Houston, U.S.A.: On January 10, 2012, AG Plaza at Enclave, LLC, a U.S. corporation indirectly held at a rate of 100% by the Company, completed the purchase of an office building in the total area of approx. 31,986 sqm (SQF 344,296) and with a 100% occupancy rate in Houston, Texas, U.S.A., in consideration of a sum total of approx. U.S. $107.5 million (in addition to transaction expenses amounting to approx. U.S. $544 thousand). For further details on 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 in the context of this Report by way of reference, and Note 13 of the Financial Statements as of December 31, 2012.

1.3.3.2 Closing of a transaction for the acquisition of the additional one-half of the rights in the Science and Technology Park project in Petah Tikva: On May 1, 2012, Otzma & Co. Investments Maccabim Ltd., a private company, fully 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 its third party partners in the aforesaid property, in consideration for the amount of NIS 48.8 million (beforeV.A.T.). Otzma closed the transaction on October 23, 2012, and as of the Report Date, Otzma holds 100% of the rights in the property. For further details see the Company's immediate reports dated May 2, 2012 (reference: 2012-01-113859) and October 24, 2012 (reference: 2012-01262644) which are included in the context of this Report by way of reference, and Note 13 of the Financial Statements as of December 31, 2012.

1.3.3.3 Winning in the proceeding for the acquisition of rights in the lot at Derech Menachem Begin in the northern central business district in Tel Aviv: On October 22, 2012, Clalit Health Services ("**Clalit**") notified the Company that it decided to approve the Company's offer as the winning offer for the acquisition of Clalit's rights in the lot in the area of approx. 10 thousand sqm, located at 146 Derech Menachem Begin in the northern central business district in Tel Aviv, in consideration for NIS 240 million (before V.A.T.), this amount being linked to the Consumer Price Index. The lot purchased is designated for the construction of a project of approx. 75 thousand sqm, comprised of office and retail spaces for lease in the scope of approx. 58 thousand sqm (approx. 48 thousand sqm offices and approx. 10 thousand sqm retail), residential areas in the scope of approx. 17 thousand sqm and 1,500 parking spaces. As of the Report Date the agreement has been executed and the Company has made the first payment on account of the consideration in the amount of NIS 48 million. The handing over of possession of the lot to the Company is expected to be no later than December 31, 2014, however, Clalit is entitled to delay the handing over of the lot by one extra year, against a defined payment. For further details see Section 1.1 of the board of directors' report, the Company's immediate report dated October 22, 2012 (reference: 2012-01-261381 included in the context of this Report by way of reference and Note 13 of the Financial Statements as of December 31, 2012.

1.3.4 **Additional events**

1.3.4.1 On January 8, 2012, the Company withdrew the merger application it had filed with the Israel Antitrust Authority to approve the purchase of the "Ir Yamim" Mall in Netanya (the contingent sale agreements pertaining to the purchase of which were executed on August 15, 2011 and on September 11, 2011) in view of the Company's disagreement with the conditions that were presented by the Israel Antitrust Authority for the approval

of the purchase thereof. Pursuant to the aforesaid, the condition precedent for the closing of the transactions to purchase the mall were not fulfilled.

1.3.4.2 On June 13, 2012, the Company entered into an agreement for the acquisition of all of the rights in the office building in the city of Charlotte, North Carolina, U.S.A. On July 25, 2012, the Company announced that in accordance with its right under the acquisition agreement and pursuant to the due diligence investigation of the property, it decided not to consummate the purchase of the office building. Accordingly, the agreement was terminated and a deposit in the amount of US $2 million, which was deposited in escrow shortly after the execution of the agreement, was returned to the Company. For details see the Company's immediate reports dated June 14, 2012 and July 25, 2012 (reference: 2012-01-155667 and 2012-01-194148, respectively), which are included in the context of this Report by way of reference.

1.3.4.3 On July 23, 2012, the Company entered into a contingent sale agreement for the acquisition of all of the rights in the power center known as "One Plaza" in Beer Sheva, in consideration for the total amount of approx. NIS 339.5 million (before V.A.T.). On November 25, 2012, the Antitrust Commisioner announced his objection to the purchase of the One Plaza power center in Beer Sheva by the Company, despite his preliminary approval which was given immediately prior to the execution of the agreement. On January 8, 2013, the Group applied to the Antitrust Court in order to appeal such decision. For details see the Company's immediate reports dated July 24, 2012 (reference: 2012-01-192417) and November 26, 2012 (reference: 2012-01-289155).

2. Main operating segments of the Group

As of the Report Date, the business operations of the Group are focused primarily on the income-producing property market in Israel, and the Group also operates in the income-producing property segment overseas, as well as on additional segments, *inter alia*, by means of the subsidiary, Granite Hacarmel.

The operating segments of the Group which are reported as reportable operating segments in the Company's Financial Statements are as follows:

(1) **The retail centers and malls segment in Israel -** in this operating segment, the Group focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining malls and retail centers in Israel. As of the Report Date, the Group owns 13 malls and retail centers in Israel, in a total leasable area of approx. 257 thousand sqm that are leased (the Company’s share – approx. 256 thousand sqm) to about 1,750 tenants, with most of the malls and retail centers spread throughout the large cities in Israel. In the framework of this operating segment, the Company provides management services to the retail centers and malls maintained thereby, with the management being performed by the Company and/or designated management companies in relation to each mall or retail center that is owned by the Group, which enters into management

agreements with the lessees. All of the malls and retail centers also include car parks (above or underground) which serve the visitors and the potential tenants.

See Section 8 of the Report for additional details regarding the retail centers and malls segment.

(2) **The office and other space for lease segment in Israel -** in this operating segment, the Company focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining office buildings and parks for offices and high-tech industry in Israel. As of the Report Date, the Group owns 9 income-producing properties in the office and other space for lease segment in Israel, in a total leasable area of approx. 293 thousand sqm (the Company's share is approx. 291 thousand sqm) that are leased to about 480 tenants. Most of the Group's income-producing areas in this operating segment constitute part of the Group's projects which integrate commercial areas, as portrayed in the retail centers and malls segment, and area designated for office and other space for lease.

See Section 9 of the Report for additional details regarding the office and other space for lease segment in Israel.

(3) **The Income-Producing Property Segment in the U.S.A.** – As of the Report Date, the Group's companies own 5 office properties for lease outside of Israel, in a total leasable area of approx. 166 thousand sqm (the Company's share is approx. 155 thousand sqm) that are leased to about 250 tenants, as well as one retail center in a total leasable area of approx. 13 thousand sqm, fully owned by the Company, with about 12 tenants.

For further details regarding the income-producing property segment in the U.S.A., see Section 10 of the Report.

Granite Hacarmel segment – In the course of the Report Period, the Company purchasd, through a tender offer, all of the shares of Granite Hacarmel which became a private company and its shares were delisted from TASE. Most of the business of Granite Hacarmel is in the following operating segments, in accordance with the companies held thereby: (1) Sonol fuelling and commerce complexes and direct marketing; (2) Supergas – primarily marketing and supply of LPG; (3) Tambour – primarily manufacture and marketing of paint products and construction finishing products ; (4) GES (primarily water and sewage); (5) others. It should be emphasized that the results of Granite are reviewed in total, as one segment and, accordingly, decisions are taken for the allotment of resources to this segment, *inter alia*, while considering the volume of the investment in Granite in relation to the value of all of the Group's assets.

See Section 11 of the Report for additional details regarding Granite Hacarmel and its business.

Other properties and business:

In addition, The Group has other businesses, including, *inter alia*, investments in entities in the banking and financial segment, investments in venture capital, start-up companies and investment funds. See Section 12 of this Chapter for additional details.

3. Investments in the Company's capital and transactions in its shares

To the best of the Company's knowledge, no investments have been made in the Company's capital over the past two years and no other material transaction has been executed in the Company's shares by an interested party outside of the TASE during the two years preceding December 31, 2012, as well as until this Report Release Date, except as specified below:

3.1 On June 23, 2011, Nadav Investments which is the direct controlling shareholder of the Company, transferred 1,605,354 Company's shares owned thereby, for no consideration, to a registered charity foundation located in Canada and whose properties are designated for donations and the financing of philanthropic activities in Israel and Canada (the "**Foundation**").

3.2 On May 4, 2012, Nadav Investments transferred 2,728,260 additional shares of the Company which is owned thereby, for no consideration, to the Foundation.

As the Company was informed, neither Mr. David Azrieli nor any of his relatives are considered as holders of control in the Foundation, and therefore the Foundation shall not be considered an interested party or holder of control in the Company. For further details see the Company's immediate reports dated June 23, 2011 (reference no: 2011-01-192156) and May 8, 2012 (reference no: 2012-01-120162), which are included in this Report by way of reference.

4. Dividends

On March 19, 2013, the Company's board of directors approved a cash distribution in the total amount of NIS 265 million, constituting approx. 36% of the net profit of the Company to the shareholders net of property revaluations and linkage differentials which accrued on loans and net of the tax effects thereon, constituting approx. 37% of the FFO for the income-producing property activity, as specified in Section 1.1.7 of the board of directors' report. For further details see Immediate Report dated March 20, 2013, published concurrently with this report.

For further details on dividend distributions which the Company performed in the two years which preceded the Report Date, and further details in relation to dividends in the Company, see Note 22 of the Financial Statements as of December 31, 2012 and the Company's reports dated March 30, 2011 (reference: 2011-01-098883) and March 22, 2012 (reference: 2012-01-075501), which are incorporated in this report by reference.

PART TWO: OTHER INFORMATION

5. Financial data regarding the Company's operating segments

The following is financial data of the Company, as specified in the Company's financial statements (NIS in thousands) for the years 2010 to 2012:

Y2012:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Granite Hacarmel	Adjustments*	Consolidated
Revenues						
Revenues from outsiders	874,483	340,079	181,199	7,658,564	1,029	9,055,354
Revenues from other Group operating segments	---	---	---	---	---	---
Total	874,483	340,079	181,199	7,658,564	1,029	9,055,354
Attributed costs						
Costs not representing revenues from other Group operating segments	172,599	58,367	78,351	7,367,843	77	7,677,237
Cost representing revenues from other Group operating segments	---	---	---	---	---	---
Total	172,599	58,367	78,351	7,367,843	77	7,677,237
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	701,884	281,712	102,848	290,721	952	1,378,117
Variable costs attributed to operating segment	172,599	58,367	78,351	6,679,859	77	6,989,253
Fixed costs attributed to operating segment	---	---	---	687,984	---	687,984

Rise in fair value of investment property	84,478	142,359	88,099	13,960	---	328,896
Profits from operations attributed to owners of parent company	699,454	279,390	97,717	201,297	952	1,278,810
Profits from operations attributed to rights which do not confer control	2,430	2,322	5,131	89,424	---	99,307
Total assets attributed to operating segment	9,601,137	4,751,465	1,570,099	5,978,628	---	21,901,329

* Adjustments to consolidated derive from business in the insurance segment, see Section 12.3 of the Report.

See the Company's Board of Directors' Report in Chapter B of this Report for the explanations of the Board of Directors with relation to the financial data of the Company as it appears in its Consolidated Financial Statements.

Y2011:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Granite Hacarmel	Adjustments*	Consolidated
Revenues						
Revenues from outsiders	813,847	325,382	102,244	6,304,842	955	7,547,270
Revenues from other Group operating segments	---	---	---	---	---	---
Total	813,847	325,382	102,244	6,304,842	955	7,547,270
Attributed costs						
Costs not representing revenues from other Group operating segments	152,389	53,513	53,859	6,104,112	72	6,363,945
Cost representing revenues from other Group operating segments	---	---	---	---	---	---
Total	152,389	53,513	53,859	6,104,112	72	6,363,945
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	661,458	271,869	48,385	200,730	883	1,183,325
Variable costs attributed to operating segment	152,389	53,513	53,859	5,425,789	72	5,685,622
Fixed costs attributed to operating segment				678,323		678,323
Rise in fair value of investment property	554,600	217,987	76,051	221	---	848,859
Profits from operations attributed to owners of parent company	659,250	269,621	45,353	120,735	883	1,095,842
Profits from operations attributed to rights which do not confer control	2,208	2,248	3,032	79,995	---	87,483
Total assets attributed to operating segment	9,424,443	4,279,980	1,091,725	5,497,368	---	20,293,516

* Adjustments to consolidated derive from business in the insurance segment, see Section 12.3 of the Report.

Y2010:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Granite Hacarmel	Adjustments*	Consolidated
Revenues						
Revenues from outsiders	754,137	301,641	35,032	5,252,470	642	6,343,922
Revenues from other Group operating segments	---	---	---	---	---	---
Total	754,137	301,641	35,032	5,252,470	642	6,343,922
Attributed costs						
Costs not representing revenues from other Group operating segments	139,823	54,870	14,399	5,074,980	49	5,284,121
Costs representing revenues from other Group operating segments	---	---	---	---	---	---
Total	139,823	54,870	14,399	5,074,980	49	5,284,121
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	614,314	246,771	20,633	177,490	593	1,059,801
Variable costs attributed to operating segment	139,823	54,870	14,399	4,330,577	49	4,539,718
Fixed costs attributed to operating segment				744,403		744,403
Rise (decline) in fair value of investment property	775,703	109,096	6,977	(1,080)	---	890,696
Profits from operations attributed to owners of parent company	612,349	244,734	20,505	106,756	593	984,937
Profits from operations attributed to rights which do not confer control	1,965	2,037	128	70,734	---	74,864
Total assets attributed to operating segment	8,445,171	3,437,387	281,321	4,921,319	---	17,085,198

* Adjustments to consolidated derive from business in the insurance segment, see Section 12.3 of the Report.

6. General environment and effect of external factors on the Company's business

Following are the assessments of the Company as to the major trends, events and developments in the macroeconomic environment of the Company, which to the best of its knowledge and belief, have or are anticipated to have an effect on the business results or the developments in the Group's operating segments.

The estimates of the Company below in this section and in this Report are based, *inter alia*, on data published and not independently examined by the Company. Every reference appearing in this section should be considered data not under the control of the Company and indefinite, and it is based, *inter alia*, on data published by the Bank of Israel, as specified below.

6.1 The business in Israel

As a company operating in the Israeli market, with its various industries, the Company is exposed to macro-economic changes in the condition of the economy in general and in the real estate industry, in particular. The central economic factors affecting the business of the Company and the Group companies in Israel are specified below.

Israel	For the Year Ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Macroeconomic parameters *			
Gross Domestic Product (PPP)	**NIS 930 billion**	**NIS 864 billion**	**NIS 813 billion**
Product per Capita (PPP)*	**NIS 117,608**	**NIS 111,286**	**NIS 106,669**
Growth rate in the Domestic Product (PPP)*	**3.3%**	**4.8%**	**4.8%**
Growth Rate in the Product per Capita (PPP)*	**1.5%**	**2.9%**	**2.9%**
Inflation Rate **	**1.6%**	**2.17%**	**2.66%**
Return on long term domestic governmental debt ***	**4%**	**5%**	**4.68%**
Rating of long term governmental debt ****	**A1**	**A1**	**A1**
Exchange Rate of domestic currency compared to the Dollar as of the last day of the year*	**3.733**	**3.821**	**3.549**

* Source: The site of the Central Bureau of Statistics in Israel - http://www.cbs.gov.il
** Source: Bank of Israel website - http://www.bankisrael.gov.il
*** Source: The OECD website - http://www.oecd.org
**** Source: Ministry of Finance website – the Government Debt Management Unit (by the global rating company – Moody's) - http://www.ag.mof.gov.il/AccountantGeneral/GovDebt .

6.1.1 General

6.1.1.1 Political-security situation - The Company's business is affected by the political-security situation in Israel. The Company's management estimates that significant and long-term deterioration in the political security situation may cause a decline in the business in malls and retail centers, decline in demands and a decrease in prices in the income-producing property segment.

6.1.1.2 Credit availability and cost - Changes in financing cost and availability and the scope of available credit in the banking and non-banking system affect the real estate industry and the profitability thereof. As a result of the implementation of structural reforms implemented in recent years in the capital market (such as the Bachar Reform, the pension reform and the tax reform) the banks ceased being the main credit providers to the business sector, and a non-banking credit market had developed, constituting an alternative for financing assets and projects. The local capital market too, constitutes a source for the raising of funds to finance the Company's business activity, whether in shares or in bonds. Due to

the financial strength of the Company, its accessibility to sources of bank financing, and the relatively low scope of pledges on properties, taking into consideration the extent of business thereof, the Company estimates that no material difficulties are anticipated in raising the financing required thereby.

6.1.1.3 Fluctuations in the inflation rate, the Consumer Price Index and the interest rates - The real estate industry is exposed to risks deriving from changes in the inflation rate, the Consumer Price Index and interest rates. The Company finances most of its business operations by means of loans linked to the Consumer Price Index or linked to the prime interest or to the Bank of Israel interest. In addition, most of the Company's revenues from rent are also linked to the Consumer Price Index. The Consumer Price Index increased during the years of 2012 and 2011 by 1.6% and by 2.2%, respectively. The Research Department in the Bank of Israel published a forecast, whereby in 2013 the inflation shall be at a rate of 1.8%[2]. The prime interest decreased in 2012 at the rate of 1% (from 4.25% as of December 31, 2011 to 3.25% on December 31, 2012). The Bank of Israel interest decreased in 2012 at a rate of 1% (from 2.75% as of December 31, 2011 to 1.75% as of December 31, 2012).

6.1.1.4 Fluctuations in the exchange rate of the U.S. dollar - Changes in the exchange rate of the dollar have a marginal effect on the growth rate of the Consumer Price Index in Israel and on the economic results of the Company, as to which, for the most part, its functional currency for operations outside of Israel is in dollars. In 2012, the NIS strengthened versus the dollar at the rate of approx. 2.3%.

6.1.2 **Effects on the income-producing property in Israel segment**

6.1.2.1 The income-producing property in Israel sector– for a description of the trends related to the income-producing property in Israel sector, in relation to each of the Company's business segments, see Sections 8.1 and 9.1 below.

6.1.2.2 The rate of growth and consumption per capita in Israel - In real terms, in 2012 the improvement trend in the Israeli market continued, and the real activity attests to the continuation in growth, although at a more moderate rate than the growth rate in previous years. The gross domestic product (GDP) increased by approx. 3.3%[3] in 2012, the business product increased by approx. 3.2%, the private consumption increased by approx. 2.8% and a high level of employment was maintained. Nonetheless, the effects of the crisis in the Euroblock are evident also in the Israeli market, both from the standpoint of the slowdown in the growth rate of real activity and from financial standpoint, versus 2011. The growth in the domestic economic activity in 2012 encompassed most of the sectors in the market.[4]

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[2] Bank of Israel, press release, February 25, 2013, Bank of Israel interest for March 2013 shal remain unchanged at the level of 1.75%, the Bank of Israel website http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/25022013.aspx

[3] Central Bureau of Statistics, national accounts for 2012 http://www.cbs.gov.il/hodaot2012n/08_12_360maz.pdf

[4] Bank of Israel press release, February 25, 2013, Bank of Israel interest for March 2013 shal remain unchanged at the level of 1.75%, the Bank of Israel website http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/25022013.aspx

According to Bank of Israel publications, the growth forecast for 2013 is approx. 3.8%[5] assuming that gas production from Tamar will begin in Q2/2013, and 2.8% net of the effect of gas production from the Tamar well, a continued low-interest environment is expected which derives from a worsening of the global conditions (in particular the reduction of global demand for Israeli exports, the effect of the global slowdown on the local demand (for private consumption and for investments) and the expected global downward update of the interest rates). According to the Telbor market and average forecasts of the forecasters, The Bank of Israel interest rate is expected to be 1.6%-1.7% at the end of 2013[6].

6.1.3 Figures which may affect Granite Hacarmel's results

The results of Granite Hacarmel and the subsidiaries thereof are exposed mainly to the following effects: (1) changes in worldwide petroleum prices, which affect receivables balances, the value of inventory balances and accordingly, the scope of bank credit and Granite Hacarmel's financing expenses, and the demand for petroleum products; (2) the marketing margin in the petroleum distillates industry, from which the profitability of petroleum distillates marketing companies, including Granite Hacarmel, is derived, and any change therein, in respect of both supervised and unsupervised products, affects Granite's profitability; (3) Granite Hacarmel is dependent on ORL, which is the main supplier of various petroleum distillates.

6.2 The business in the U.S.A.

U.S.A.	For the Year Ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Macroeconomic parameters			
Gross Domestic Product (PPP) (1) (U.S. $ in billions)	15,653	15,076	14,499
Product per Capita (PPP) (1) (U.S. $)	49,802	48,328	46,811
Growth rate in the Domestic Product (PPP) (1)	3.82%	3.98%	4.02%
Growth Rate in the Product per Capita (PPP) (1)	3.05%	3.24%	3.23%
Inflation Rate (2)	1.7%	3.0%	1.5%
Return on long term domestic governmental debt (3)	1.78%	1.89%	3.30%
Rating of long term governmental debt (4)	AA+/Negative	AA+/Negative	AAA/Stable
Exchange Rate Shekel to U.S. Dollar (5)	3.733	3.821	3.549

(1) The product data is based on a publication of the International Monetary Fund ("**IMF**") October 2012 (http://www.imf.org). .
(2) According to publications of the US Department of Labour.
(3) According to the US Department of Treasury with respect to bonds for a period of 10 years from December 31, 2012.
(4) According to the rating of S&P (www.standardandpoor.com).
(5) According to data of the Bank of Israel.

The Company's business in the U.S.A. is influenced mostly by the economic situation in the U.S. economy in general, and in the income-producing commercial property segment, in particular, the demand and supply in the area in which the Company's properties are located and the volume of its rent.

[5] Bank of Israel press release, February 25, 2013, Bank of Israel interest for March 2013 shal remain unchanged at the level of 1.75%, the Bank of Israel website http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/25022013.aspx

[6] Bank of Israel press release, December 26, 2011, the Bank of Israel interest for January shall remain unchanged. http://www.bankisrael.gov.il/press/heb/111226/111226maafn.htm

To the best of the Company's knowledge, as in 2010 and 2011, the U.S. economy continued to recover from the recession it suffered more than three years ago also in 2012. The year 2012 opened positively with accelerating growth, an increasingly growing number of employees, and a stable real estate market including, *inter alia*, an increase in the market value of properties. During 2012 a certain deceleration occurred in the improvement of the U.S. economy and at the end of the year, such growth came to a virtual standstill.[7]

Toward the end of 2012, the level of uncertainty began to dissipate, the U.S. elections were over and the close of 2012 also brought a partial solution to the "fiscal cliff", giving rise to a certain optimism with regard for the future to come in 2013. In addition, the Federal Reserve announced an additional plan for buying mortgage-backed securities in the amount of approx. $40 billion and a new quantitative easing plan was announced, as part of the resolution of the "fiscal cliff".

With regard to the interest situation in the U.S. market, the expectations are for a continued low-interest environment and for this situation continuing to result in the flowing of funds to the real estate market. The investors are searching for investment which will produce reasonable yields for them, with a low level of risk, and therefore U.S. real estate is expected to continue to be attractive with the interest environment continuing to be low.

The City of Houston, Texas

The Houston metropolis, with a population of approx. 6.1 million people, and in which most of the Group's properties in the operating segment are located, presented a higher than U.S. average rise in population growth in the last 30 years. In addition, on the basis of an examination of the last results of the population censuses in the U.S. in 2000 to 2010 that was carried out by the Kinder Institute for Urban Research of Rice University, the growth in the number of residents in Houston during this decade is the highest from among the other urban areas of the U.S. Even though New York, Los Angeles and Chicago continue to top the list of the U.S. cities with the highest population, high quality of life, low unemployment rate, limited government and attractive cost of living contributed to the population growth in Houston.

While the continuing national recovery from the recession was not uniform in most of the U.S., it is evident that the recovery process in Houston is one of the fastest in the U.S., and statistics show that Houston has already restored all of the jobs that were lost since the beginning of the last crisis. Thus, in the period between November 2011 and November 2012, an increase of approx. 85,300 jobs, which constitute approx. 3.2% (according to the Texas Workforce Commission), was recorded in Houston. Out of the 12 large metropolises in the U.S., Houston was rated first in the increase in the number of jobs. After delaying large projects in 2008 and 2009, many energy companies began increasing their investment budgets, leading to growth in the number of jobs in the city of Houston, which significantly relies on energy companies and bodies. In addition to expansion in the gas and energy sector, Houston's economy is expected, to the best of the Company's knowledge, to also be affected by growth in the activity of Houston's port and its large medical center[8].

[7] CBRE, U.S. ViewPoint, January 2013
[8] The figures are from publications of real estate consulting company Cushman and Wakefield.

In the past year, Houston's foreign trade balance reached a peak level at $268 billion. This is an increase of approx. 26.8% versus the previous year.

See Section 26 of the Report for discussions of the risk factors to which the Group is exposed.

The above information in Sections 6.1 and 6.2 concerning the general environment and the external factors that affect the Company's business, includes information based on subjective estimates and approximations of the Company in consideration of past experience, as well as publications and surveys written by professionals in connection with the condition of the Israeli economy, the real estate industry, Granite Hacarmel's business segments and the condition of the economy in countries in which the Company operates, as detailed above in this section. The above data are only approximations and it is possible that they are incomplete, but, in the Company's estimation, are able to provide a general picture, even if inexact, of the markets in which it operates in the various operating segments. In view of the above, and due to the existence of causes beyond the control of the Company, the actual results may vary from the estimates specified above and below if a change should take place in one of the factors which were taken into account in these estimates or the economic crisis shall aggravate, the condition of the economy and/or the security situation shall become worse or due to the realization of any of the risk factors specified in Section 26 of the Report, and mainly the world financial crisis, the condition of the economy in Israel and in the U.S. and the security situation in Israel, changes in relevant interest rates and indices, decline in demand for space for lease and in rent prices, deterioration of strength of primary tenants, changes in global petroleum prices, the marketing margins and the oil distillate industry, changes at ORL and costs of financing sources.

PART THREE: DESCRIPTION OF THE GROUP'S BUSINESS IN THE INVESTMENT PROPERTY SEGMENT - AGGREGATE

7. Aggregate disclosure with respect to the investment property segment (disclosure is made jointly for the retail centers and malls in Israel segment and for the office and other space for lease in Israel segment and for the income-producing property in the U.S.A. segment)

7.1 General

The Group began its activity in the income-producing investment property segment in 1983 and since then and as of the Report Date the Company operates in development, construction, acquisition, lease, management and maintenance of malls and retail centers in Israel as well as office and hi-tech parks, office and industry, light industry and storage buildings in Israel. Commencing from 2001 the Company began to operate in these segments also overseas (mainly in the U.S.). For details on a transaction for acquisition of an office building in Houston Texas, U.S.A. during the Report Period, see Section 1.3.3.1 of this Chapter.

Underlying the Company's policy is the basic assumption whereby the property's location is the most important factor for its success. Accordingly, upon examination of the location of a potential property, the Company ascribes significant weight to the population growth potential in the examined area and the urban development anticipated therein, based, *inter alia*, on urban research, segmentation of the existing and anticipated population and the unique or typical commercial needs of such area.

The Company's properties in the retail centers and malls segment are located in the center of residential neighborhoods in developed cities characterized by a population whose socio-economic level ranges from average to high, and at entrances to developed urban areas, insofar as possible, on main traffic arteries. Due to the location of the properties, their accessibility, spacious car parks, tenant mix and variety of activities therein, they attract a large and diverse target audience. Some of the retail centers include office space for lease designated to provide a supplementary response for the target audience's needs, according to the nature of the retail center and its location.

The Company's properties in the office and other space for lease in Israel segment, including the properties under construction, are located primarily in the central region, where there is an active demand for office buildings of various types. The Company's properties in this segment are characterized by a high level of finish and management, relatively extensive floor and office spaces, and are located close to central transport arteries and include designated parking lots.

According to its policy and profit maximization, the Company acts, insofar as necessary, to upgrade its properties, while using the existing and potential commercial, office and other areas, improving the tenant mix and adjusting the same to the target audience.

The Group's strategy and business in the investment property segment is performed both through initiation, development and construction of new properties and acquisition of existing income-producing property, upgrading the same and maximizing potential thereof.

The Group, by itself (through companies which are entirely controlled thereby), manages and operates the properties, their construction and betterment while using the

know-how and experience accrued by the Group, in order to give added value to its properties, tenants and the public visiting the properties.

Set forth below are aggregate figures regarding investment property owned by the Group[9]. The figures will be presented jointly with regard to properties from the three operating segments of investment property owned by the Company, namely: retail centers and malls segment in Israel, the office and other space for lease segment in Israel and the income-producing property segment overseas. For further details regarding the operating segments and regarding material properties and very material properties, see Sections 8, 9 and 10 of this Chapter.

7.2 Summary results in the investment property segments

7.2.1 Summary of the aggregate results in the Group's three investment property segments

	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
	NIS in millions		
Total business revenues (consolidated)	**1,395**	**1,241**	**1,091**
Profit from revaluations (consolidated)	**315**	**849**	**892**
Business profits (consolidated)	**1,401**	**1,831**	**1,774**
Same property NOI (consolidated)	**972**	**936**	**---**
Same property NOI (corporation's share)	**966**	**931**	**---**
Total NOI (consolidated)	**1,087**	**982**	**882**
Total NOI (corporation's share)	**1,076**	**974**	**878**

* The figures do not include the investment properties component appearing in Granite Hacarmel which does not constitute a part of the income-producing property segment of the Company.

7.2.2 Summary of the results in the retail centers and malls in Israel segment

	For the Year ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
	NIS in millions		
Total business revenues (consolidated)	**874**	**814**	**754**
Profit from revaluations (consolidated)	**84**	**555**	**776**
Business profits (consolidated)	**786**	**1,217**	**1,390**
Same property NOI (consolidated)	**667**	**645**	**---**
Same property NOI (corporation's share)	**665**	**642**	**---**
Total NOI (consolidated)	**702**	**662**	**614**
Total NOI (corporation's share)	**699**	**659**	**612**

[9] The figures in this Section 7 are in accordance with the disclosure directive for the investment property industry that was published on the Israel Securities Authority's website on January 11, 2011 and in accordance with the draft enshrinement of this directive in the Securities Regulations, as published on December 13, 2012.

7.2.3 Summary of the results in the office and other space for lease in Israel segment

	For the Year ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
	NIS in millions		
Total business revenues (consolidated)	**340**	**325**	**302**
Profit from revaluations (consolidated)	**142**	**218**	**109**
Business profits (consolidated)	**424**	**490**	**356**
Same property NOI (consolidated)	**281**	**272**	**---**
Same property NOI (corporation's share)	**278**	**270**	**---**
Total NOI (consolidated)	**282**	**272**	**247**
Total NOI (corporation's share)	**279**	**270**	**245**

7.2.4 Summary of the results in the income-producing property in the U.S. segment

	For the Year ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
	NIS in millions		
Total business revenues (consolidated)	**181**	**102**	**35**
Profit from revaluations (consolidated)	**88**	**76**	**7**
Business profits (consolidated)	**191**	**124**	**28**
Same property NOI (consolidated)	**24**	**19**	**---**
Same property NOI (corporation's share)	**23**	**19**	**---**
Total NOI (consolidated)	**103**	**48**	**21**
Total NOI (corporation's share)	**98**	**45**	**21**

	For the Year ended on		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
	USD in millions		
Total business revenues (consolidated)	**47**	**29**	**9**
Profit/loss from revaluations (consolidated)	**24**	**20**	**2**
Business profits (consolidated)	**50**	**33**	**8**
Same property NOI (consolidated)	**6**	**5**	**---**
Same property NOI (corporation's share)	**6**	**5**	**---**
Total NOI (consolidated)	**27**	**13**	**6**
Total NOI (corporation's share)	**25**	**13**	**6**

7.3 The geographic regions in which the Group operates in the investment property segments

As of the Report Date, the Company operates in two main geographic regions, Israel and the U.S.A. Most of the Company's business is in Israel, where the Company operates throughout the country, including North, Center, South and other urban areas, with no preference of specific areas and without investing special managerial inputs in specific areas. The Company estimates that the State of Israel constitutes one geographical region in the aspect of the risks and yields of the income-producing property business. In the U.S.A. the Company operates, as of the Report Date, mainly in Houston, Texas, in the U.S.

For details regarding the macroeconomic parameters affecting the business in Israel and the U.S.A., see Section 6 above.

7.4 Segmentation of the investment property business

Set forth below are details of the Company's investment property business, in the three investment property operating segments, namely, the malls and retail centers in Israel, the office and other space for lease in Israel and income-producing property in the U.S.A., in a consolidated manner, segmented according to the various uses of the space of each segment. All of the figures in the following tables do not contain the investment property component appearing in Granite Hacarmel, which does not constitute part of the income-producing property segment of the Company. The commercial use in Israel in the tables below is attributed to the retail centers and malls operating segment, whereas the office, industrial and residential uses are attributed in Israel to the office and other space for lease operating segment (and do not constitute operating segments in themselves). All of the figures of the income-producing property segment in the U.S.A. appear under the U.S.A. region, in accordance with the various segmentations, which also do not constitute operating segments in themselves. The segmentation of uses below is in the format in which the information is presented to the Group's management. As a rule, the Company does not deem the car parks as an income-producing property of the Company, and therefore in properties whose main use is commerce, the car park was attached to such use, whereas in properties whose main use is offices, the car park was attached to such use. As for the Tel Aviv Azrieli Center, for the purpose of the Report, the car park space is divided equally between the commercial and office uses, due its being a car park common to both uses.

In the Report below, the following terms shall have the meanings set forth beside them:

"**Space**"/"**Area**" – the space/area for which rent is paid, with the addition of unleased areas (excluding areas sold or acquired after the Report Date, if any).

"**Revenues**" – all payments made by the tenant, including rent, management fees, profit from electricity, parking fees and other payments, if any.

(1) Segmentation (aggregate) of income-producing property space by regions and uses, as of December 31, 2012 (in sqm)

Regions	Uses	Office	Industrial	Commercial	Residential	Parking lots	Total	% of total property area
Israel	Consolidated	265,329	18,636	256,686	8,698	389,449	938,798	77%
	Corporation's share	263,127	18,636	255,778	8,622	387,055	933,218	78%
U.S.A.	Consolidated	165,702	-	12,973	-	94,787	273,462	23%
	Corporation's share	155,521	-	12,973	-	94,465	262,959	22%
Total	**Consolidated**	**431,031**	**18,636**	**269,659**	**8,698**	**484,236**	**1,212,260**	100%
	Corporation's share	**418,648**	**18,636**	**268,751**	**8,622**	**481,520**	**1,196,177**	100%
% of total property area	**Consolidated**	**36%**	**1%**	**22%**	**1%**	**40%**	**100%**	
	Corporation's Share	35%	2%	22%	1%	40%	100%	

(2) Segmentation (aggregate) of income-producing property space by regions and uses, as of December 31, 2011 (in sqm)

Regions	Uses	Office	Industrial	Commercial	Residential	Parking lots	Total	% of total property area
Israel	Consolidated	254,844	18,635	255,814	8,698	389,449	927,440	**82%**
	Corporation's share	252,734	18,635	254,915	8,622	387,055	921,961	**83%**
U.S.A.	Consolidated	133,561	-	12,973	-	55,345	201,879	**18%**
	Corporation's share	123,395	-	12,973	-	55,023	191,391	**17%**
Total	**Consolidated**	**388,405**	**18,635**	**268,787**	**8,698**	**444,794**	**1,129,319**	**100%**
	Corporation's share	**376,129**	**18,635**	**267,888**	**8,622**	**442,078**	**1,113,352**	**100%**
% of total property area	**Consolidated**	**34%**	**2%**	**24%**	**1%**	**39%**	**100%**	
	Corporation's Share	**34%**	**2%**	**24%**	**1%**	**39%**	**100%**	

(3) Segmentation (aggregate) of income-producing property fair value by regions and uses, as of December 31, 2012[10]

Regions	Uses	Office	Industrial	Commercial	Residential	Total	% of total property value
Israel (NIS in thousands)	Consolidated	3,711,118	71,760	9,279,360	113,490	13,175,728	89%
	Corporation's share	3,679,677	71,760	9,246,793	112,494	13,110,724	90%
U.S.A. (USD in thousands)	Consolidated	408,337	-	11,250	-	419,587	11%
	Corporation's share	386,526	-	11,250	-	397,776	10%
Total (NIS in thousands)	**Consolidated**	**5,235,441**	**71,760**	**9,321,356**	**113,490**	**14,742,047**	100%
	Corporation's share	**5,122,580**	**71,760**	**9,288,789**	**112,494**	**14,595,623**	100%
% of total property value	**Consolidated**	**36%**	**-**	**63%**	**1%**	**100%**	
	Corporation's Share	35%	-	64%	1%	100%	

***** Amounts are translated into NIS in accordance with exchange rate of $1=NIS 3.733

[10] The fair value of all of the Group's income-producing properties is in accordance with valuations that the Group has received which were performed by licensed land appraisers, independent of the Company or of the Group's companies, as of December 31, 2012 (other than an immateral property, in the amount of approx. NIS 40 million, the value of which was updated by the Company).

(4) Segmentation (aggregate) of fair value of income-producing property, by regions and uses, as of December 31, 2011

Regions	Uses	Office	Industrial	Commercial	Residential	Total	% of total property area
Israel (NIS in thousands)	Consolidated	3,499,490	79,550	9,143,580	102,190	12,824,810	**92%**
	Corporation's share	3,469,896	79,550	9,111,740	101,294	12,762,480	**93%**
U.S.A.* (USD in thousands)	Consolidated	268,977	---	11,250	---	280,227	**8%**
	Corporation's share	248,918	---	11,250	---	260,168	**7%**
Total (NIS in thousands)	**Consolidated**	**4,527,252**	**79,550**	**9,186,566**	**102,190**	**13,895,558**	**100%**
	Corporation's share	**4,421,011**	**79,550**	**9,154,726**	**101,294**	**13,756,581**	**100%**
% of total property value	**Consolidated**	**32%**	**1%**	**66%**	**1%**	**100%**	
	Corporation's Share	**32%**	**1%**	**66%**	**1%**	**100%**	

* Amounts are translated into NIS in accordance with exchange rate of $1=NIS 3.821

(5) Segmentation (aggregate) of NOI of income-producing property, by regions and uses, as of the year ended on December 31, 2012

Regions	Uses[1]	Office	Industrial	Commercial	Residential	Total	% of total property NOI
Israel (NIS in thousands)	Consolidated	271,698	6,722	701,883	3,292	983,595	91%
	Corporation's share	269,405	6,722	699,453	3,263	978,843	91%
U.S.A.* (USD in thousands)	Consolidated	25,775	-	898	-	26,673	9%
	Corporation's share	24,445	-	898	-	25,343	9%
Total (NIS in thousands)	**Consolidated**	**371,085**	**6,722**	**705,344**	**3,292**	**1,086,443**	100%
	Corporation's share	**363,661**	**6,722**	**702,914**	**3,263**	**1,076,560**	100%
% of total property NOI	**Consolidated**	**34%**	**1%**	**65%**	**-**	**100%**	
	Corporation's Share	34%	1%	65%	-	100%	

(1) The parking lot NOI was attached to the main use of the property, see note in this Section 7.4 above

* Amounts are translated into NIS in accordance with exchange rate of $1=NIS 3.8559.

(6) Segmentation (aggregate) of income-producing property NOI, by regions and uses, for the year ended on December 31, 2011

Regions	Uses[1]	Office	Industrial	Commercial	Residential	Total	% of total NOI of the properties
Israel (NIS in thousands)	Consolidated	262,229	6,392	661,458	3,248	933,327	**95%**
	Corporation's share	260,009	6,392	659,250	3,220	928,871	**95%**
U.S.A.* (USD in thousands)	Consolidated	12,816	---	707	---	13,523	**5%**
	Corporation's share	11,969	---	707	---	12,676	**5%**
Total (NIS in thousands)	**Consolidated**	**308,085**	**6,392**	**663,987**	**3,248**	**981,712**	**100%**
	Corporation's share	**302,833**	**6,392**	**661,779**	**3,220**	**974,224**	**100%**
% of total NOI of the properties	**Consolidated**	**31%**	**1%**	**68%**	**---**	**100%**	
	Corporation's Share	**31%**	**1%**	**68%**	**---**	**100%**	

(1) The car park NOI was attached to the main use of the property, see note in this Section 7.4 above.

* Amounts are translated into NIS in accordance with exchange rate of $1=NIS 3.578.

(7) Segmentation (aggregate) of income-producing property NOI, by regions and uses, for the year ended on December 31, 2010

Regions	Uses[1]	Office	Industrial	Commercial	Residential	Total	% of total NOI of the properties
Israel (NIS in thousands)	Consolidated	237,530	6,146	614,314	3,095	861,085	**98%**
	Corporation's share	235,520	6,146	612,349	3,068	857,083	**98%**
U.S.A.* (USD in thousands)	Consolidated	4,643	--	884	--	5,527	**2%**
	Corporation's share	4,609	--	884	--	5,493	**2%**
Total (NIS in thousands)	**Consolidated**	**254,863**	**6,146**	**617,614**	**3,095**	**881,718**	**100%**
	Corporation's share	**252,725**	**6,146**	**615,649**	**3,068**	**877,588**	**100%**
% of total NOI of the properties	**Consolidated**	**29%**	**1%**	**70%**	**0%**	**100%**	
	Corporation's Share	**29%**	**1%**	**70%**	**0%**	**100%**	

(1) The car park NOI was attached to the main use of the property, see note in this Section 7.4 above.
*Amounts are translated into NIS in accordance with exchange rate of $1=NIS 3.733.

(8) Segmentation of actual average monthly rent per sqm by regions and uses

Uses	Office		Industrial		Commercial		Residential	
	For the year ended on							
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Israel (in NIS)	76	74	32	32	222	208	34	34
Maximum	(**)93	(**)91	--	--	325	316	--	--
Minimum	44	44	--	-	82	78	--	--
U.S.A. (in USD)	17	17	--	--	8	7	--	--
Maximum	--	--	--	--	--	--	--	--
Minimum	--	--	--	--	--	--	--	--

Maximum represents the average rent per sqm in a property of which the rent average is the highest, while the minimum represents the average rent per sqm in which the average rent is the lowest.

* The extensive range of rent in all of the uses derives, *inter alia*, from the diversity in the nature of the leased property, in the type of the leased unit in the property even in the same building, and in other parameters that are not expressed in this table.

** The maximum represents the average rent per sqm of Azrieli Center towers, and does not include the rent of the hotel. If the average would have included the rent of the hotel, then the average for 2012 would have been approx. NIS 89 per sqm, and for 2011 approx. NIS 88 per sqm.

(9) Segmentation of average monthly rent per sqm with respect to the contracts signed in the Report Period by regions and uses*

Uses	Office		Industrial		Commercial		Residential	
	For the year ended on							
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Israel (in NIS)	79	79	-	41	225	189	35	37
U.S.A. (in $)	15	16	--	--	7	--	--	--

* The figures do not include contracts signed due to storages and stalls and are due to new contracts only, excluding renewals of options.

(10) Segmentation of average occupancy rates by regions and uses*

Uses	Office			Industrial			Commercial			Residential		
	In Percentages (%)											
	As of 31.12.12	As of 2012	As of 2011	As of 31.12.12	As of 2012	As of 2011	As of 31.12.12	As of 2012	As of 2011	As of 31.12.12	As of 2012	As of 2011
Israel	99%	98%	96%	100%	100%	100%	99%	99%	~100%	100%	100%	100%
U.S.A.	90%	89%	82%	--	--	--	90%	87%	77%	--	--	--

* The average occupancy rate was calculated based on the lease agreements' data for the beginning of the period and for the end of each period.

(11) Segmentation of number of income-producing buildings, by regions and uses*

Uses	Office		Industrial		Commercial		Residential	
	For the year ended on							
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Israel	7	7	1	1	13	13	1	1
U.S.A.	5	4	--	--	1	1	--	--
Total no. of income-producing properties	12	11	1	1	14	14	1	1

* Some properties have several different uses, and in such cases the properties were classified in the table under each of such uses.

(12) Segmentation of average actual yield rates (according to year-end value), by regions and uses*

The rate of the yield is a division of the actual NOI by the value of the property as of end of year. In the event of the acquisition of properties or completion of construction of malls in the course of the year, the index does not reflect the rate of the annual yield from these properties. The rate of the yield in practice does not constitute the CAP rate that the Group used for revaluation of its properties.

Uses	Office		Industrial		Commercial		Residential	
	For the year ended on (in percentages)							
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Israel	7.32%	7.49%	9.37%	8.04%	7.56%	7.23%	2.9%	3.19%
U.S.A.	6.52%	4.46%	---	---	8.24%	5.88%	---	---

***** During 2012 and 2011, office towers were acquired in Texas, U.S.A., and the Azrieli Akko and Kiryat Ata malls were opened. The figures do not represent representative yield but rather the division of actual NOI by the value of the properties, and do not take into account other influences, such as properties populated, properties purchased during the period, revenues expected from vacant spaces, expected investments in the property etc.

7.5 Projected revenues due to signed lease contracts (NIS in thousands)

Period of Revenue Recognition		Revenues from Fixed Components	Number of Contracts Ending	**Space Contemplated in the Ending Agreements (sqm in thousands)**
Y2013	Q/1	320,208	144	29
	Q/2	307,827	166	31
	Q/3	292,404	160	24
	Q/4	281,798	208	36
Y2014		966,052	802	105
Y2015		710,192	1,031	156
Y2016		426,280	388	85
Y2017 forth		1,064,824	433	229
Total		4,369,585	3,331	695

The revenues figures in the above table, which include revenues from rent, management fees and parking, were calculated based on the basic amounts determined in the lease agreements, linked to the Consumer Price Index known on December 31, 2012, and based on the following assumptions: (1) The exercise of the lessees' options to extend the lease periods included in the lease contracts, was not taken into account, since the main operating decision maker does not review, on a regular basis, the expected revenue figures under the assumption of the exercise options granted to the lessees to the extend the lease period; (2) Lease contracts, the lease period under which has ended, and new lease contracts have not yet been signed with the lessees, were not taken into account; (3) The possibility of sale of the properties or the purchase of new income-producing property, was not taken into account; (4) Fines due to early termination, if any, were not taken into account; (5) The increments to the rent due to percentages of the sales were not taken into account for calculation of the rent, and (6) No change has occurred in the management fees advance payments per tenant in respect of 2012.

The Company's revenues include variable components due to additional revenue from sales alone. The Company does not prepare estimates for revenues from variable components which are immaterial in relation to the Company's revenues from its income-producing properties, and therefore it does not have the information.

The revenue figures specified in the above table are under the assumption that the options for extending the lease periods included in the lease contract will not be exercised, although many of the tenants in the Company's space usually tend to extend the lease agreements upon the termination thereof.

The above figures are based on the Company's belief considering signed agreements as of the Report Date and constitute forward-looking information, as this term is defined in the Securities Law. Actual

results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the lessees.

7.6 Main tenants

In 2012 the Company did not have a tenant, the revenue from whom constituted 10% or more of its total revenues.

7.7 Exposure to a specific industry in the tenants' business

To the Company's belief, as of the Report Date, the Company has no material exposure to a specific industry from among the businesses of the tenants in its income-producing properties. For details regarding trends that characterize the industries of the tenants in the Company's commercial properties, see Section 8.1.2 below.

7.8 Properties under construction In Israel (aggregate level) by uses*

Uses****	Parameters			
		December 31, 2012	**December 31, 2011**	**December 31, 2010**
Commercial	Number of properties under construction at the end of the period	3	3	4
	Total space under (planned) construction at the end of the period (sqm in thousands)**	80	80	83
	Total costs invested in the current period (consolidated) (NIS in thousands)	35,310	2,036	66,665
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in thousands)	212,062	177,242	223,593
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in thousands)	130,000-150,000	87,000-92,000	185,000-240,000
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in thousands)*****	700,000-760,000	657,500-737,500	690,000-805,000
	Rate of built-up area in respect of which lease contracts have been signed (%)	11%	13%	6%
	Projected annual income from projects that will be completed in the consecutive period and in which contracts were executed with regard to 50% of the area or more (consolidated) (estimate) (NIS in thousands)***	--	--	--
Offices	Number of properties under construction at the end of the period	3	3	2
	Total space under (planned) construction at the end of the period (sqm in thousands) (****) (**)	246	249	122
	Total costs invested in the current period (consolidated) (NIS in thousands)	226,780	96,953	32,094
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in thousands)	896,710	680,801	20,742
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in thousands)	360,000-380,000	365,000-383,000	170,000-193,000
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in thousands)*****	915,000-985,000	1,080,000-1,175,000	600,000-643,000
	Rate of built-up area in respect of which lease contracts have been signed (%)	4.8%	0.13%	0%
	Projected annual income from projects that will be completed in the following period and in which contracts were executed with regard to 50% of the area or more (consolidated) (estimate) (NIS in thousands) (***)	--	--	--

*The Company has no properties under construction outside of Israel.
** Space for marketing.
*** As of the end of the period, contracts for leasing 50% or more of the projects' spaces included in this table have not yet been signed.
**** Uses were determined according the main use of the property.

***** Balance of construction budget after the expiration of the sequential period.
The construction of Azrieli Akko Mall and of Azrieli Kiryat Ata Mall was completed during 2011.
The construction of Tower E in Herzliya was completed during 2010.

Properties Under Construction – Further Details:

Set forth below is a specification regarding the main new properties under construction as of the Report Date in the operating segments of investment property (for further details see Section 1.1.3 of the Board of Directors' Report in Chapter B of this Report):

Azrieli Sarona Center, Tel Aviv

The Company fully owns the lease rights in a lot of an area of approx. 9.4 thousand sqm in Southern Hakirya in Tel Aviv, which is intended for the construction of an office and commercial project. As of the Report Date, the Company is in the midst of excavation and shoring and construction of the basements work, pursuant to the permits it received. In addition, during the Report Period, the local committee approved an application submitted by the Company for rezoning under local jurisdiction for deposit for objections, *inter alia* in connection with the height of the building and re-designation of areas therein. During the Report Period, an appeal was submitted by a third party against receipt of the building permit for the construction of the basements. For further details, see Section 1.1.3 of the board of directors' report as well as the Company's reports dated May 29, 2011 and May 30, 2011 (ref. no.: 2011-01-165339 and 2011-01-167994, respectively) which are included in this Report by way of reference.

Azrieli Holon Center

Pursuant to a joint transaction agreement with the City of Holon, the Group, through Canit Hashalom, is entitled to receive 83% of the areas which will be constructed in a plot of land with an overall area of approx. 34 thousand sqm in the eastern industrial area of Holon, which is owned by the City of Holon (17% shall remain in the ownership of the City of Holon). The Project is designated for the construction of a business park in which framework the Company shall construct buildings for high-tech industries, offices, exhibition halls and commerce, service areas and parking space, as well as additional uses.

As of the Report Release Date, the Group is in advanced stages of the construction work of the first stage of the project, in accordance with the building permit. During the Report Period and until the Report Release Date the Group executed an agreement for the lease of approx. 8,000 sqm of office space and agreements for the lease of approx. 1,500 sqm of retail space. In addition, the Group is conducting negotiations with regard to the lease of additional office and retail space. For further details regarding the agreement and the terms and conditions thereof, see Note 32 to the Financial Statements in Chapter C of this Report and Section 1.1.3 of the board of directors' report.

Azrieli Ramla Mall

The Group is the holder of all of the leasehold rights in a lot in the area of approx. 31,650 sqm in Ramla and commenced activity for construction of the Azrieli Ramla Mall. As of the Report Release Date, the Group has submitted to the District Zoning Committee documents that are required for rezoning, in connection with the additional

service areas for parking and planning of the loading and unloading area. The Group has received permits to complete all of the parking lot building and the loading and unloading building (in the context of a use variance) and the supermarket building and it began the construction work. For further details see the Company's immediate reports of January 2, 2011 (reference: 2011-01-000081) and May 26, 2011 (reference: 2011-01-162048) which are included in the context of this Report by way of reference and Section 1.1.3 of the board of directors' report.

Azrieli Rishonim Mall

The Group, through Canit Hashalom, is the owner of a plot of land of an area of approx. 19 thousand sqm in Rishon Lezion (the "**Site**") which, according to the deposited plan, the land is designated for construction of leasable areas in the scope of approx. 48,000 sqm and approx. 82,095 sqm of above and under ground parking spaces. On January 8, 2012, an administrative petition in relation to the approval of the plan was dismissed without prejudice, while reserving the petitioners' rights to petition again on the plan's final approval date. In December 2012, a discussion was held at the district zoning committee on the issue and the plan was ratified for validation subject to final comments of the planning office. The Company is awaiting a final approval for the purpose of publication of the plan for validation. As of the Report Release Date, the Company has completed the construction of the temporary parking lot at the site, has received the final approvals in respect thereof and has begun the operation thereof. In addition, permits have been received for excavation and shoring and for building the basements and the Company is performing the work at the Site in accordance with such permits.

For further details see Note 32 of the Financial Statements as of December 31, 2012 and Section 1.1.3 of the board of directors' report.

Azrieli Kiryat Ata

After the completion and opening to the public of the Azrieli Kiryat Ata Mall, the Group is acting for the construction of an additional building within the project, at a total leasable area of 4,000 sqm, which will be used mostly as office space and will also include a commercial space that was leased to a food chain. As of the Report Date, the Company received a permit for the construction of the additional building and is in the midst of the construction work. For further details see Section 1.1.3 of the board of directors' report.

An additional floor in the Ayalon Mall - For details see Section 1.1.3 of the board of directors' report.

The Company's estimates in this Section 7.8 are forward-looking information, as defined in the Securities Law, which is based on subjective estimates of the Company as of the Report Date, 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, the period of time that shall be required for approval of the building plans for performance and the construction input prices.

7.9 Land (aggregate)

The table below presents a summary of figures on the Company's land reserves:

Region	Parameters	For the year ended on	
		December 31, 2012	**December 31, 2011**
Israel	The amount at which the lands are presented in the financial statements at the end of the period (NIS in thousands) (*)	19,600	**21,570**
	Total area of the lands at the end of the period (sqm in thousands) (**)	19.1	**20.33**
U.S.A.	The amount at which the lands are presented in the financial statements at the end of the period (USD in thousands) (*)	1,013	**1,013**
	Total area of the lands at the end of the period (sqm in thousands) (**)	1.5	**1.5**

* All of the Company's lands in Israel are presented in the Company's financial statements in the office and other space for lease segment, while the land in the U.S. is designated for offices and presented in the income-producing property in the U.S. segment.
** As of the Report Date, the construction in the Company's land reserves is impossible due to planning and other restrictions.
*** There are no building rights according to approved plans in these lands. It shall be mentioned that the Company's land which was purchased from Clalit Health Fund as provided in Section 1.3.3.3 above has not yet been handed over to the Company and is thus not included in this table and is not classified as land in the Company's books.

7.10 Purchase and sale of properties (aggregate)

Region	Parameters		Period (Year ended on)		
			December 31, 2012	**December 31, 2011**	**December 31, 2010**
Israel	Properties Sold	Number of properties sold in the period [1]	1	-	1
		Consideration from realization of properties sold in the period (consolidated) (NIS in thousands)	2,200	-	1,858
		Area of properties sold in the period (consolidated) (sqm in thousands)	1	-	1
		NOI of properties sold (consolidated) (NIS in thousands)	land	-	(13)[2]
		Profit / loss recorded due to realization of the properties (consolidated) (NIS in thousands)	230	-	584
	Properties Purchased	Number of properties purchased in the period	2[4]	2[6]	1[3]
		Cost of properties purchased in the period (consolidated) (NIS in thousands)[5]	288,800	661,000	300,000
		NOI of properties purchased (consolidated) (NIS in thousands)	3,508	under construction	29,515
		Area of properties purchased in the period (consolidated) (sqm in thousands)	84	147	28.6
U.S.A.	Properties Sold	Number of properties sold in the period	-	-	-
		Consideration from realization of properties sold in the period (consolidated) (NIS in thousands)	-	-	-
		Area of properties sold in the period (consolidated) (sqm in thousands)	-	-	-
		NOI of properties sold (consolidated) (NIS in thousands)	-	-	-
		Profit / loss recorded in respect of realization of the properties (consolidated) (NIS in thousands)	-	-	-
	Properties Purchased	Number of properties purchased in the period	1[7]	1[7]	-
		Cost of properties purchased in the period (consolidated) (dollars in thousands)	107,500	176,000	-
		NOI of properties purchased (consolidated) (dollars in thousands)	7,750[8]	13,645[8]	-
		Area of properties purchased in the period	32	99	-

Region	Parameters		Period (Year ended on)		
		(consolidated) (sqm in thousands)			

(1) In September 2012 Gemel Tesua sold land designated for residences in Kiryat Ata and in January 2010 the subsidiary, Otzma Holdings, sold its full rights in the office floor on Y.L. Peretz St. in Haifa. The sales are in amounts which are immaterial to the Group.
(2) The negative NOI results from a settlement of accounts for past expenses that were not paid.
(3) During Q1/2010 the Company consummated the purchase of Azrieli Haifa Mall, in consideration for an amount of approx. NIS 300 million (not including purchase tax and related expenses). The mall extends over a lot area of approx. 48 thousand sqm (before expropriations), while the project (commerce and parking spaces) is in a gross built-up area of approx. 95,000 sqm, out of which 3 commercial floors and a car park.
(4) In 2012 the Group purchased the following properties:
   i. A lot on Derech Menachem Begin in Tel Aviv – for details see Section 1.1.1 of the board of directors' report.
   ii. The additional one half of the rights in the Science and Technology Park project in Petah Tikva – for details see Section 1.1.1 of the board of directors' report.
(5) The costs include the entire purchase amount even if not yet paid and exclude purchase taxes and transaction closing costs.
(6) In 2011, the land for the development of Ramla Azrieli mall and Sarona Azrieli Center was purchased.
(7) In each of the years 2011 and 2012, an office tower was purchased in Houston, Texas. For details, see Section 1.3.1.
(8) The NOI is according to a forecast in a representative year, and according to which the purchase price was determined.

7.11 Fair value adjustments of values in the Statement of Financial Position required at the corporation level

		As of (Consolidated) (NIS in thousands)	
		December 31, 2012	**December 31, 2011**
Presentation in the Description of the Corporation's Business Report	Total Value of the Investment Property whose Construction has Ended (as presented in the total column in the income-producing properties fair value by regions and uses tables as of December 31, 2012 and December 31, 2011)	**14,742,047**	**13,895,558**
	Total Investment Property under Construction (as presented in the total column in table 7.8)	**1,108,772**	**858,043**
	Total Land classified as Investment Property in Israel (as presented in the total column in the table 7.9)	**19,600**	**21,570**
	Total Land classified as Investment Property in the U.S. (as presented in the total column in the table 7.9)	**3,780**	**3,869**
	Consolidated Total	**15,874,199**	**14,779,040**
Adjustments	Adjustments to value deriving from receivables items	**(57,907)**	**(30,092)**
	Advance payments on account of real estate	**48,502**	**17,108**
	Other adjustments[11]	**89,905**	**73,514**
	Total adjustments	**80,500**	**60,530**
	Total, After Adjustments	**15,954,699**	**14,839,570**
Presentation in the Statement of Financial Position	**Investment Property Item in the Statement of Financial Position (Consolidated)**	**14,845,926**	**13,981,528**
	Investment Property under Construction Item in the Statement of Financial Position (Consolidated)	**1,108,773**	**858,042**
	Total	**15,954,699**	**14,839,570**

[11] The investment properties of Granite Hacarmel (consolidated company) were not included within the description of the Company's investment properties and were recorded in the adjustments item as a sum total. The Company deems all of Granite's business as one segment which is not part of the Company's income-producing properties segments.

As aforesaid, the holding of investment property deriving from Granite Hacarmel was not specified in this Chapter, since the Company's management does not consider this property as part of the Company's investment property activity and examines Granite Hacarmel as a whole, as is reflected in the segments' note and in the Company's Extended Standalone Financial Statement.

7.12 **Adjustments to FFO profits**

The Company is not required to perform FFO disclosure since the total revenues of the Company from investment properties are lower than 90% of the Company's total revenues during the report year and year preceding it. In view thereof, the Company calculates FFO profits for the income-producing property business only with the necessary adjustments. For details and a calculation of the FFO profits for the Company's income-producing properties business, see Section 1.1.7 of the Board of Directors' Report in Chapter B of this Report.

Part Four: Description of the Group's Business - Description of the Group's Business per Operating Segment and Material Properties

8. The retail centers and malls segment in Israel

8.1. General information on the operating segment

8.1.1. General

Most of the Group's malls and retail centers are spread out throughout the central cities of Israel and are located close to the main traffic thoroughfares which enable easy access and open parking. The retail centers and malls are planned to the utmost degree according to the needs of the population of the area in which the mall is located, and they offer a wide and varied mix of shops in the fields of fashion, footwear, jewelry, gifts, housewares, communications, electronics and computers, optical devices, entertainment and food centers for the wellbeing of the visitors, easy access and a large number of parking spaces. The Company puts an emphasis on tenants' mix in each one of the malls and retail centers owned thereby, which it believes shall constitute a center of public attraction to each one of them, in accordance with the characteristics of the local public. The Company did not have a main tenant, the rent paid by whom for 2012 accounted for 10% or more of the total revenues of the Company in its Financial Statements for year 2012.

Most of the Group's lease contracts in Israel are for periods of three (3) to five (5) years and for the most part, include an option for additional lease periods (usually additional three to five years), other than agreements in respect of a relatively large scope of space for lease, which are generally signed for longer lease periods of between 8 to 25 years (including extensions and exercise of options). The lease agreements include rent that is composed of a fixed rent or rent derived as a percentage of the tenant sales in the leasehold, whichever is higher, but in most cases, the actual rent payable to the Company are the fixed rent, and the Company's revenues from sales dependant rent are at an immaterial scope. The occupancy rate of the Group's properties in this operating segment, from the date of populating the retail centers and malls in Israel, and as of the Report Date, is close to 100%.

The Group's retail centers and malls in Israel are managed, with relation to each mall or retail center, in most cases, by designated management companies owned by the Group, which enter with the lessees into management agreements for the purpose of management and maintenance of the public areas, in consideration for management fees.

Most of the management agreements determine that the management fees will be paid based on the cost of the management services, plus overhead expenses. The management services include, *inter alia*, marketing services of the mall and/or the retail center, both to visitors and to potential tenants, security services, cleaning of public areas, gardening, maintenance of elevators and public systems. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas. The management company leases from the Group companies, as the case may be, in each of the malls and retail centers, an area in a small scope located in a non central area of the mall or

retail center, to serve as the offices and storage rooms of the management company, in consideration for fixed rent. In most of the management agreements between the management companies and the tenants, the management companies undertake to maintain and operate the public areas in the malls and retail centers, including cleaning, security, renewal, advertising, insurance, under conditions and to the extent that will be determined by the management companies from time to time.

All of the Group's retail centers and malls include also car parks (above or underground) which serve the visitors and the potential tenants, with some of the car parks being open to the general public and some requiring payment.

Over the commercial areas of some of the malls and retail centers there are areas designated for office space for lease. See Section 9 of the Report for additional details on the office and other space for lease segment.

8.1.2. The structure of the operating segment and changes occurring therein

The retail centers and malls in Israel segment is affected by the business activities in the economy, the political and security situation and the economic condition in Israel. Various entities operate in the retail centers and malls segment which locate, plan, construct, lease and maintain properties designated for lease for various uses.

To the best of the Company’s knowledge, based, *inter alia*, on publicly-available information, at the outset, most of the malls relied on large anchor tenants (such as supermarkets, department stores and movie theatres), which were considered to be crowd attracting. However, in recent years, the concept has changed for the malls in Israel and an opposite trend has begun, of the withdrawal or contraction of the space of the anchors, due to the low rent per square meter that are received from them and for the large space occupied thereby.

Additional trends in the retail centers and malls segment is the strengthening of branded fashion chains at the expense of single, local type shops, including international fashion chains, the construction of low-prices power centers outside of the cities, which compete with the malls, as well as the process of consolidation among large companies in the Israeli economy that own retail centers and malls, such as the Company, which represents an advantage for size over smaller competitors, while creating operational efficiency.

It shall be stated that in recent years, there has been an increase in the commercial areas designated to the fashion industry in the malls in Israel segment and in the Company's properties in the operating segment, and in the last two years, revenues of this industry constitute approx. 40%-45% of the revenues of the retail centers and malls in Israel segment.

8.1.3. Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation.

See Section 21 of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

8.1.4. Changes in the volume of business and profitability of the segment

During recent years, the volume of operations of the Group in the retail centers and malls segment grew, mainly due to the construction of income-producing properties (the construction of the Modiin Azrieli mall, the Akko Azrieli mall, the Kiryat Ata Azrieli mall) as well as the acquisition of existing income-producing properties (primarily the purchase of the Azrieli Givatayim Mall, the purchase of the Azrieli Haifa Mall and the purchase of the full control of the Azrieli Hod Hasharon Mall).

From the Group's same property figures, the moderate increase in revenues (single percents) continued in 2012, compared with the same period last year.

However, the concerns in the market of a halt in the pace of growth in the short/medium term are expressed in a more challenging environment in negotiations with tenants when signing new lease agreements or renewing of existing contracts. Despite the aforesaid instability, as of the Report Date, the results of the Group's operations in the operating segments thereof have not been materially affected, and the Company estimates this to be mainly because of the continuing demand for areas for lease, in view of the quality of the malls, their location, the high quality mix of tenants and the quality of management thereof. However the Company is unable to assess for certain that the results thereof will be unaffected insofar as this trend will continue over time.

8.1.5. Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors in the segment are, *inter alia*, locating retail centers and malls in areas where there is a high level of demand, the right geographic location of retail centers and malls as a response to the needs of the residents in each area, expertise in development and architectural planning, management and construction of retail centers and malls through the professional management team employed by the Group, the creation of a mix of diverse, quality tenants with financial strength, know-how and experience in marketing, property management and operation, the positive goodwill of the Company, its business positioning and financial strength which allows immediate response to attractive business opportunities.

8.1.6. Changes to the system of suppliers and raw materials for the operating segment

In the framework of the maintenance and management of income-producing properties segment, the Group has no material suppliers with which it engages and it does not purchase raw materials in material scopes.

8.1.7. Main barriers to entry and exit of the operating segment and changes occurring therein

Barriers to Entry - To the Company's belief**,** entities operating in the retail centers and malls segment require, primarily, equity and financial strength which allow them to operate in the development segment at relatively low financing cost. The main barrier to entry for the development and construction

of a retail center is financing of the construction and finding a suitable land in the required area. Additionally, required mostly are professional knowledge, experience in development segment, positive reputation in the industry, availability of financing sources at good terms and land reserves available and planned in areas with high levels of demand for leasable space for commercial purposes. In addition, entities operating in the retail centers and malls segment are required to meet high regulatory requirements, *inter alia*, antitrust, zoning and environmental regulation. It shall be noted, that despite the high barriers to entry, it is possible to indicate a significant increase in the construction and development of many retail centers, all over Israel, in recent years. In addition, it is possible to operate in the retail centers and malls segment in lower costs through acquiring retail centers from single developers, extending existing commercial areas, upgrading and renovating retail centers as well as through managing retail centers without the acquisition thereof.

To the Company's belief, the malls' barriers to entry are significantly higher than those of the power centers outside of the cities, due to the high construction costs that characterize the malls (including the cost of the land, which is more expensive since the locations of the malls are closer to the city centers).

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

8.1.8. Structure of competition in the operating segment and changes occurring therein

For a description of the structure of the competition in this operating segment, see Section 8.4 of the Report.

8.1.9. The manner of executing purchases or construction of properties

8.1.9.1. The Company's management does not have a fixed policy with regard to the purchase of properties, and each case is examined on its merits, in light of the business opportunity carried therewith. The Company examines from time to time, business opportunities in Israel and overseas, in respect of expansion of the business thereof mainly in the real estate segment, including through the purchase of land reserves, purchase of additional properties and betterment of the existing properties.

8.1.9.2. As a general rule, the Company may acquire its rights to the properties, at times by direct acquisition of the property rights, at times by acquisition of shares of companies owning rights to properties and at times, by issuance of shares in these companies. As of the Report Date, most of the rights to the properties were acquired by the Company by means of the acquisition of rights to properties. The considerations for the acquisition or construction of new income-producing properties are based, *inter alia*, on the following parameters: the yield from the property; properties generating a cash flow and fixed revenues while emphasizing preference for financially strong tenants; improvement potential in the acquired property.

8.1.9.3. The malls and retail centers of the Group are owned or leased for long periods from the Israel Lands Administration or leased for long periods from the local authorities in whose jurisdiction the property is located.

8.1.9.4. In transactions in which the completion of registration of the rights to the acquired property and its transfer to the name of the Company and/ or the Group companies is not executed until the date of closing the transaction, the Company includes mechanisms in its agreements in order to secure the compliance with obligations by the seller, including those connected with the registration of the rights to the property and their transfer to the name of the Company, by means of depositing part of the consideration in trust as well as by means of recording warning notices and/or pledges in favor of the Company, to the extent possible, and as the case may be.

8.1.9.5. The policy of the Company at the time of acquiring new properties as to which there are obligations vis-à-vis third parties to manage and operate them, is to release the properties that it acquires from the management and operating rights and to provide the management services by itself or by Group companies. As of the Report Date, there are no undertakings towards third parties in the Group's properties in connection with the management and operation thereof.

8.1.9.6. In the income-producing property industry, in acquisition transactions with partners, the system of relationships is arranged, for the most part, by means of an undertakings in a partnership agreement, which includes, *inter alia*, provisions related to transfer of the rights in the mall or retail center, including prohibited periods, as well as provisions in relation to mechanisms of right of priority, right of refusal and severance (Buy Me Buy You).

8.1.9.7. The professional management team employed by the Group accompanies the construction of all of the Group's projects, beginning from the stage of locating the property, through preparation of a cost estimate and time schedule for each project, architectural planning for the project, execution of tenders for contractors, and finally continuous follow up of construction of the project, with emphasis on the stages of finishing and completing the project and populating each project by the various tenants.

8.1.9.8. The Company does not deem the disposal of its assets as part of the business strategy thereof, but it may operate for disposal of existing income-producing properties, in case that they are not strategic for the Company and are not within the core of the business thereof. The Company's management has not presented a fixed criterion of yield required in cases of disposals or purchases, and each case is examined on the merits thereof, in light of the circumstances, designation, location and characteristics of the property.

8.2. Material properties in the retail centers and malls in Israel segment

Set forth in the table below is a concentration of figures pertaining to material properties of the Group in the retail centers and malls segment as of December 31, 2012 which constituted 5% or more of the total company's consolidated properties, and were evaluated by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (**) through the income capitalization method:

Name and characteristics of property			Year	Information item											Additional figures required according to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS thousands)	Revenues from rent during the period (NIS thousands)	Actual NOI during the period (NIS thousands)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Value Ratio	Revaluation profits (consolidate) (NIS thousands)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm (in NIS)	Ratio of average revenue per sqm and average rent per sqm	**Other assumptions unerlying the valuation**
Azrieli Mall (1)	Region	Israel	**2012**	1,893,452	111,686	135,328	7.15%	7.44%	26%	21%	70,895	100%	313	12%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.44%**
	Functional currency	NIS													
	Main use	Retail	**2011**	1,821,792	105,833	129,120	7.1%	7.42%	25%	23%	93,878	99%	296	12%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.42%**
	Construction cost (NIS millions)*	512													
	Corporation's share (%)	99.1%	**2010**	1,726,786	101,509	124,379	7.2%	7.46%	24%	27%	176,261	100%	270	12%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.46%**
	Area [sqm]	32,758													
Azrieli	Region	Israel	**2012**	1,270,500	90,860	94,493	7.4%	7.45%	54%	0%	685	100%	325	14%	**Rent**

Ayalon Mall (2)	Functional currency	NIS													**capitalization rate-7.25% Weighted capitalization rate-7.45%**
	Main Use	Retail	**2011**	1,269,640	89,030	93,600	7.4%	7.41%	53%	0%	29,142	100%	316	14%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.41%**
	Construction cost (NIS millions)*	176													
	Corporation's share (%)	100%	**2010**	1,240,500	84,329	91,152	7.3%	7.43%	52%	0%	87,645	100%	304	14%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.43%**
	Area [sqm]	23,234													
Azrieli Jerusalem Mall (without the office component)	Region	Israel	**2012**	1,722,858	118,539	126,380	7.3%	7.47%	28%	1%	28,744	100%	266	11%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.47%**
	Functional Currency	NIS													
	Main Use	Retail	**2011**	1,690,345	113,323	122,024	7.2%	7.42%	27%	3%	92,976	100%	261	11%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.42%**
	Construction Cost (NIS millions)*	447													
	Corporation's share (%)	100%	**2010**	1,596,675	107,301	116,652	7.3%	7.44%	26%	5%	143,907	100%	234	11%	**Rent capitalization rate-7.25% Weighted capitalization rate-7.44%**
	Area [sqm]	39,098													
Other Properties (other than material and very material)			**2012**	7,275,389	589,986	544,222	---	---	---	---	141,999	---	---	---	---
Other Properties (other than material and very material)			**2011**	6,629,173	473,988	450,502	---	---	---	---	479,604	---	---	---	---
Other Properties (other than material and very material)			**2010**	5,046,976	364,360	372,639	---	---	---	---	327,839	---	---	---	---

* Including investments in adjusting the leased properties and renovation of systems until the Report Date.

** Mr. Ronen Katz is a certified real estate appraiser, with B.A. in Agricultural Economy and Administration in the Agriculture Faculty from the Hebrew University of Jerusalem, and is experienced since 1997 as a real estate appraiser.

**** The datum is to the Company's best knowledge. It does not include lease agreements which do not include rent from sales and is given based on information received from the tenants or from other third parties (as the case may be), and therefore the Company cannot verify that this information is indeed true.

(1) For further details see the valuation attached to this Report. The figures include 50% of the profits of the Azrieli Center parking lot (another 50% were included in a very material property – Azrieli Center offices).

(2) The Company is registered in the Land Registration Bureau as a lessee of Azrieli Ayalon Mall for a 49-year period ending on August 1, 2031, with an option for an additional 49-year period. The City of Ramat Gan owns the adjacent car park, which includes approx. 2,350 parking spaces. The City of Ramat Gan has undertaken (and an easement therefor has been registered) to enable a right of passage for vehicles and pedestrians, as well as an open parking right for the public, including the Mall's visitors, in the parking spaces that were arranged (excluding 250 space use of which shall cease insofar as the City realizes building rights thereon) and so long as the Company continues leasing and operating the Azrieli Ayalon Mall. As of the Report Date, approval has been granted for the new zoning plan submitted by the Company, with the aim of allowing construction of up to 7,500 sqm of additional main areas as a second commercial floor at Ayalon Mall (approx. 9,500 sqm of area planned for leasing for commerce (including loaded public areas). For further details see Section 1.1.3 of the Board of Directors' Report.

8.3. The table below contains a concentration of data about an income-producing building under construction of the Group, the cost of which, as the same is presented in the Financial Statements as of December 31, 2012, together with the total remaining construction costs required to complete the construction, constitute more than 5% of the Company's total consolidated assets plus the total remaining construction costs for the completion of all of the buildings under construction of the Company as of December 31, 2012. It shall be emphasized that the uses of this property will be divided between the operating segment of the retail centers and malls in Israel and the operating segment of the office and other space for lease in Israel, according to the different uses in the designation of the building rights in the property:

Name & features of the land reserve		Reporting period	Financial figures					Figures relating to the state of planning of the land, as of the Report Date				
			Figures pertaining to fair value and revaluations		Figures under Regulation 8B(i)			Description of current state of planning		Description of state of planning undergoing approval proceedings		
			End of period fair value/book value (consolidated)(NIS in thousands)	Revaluation profits (losses) in the period (consolidated) (in NIS)	Assessor's name & experience	Evaluation model	Further assumptions underlying the valuation	Current purpose	Current building rights	Planned purpose	Planned building rights	Description of progress of approval proceeding
Name of land reserve	Azrieli Sarona	2012	594,882	-	n/a	Presented according to cost	n/a	Retail and offices	Offices-82,710 sqm main. Retail- 6,700 sqm main. Service areas – up to 40% above ground and up to 650% underground.	Unchanged	Increase of main retail areas by 3,350 sqm, which constitute an addition of 50% to the retail areas approved under plan TA/3000 up to 10,050 sqm and the decreasing of main office areas by 3,350 sqm down to 79,360 sqm	The plan, the purpose of which is changing the division of building areas, and raising the maximum building height from 180 m to 255.5 above sea level, without changing the total building area, was approved by the local committee for deposit for objections
Land location	Tel Aviv											
Land acquisition date	May 2011	2011	561,536	(27,533)	see details on the assessor in Section 8.2	presented according to fair value in the comparison method	examination of amount paid against market prices					
Corporation's effective share(%)	100%											
Manner of presentation in consolidated report	Cost											
Land area(sqm)	9,400	2010	The land was purchased in 2011	n/a	n/a	n/a	n/a					
Original cost (in NIS thousands)	Until the Report Date approx. NIS 623 million were invested											
Remaining properties under construction 2012*			513,890	(11,442)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Remaining properties under construction 2011*			296,507	(8,801)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Remaining properties under construction 2010*			244,335	62,503	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

***** In respect of the properties under construction as being at the end of the relevant year, also if the same are not included on December 31, 2012, in properties under construction.

8.4. **Competition**

To the Company's belief, over recent years, the retail centers and malls segment in Israel has been characterized with high competitiveness, and to the best of the Company's knowledge, there are approx. 300 retail centers in Israel. The structure, size and business mix of each retail center are adjusted to the characteristics of the demand of its consumers which lease areas in the geographical region in which it is located. The competition in this area revolves around several parameters, of which the main ones are: (1) the geographical location of the properties and the level of demand for spaces for lease in such area; (2) the rent level and management and maintenance costs; (3) the quality of construction of the leased buildings; (4) the level of auxiliary services and, (5) The Lessor's goodwill.

As of the Report Date, the Company operates in that operating segment principally in the development and construction of retail centers, and focuses on discovering reserves of land in attractive locations and with the potential for high revenues, and therefore the competition vis-à-vis bodies which concentrate primarily on acquisitions of existing retail centers is lower. In retail complexes and centers located in residential areas a competition could also develop with local developers. The market trends over the recent years and the attempt to adjust the characteristics of the retail center accurately to local demands and to the substitutes available to the consumer, dazed the border lines between the different retail centers.

To the best of the Company's knowledge, a number of entities operate in Israel which hold significant portions of properties in the retail centers and malls segment, including Reit 1 Ltd., Gazit Globe Ltd., Melisron Ltd., Industrial Properties Ltd., Amot Investments Ltd., Jerusalem Economy Ltd. and Big Shopping Centers (2004) Ltd.

To the Company's belief, the geographic location of the retail center and its differentiation directly affect its characteristics and its tenant mix since each center adjust itself to the sizes of the geographic market in which it is located in order to create a center of attraction which is unique therefor and deal with centers existing in the area which created the consumers' purchase habits. For the most part, the tenants will consider the benefit of space in a retail center with a better geographic location and a mix conforming to its business operations versus its cost.

The competition vis-à-vis the private consumer is also characterized mostly by the geographic location, and vis-à-vis other centers such as power centers as well as shops in the city streets. Most of the retail centers and malls serve the population which resides or is employed in the geographic district in which the retail center is situated. Nonetheless, the Azrieli Center in Tel Aviv, due to its location, its accessibility and proximity to the train station and major junctions, serves consumers from all over Israel.

The Company also believes that the tenant mix in the retail center influences the competition vis-à-vis the private consumer - the types of the shops and their branding, the atmosphere and shopping experience, benefits to consumers, events initiated in the framework of the retail center, access to the retail center and available parking (free or paid) – all of these are branding the retail center and create a competitive advantage. The main parameters that support the attractiveness of the retail center for the consumer are, *inter alia*, location, size, innovative look and business mix adjusted to the needs of the customers in the area. The malls and retail centers are therefore required to renovate, upgrade and adjust the tenant mix therein.

To the Company's belief, the volume of its business in the retail centers and malls segment in Israel is large, and it is one of the companies with the greatest number of malls and retail centers in Israel. As of the Report Date, approx. 1,750 tenants that are active in retail and commerce operate in the Group's retail centers and malls. To the Company's belief, the factors and methods that help the Group face competition in the segment are as follows:

- ☒ Most of the retail centers and malls of the Group are characterized by quality planning and a high-quality tenant mix, which the Company carefully maintains over the years and that contribute to its competitive advantage and offer to the visitors to the retail centers and malls a quality shopping experience;

- ☒ The volume of the Company's business in the segment allows the Company to engage with chains and service providers at beneficial terms;

- ☒ The volume of the Company's business in the segment allow the Company to specialize in the management of retail centers and malls in an efficient manner in order to lead to savings in costs and in manpower;

- ☒ Most of the Company's tenants are large chains and/or companies with superior financial strength and the lease agreements therewith are for a relatively long period;

- ☒ The Company's retail centers and malls are located in high-demand areas, enabling the Company to lease the properties to numerous and diverse types of tenants.

- ☒ The expertise of the Group in the planning and construction of retail centers and malls according to the needs of the tenants and visitors in the retail center and/or mall.

8.5. **Goals and business strategy for the segment**

See Section 24 of the Report for the Company's goals and the Group's strategy.

9. **Office and other space for lease segment**

9.1 **General information on the operating segment**

9.1.1 General

In this operating segment, the Group operates, as of the Report Date, in the development, construction, acquisition, lease, management and maintenance in Israel of parks for offices and the high-tech industry, office buildings and industrial buildings, workshops and storage. The parks for offices and office buildings are designated primarily for businesses in the segments of liberal professions, service providers and high-tech industry, which are characterized by a large number of personnel and a demand for adjacent parking spaces.

Most of the Group's lease agreements are for periods of about five years, with the tenant given an option for additional lease periods of about five years. The rent is at a fixed amount per each square meter of the leased space.

The Group's office space is managed with relation to each office building or office park, in most cases, through the Company or through designated

management companies owned by the Group, which enter with the lessees into management agreements. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas, whereas in most of the management agreements between the Company or the management companies and the lessees, the management companies undertake to maintain and operate the public areas, including cleaning, security, renewals, advertising and insurance, under terms and in the scopes as shall be determined by the management companies from time to time.

All of the Group's office and other space for lease properties in Israel include also car parks (above or underground) which serve the tenants and their customers.

In this operating segment, the Group's income-producing space that are leased to third parties are mainly divided into two types:

a. Business parks for the high- tech industries- The Group specializes in responding to the special needs of the high-tech industries and the construction of purpose-built buildings fitted in advance to the needs of the tenants. The purpose-built construction provides a comprehensive and complete solution to tenants, that includes the guidance of the tenant beginning from the stage of preparing the working plans for purposes of the design requested by the tenants, the planning and construction of the building in full cooperation with the tenant and through responding to all of the tenant's demands as to the interior of the leasehold. The business parks present a quality and clean working environment in a central location, quality infrastructure, green areas and parking spaces.

b. Office towers - The Group has office towers that are leased, in most cases, with high occupancy to numerous and diverse tenants for long lease periods.

   The office and other space for lease segment of the Group in Israel is managed with relation to each office building or office park through the Company or designated management companies owned by the Group, which engage with the tenants in management agreements[12]. Most of the management agreements determine that the management fees will be paid on the basis of the cost of the management services plus overhead expenses. The management services include, *inter alia*, security services, cleaning the public areas, gardening, maintenance of elevators and public systems.

9.1.2 The structure of the operating segment and the changes occurring therein

The office and other space for lease segment is affected by the economic activities in the market and its recovery is affected both by improvement in the political-security situation as well as the economic situation in Israel. Various entities are active in this operating segment which locate, plan, construct, lease and maintain properties designated for lease for various uses. There are many

[12] Except for the property in Petach Tikva and the property in Caesarea that are managed by third parties unrelated to the Company.

companies in Israel in the office and other space for lease segment, including large, veteran and leading companies, which own properties in large volumes, as well as smaller, local developers who operate in specific geographic areas. The business in this segment is generally characterized by the fact that part of the costs of construction or acquisition is financed by independent sources and the remainder is financed by credit from outside sources.

9.1.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 21 of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

9.1.4 Changes in the volume of business and profitability of the segment

As of the Report Date, the Group has preserved very high occupancy rates in its income-producing properties and even increased its revenues from rent, due to its financial strength, the strength of the Company's tenants, some of which constitute the leading firms in the economy (AAA tenants) high liquidity and standing in the financial market. See the Board of Directors' Report in Chapter B of this Report for details concerning the development of the revenues from this operating segment. In addition, in recent years, the Company has acted to expand its business in this operating segment, *inter alia* through the construction of the Sarona Azrieli project and Holon Azrieli center and population of vacant office space in existing properties, thus preserving and even increasing the high occupancy rates that characterize the Group.
To the best of the Company's knowledge, in 2012 the growth trend in the office market in the center of Israel continued, which was expressed in an increase in the development and in the supply of new projects, an increase in the demand for office space, and an increase in rent in many projects. Due to the supply of new office buildings in the center of Israel in coming years, the Company estimates that due to an increase which, to the best of the Company's knowledge, is expected in the supply of new office buildings in the center of Israel in the upcoming years, a slight decrease in the prices of rent may occur in lower-demand areas. The Company estimates that such decrease is not expected to have a very material effect in the long term on the rent prices of the Company's properties, which are essentially characterized by a high quality and highly demanded level of construction, location and management.

The Company's aforesaid estimations with regard to the increase in the supply of the office areas and the effect thereof on the Company's results are forward looking information as per the definition thereof in the Securities Law. The actual results and effects may significantly differ from the estimations specified above and the implications thereof, for various reasons, inter alia, a further strengthening of the competition, a decrease in the demand for office spaces and a worsening of the economic situation in Israel.

9.1.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors of the Company in the segment are, *inter alia*, the wide dispersion and location of the income-producing properties in the areas where there is a high level of demand throughout Israel for offices, commerce and industry, expertise in development and architectural planning, management and construction of properties conforming to potential tenants, in relation to which the Company had engaged in advance in lease contracts through the professional management team employed by the Group, the level of demand and supply of properties of a similar type which dictate the terms of the lease contracts and the potential changes thereto, know-how and experience in marketing, property management and operation, the positive goodwill of the Company, its business positioning and financial strength which allows immediate response to attractive business opportunities.

9.1.6 Changes to the system of suppliers and raw materials for the operating segment

Within the framework of this segment, the Group has no material suppliers with which it engages and does not purchase raw materials in material scopes.

9.1.7 Main barriers to entry and exit of the operating segment and the changes occurring therein

Barriers to Entry - To the Company's belief, entities operating in this operating segment require mainly equity and financial strength which allow them to operate in the development segment at relatively low financing costs. In addition, professional know-how, experience in the development segment, positive reputation in the industry and available and planned land reserves in areas with high demand for office buildings space for lease bear great importance.

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

9.1.8 Structure of competition in the operating segment and changes occurring therein

See Section 9.3 of the Report for a description of the structure of competition in this operating segment.

9.1.9 Manner of executing acquisitions of the Company

See Section 8.1.9 of this Chapter for a description of the manner of acquisition and exercise of the Group's rights in properties.

9.1.10 Acquisitions performed in the Report Period

For details pertaining to the acquisition of the additional one half of the rights in the Science and Technology Park project in Petah Tikva, and the acquisition of land from Clalit Health Fund during the Report Period, see Sections 1.3.3.2 and 1.3.3.3 above.

9.2 Details on the very material properties of the Group in the office and other space for lease segment

9.2.1 Azrieli Tel Aviv Towers

The following tables include data regarding the office towers in Azrieli Center, which, as of the Report Date, constitute 10.7% of the Company's total properties and complies with the definition of a very material property. The valuation of this property is attached to this Report as Annex C of the Board of Directors' Report, Chapter B of this Report.

The Group, through Canit Hashalom, is the holder of all of the lease rights in the center named "Azrieli Center". Azrieli Center extends over a land block at a total area of 32.894 thousand sqm, located in the center of Tel Aviv, on a junction which is a main transport route and in proximity to the main transport routes of Tel Aviv (Ayalon Highways, Derech Hashalom, Haifa Road) and HaShalom train station, located on Hashalom intersection.

To the best of the Company's knowledge, as of the Report Date, Azrieli Center is the largest business center in Israel, with an overall built-up area (gross) of approx. 326,233 sqm, comprising an underground car park and storage rooms (at an area of 122,255 sqm), a mall including 3 commercial floors and a public floor (at an area of 58,649 sqm), two office towers, the Round Tower (at an area of 55,710 sqm) and the Triangle Tower (at an area of 47,680 sqm) as well as the Square Tower which is a tower of mixed uses of offices and a hotel (at an area of 40,574 sqm) as well as public passage bridges (over Menachem Begin Road and HaShalom Railway) (at an area of 1,365 sqm). The office buildings of the Group at Azrieli Center comprise the three towers: the Round Tower, which includes 38 office floors and another roof floor serving as an observatory and a restaurant; the Triangle Tower, which includes 35 office floors and 2 more service floors; and the Square Tower, including 18 office floors above the 13 hotel floors.

9.2.2 Presentation of the property

	Specification as of December 31, 2012
Property name:	**Azrieli Towers**
Property location:	**Tel Aviv**
Property areas – split by uses; (according to leasable area)	**Offices – 131,492 sqm** **Hotel – 18,000 sqm** **Offices used by the Group – 1,520 sqm**
Company's share in the property:	**99.1%**
Structure of holding in the property:	**Through Canit Hashalom Investments of which 99.1% is held by Azrieli Group Ltd.**
Corporation's effective share in the property:	**99.1%**
State the names of the partners in the property*:	**0. 9% are held directly by Mr. David Azrieli**
Date of acquisition of the property:	**The land was acquired in August 1992.**
Specification of legal rights in the property (ownership, lease etc.):	**Capitalized leasing.**
Status of registration of legal rights:	**As of the Report Date, the process of registration of Canit Hashalom's lease rights in the Square Tower has not yet been completed.**

Special issues (material building code violations, soil contamination, etc.):	**There are no special material issues. For further details, see the valuation attached hereto**
Method of presentation in the Financial Statements:	**Consolidation**

For details on the registration of rights in the property, pledges and guarantees, pertaining to Azrieli Center towers, see Section 9.2.8 of this Chapter. It shall be noted that all of Azrieli Center's space is designated for lease on the free market, other than space for self use by Canit Hashalom and the Group's companies (on the top floor of the Round Tower and other negligible areas, such as archives, gallery, storeroom, etc.), and other than an area of approx. 5,500 sqm, which is located in the project's basement which is designated for building of an IEC sub-station which was sub-leased in 2006 to the Israel Electric Corp. Ltd. in consideration for a one-time amount of approx. NIS 14 million, for the entire lease period of Canit Hashalom (such area was not taken into account in the valuation of the center which is attached to this Report).

Yarden Hotels M.H.Y. Ltd. which operates the hotel, which is located in the Square Tower of Azrieli Towers, has a business license for the operation of the hotel that as of the Report Date, is effective until December 31, 2013. The business license is contingent on the fulfillment of several conditions, *inter alia*, taking out a building permit for the changes made in the Square Tower by September 1, 2013. As of the Report Date the Company is acting for completion of the conditions relating thereto.

9.2.3 Main figures

Figures per 100%. The Company's share in the property – 99.1%	Y2012	Y2011	Y2010		On date of purchase of the property
Fair value at end of the period (NIS in thousands)	2,579,848	2,484,608	2,287,214	Cost of construction (NIS in millions) (**)	**1,292**
Revaluation profits (NIS in thousands)	84,110	186,655	98,205	Date of purchase of the land	**August 1992**
Average occupancy rate (%)	99%	~100%	99%		_____
Leased space (sqm)	149,421	149,392	148,395		_____
Total income (NIS in thousands) (*) per month	223,412	220,472	211,933		_____
Average rent per sqm per month (NIS) (***)	93	91	90		_____
Average rent per sqm per month in contracts signed during the period (NIS)	103	100	93		_____
NOI (NIS in thousands)	186,020	186,461	176,896		_____
Adjusted NOI (NIS in thousands)	200,521	193,070	184,105		_____
Actual yield rate (%)	7.2%	7.5%	7.7%		_____
Adjusted yield rate (%)	7.8%	7.8%	8%		_____
Number of tenants at end of reporting year	149	178	156		_____

(*) The revenues and NOI include 50% of the revenues and the car park's NOI.
(**) Including adjustment costs for the tenants and renovations until the Report Date.
(***) Does not include the hotel's rent. Had the average included the hotel's rent, then the average for 2012 would have been approx. NIS 89 per sqm, for 2011 approx. NIS 88 per sqm, and for 2010 approx. NIS 86 per sqm.

9.2.4 Segmentation of revenues and cost structure

Figures per 100%. The Company's share in the property – 99.1%	Y2012	Y2011	Y2010
Revenues:	**(NIS in thousands)**		
From rent – fixed	159,783	158,331	152,978
From rent – variable*	-	-	-
From management fees	38,657	38,187	36,011
From car park	24,825	23,781	22,847
Others	147	173	97
Total Revenues	223,412	220,472	211,933
Costs:			
Management, maintenance and operation	37,391	34,011	35,037
Depreciation	96	103	92
Other expenses	-	-	-
Total Costs:	37,487	34,114	35,129
Profit:	186,116	186,358	176,804
NOI:	186,020	186,461	176,896

(*) No sales increment for lease of offices.

9.2.5 Main tenants at the property

The Company does not have a main tenant at the property the revenues from whom produce 20% or more of the property's revenues.

9.2.6 Projected revenues due to signed lease contracts

	Year ending December 31, 2013	Year ending December 31, 2014	Year ending December 31, 2015	Year ending December 31, 2016	Year ending December 31, 2017, forth
	NIS in thousands (figures according to 100%. Corporation's share in the property – 99.1%)				
Fixed components	207,726	171,660	150,222	75,122	128,573
Variable components (estimate)*	-	-	-	-	-
Total	207,726	171,660	150,222	75,122	128,573

(*) No sales increment for lease of offices.

The revenue amounts in the above table, were calculated based on the basic amounts set forth in the lease agreements while linked to the consumer price index known on December 31, 2012, and based on the following assumptions: (1) The exercise of options for extension of the lease periods included in the lease contracts was not taken into account; (2) Lease contracts which the lease period pursuant thereto has ended and new lease contracts have not yet been signed with the tenants were not taken into account; (3) The possibility of sale of the properties or purchase of new income-producing properties was not taken into account; (4) Early termination fines, if any, were not taken into account; and (5) no change will occur in the advance payments of management fees for each tenant for year 2012.

The amounts of revenues specified in the aforesaid table are under the assumption that the options for extension of the lease periods included in the lease contracts would not be exercised, in spite of the fact that many of the tenants in the Company's premises usually tend to extend the lease agreements upon their termination.

The above figures are based on the estimates of the Company considering the signed agreements as of the Report Date and constitute forward-looking information, within the definition thereof in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the tenants.

9.2.7 Specific financing for the property

Specific Financing			Loans(*):
Balances in the Statement of Financial Position	December 31, 2012 (NIS in thousands)	**Presented as current maturities:**	537,274
		Presented as long-term loans:	--
	December 31, 2011 (NIS in thousands)	**Presented as current maturities:**	52,834
		Presented as long-term loans:	529,851
Fair value as of December 31, 2012 (NIS in thousands)			557,991
Original date of taking the loan			**August 2001-January 2002**
Original amount of loan (NIS in thousands)(**)			**771,969**
Effective Interest Rate as of December 31, 2012 (%)			**5.94%**
Dates of repayment of principal and interest			**The interest and principal are retuned in quarterly payments until August 2013 except for a principal balance in the sum of approx. NIS 502 million (linked to November 2012 index) which is due in August 2013.**
Main financial covenants			**Canit Hashalom's undertaking not to create a floating charge**
Other main covenants			**-**
Statement of whether main covenants or financial covenants have been breached as of the end of the reporting year			**No**
Is it non-recourse			**No**

(*) The loans are for building the towers and the mall with no specific separation. The loans amount was split between the components according to the fair value ratio of the properties, such that in December 31, 2012, and 2011, 57.7% of the loans were attributed to the towers.
(**) The split was made according to the ratio determined in December 31, 2011 for the sake of convenience.

9.2.8 Pledges and material legal restrictions on the property

Type		Specification	The amount secured by the pledge December 31, 2012(*) (NIS in thousands)
Pledges	First ranking	The property is pledged by a fixed charge to banking corporations	537,274

(1) Canit Hashalom has provided the City of Tel Aviv with a guarantee in the amount of NIS 8 million, linked to the Residential Construction Input Price Index (standing, as of December 31, 2012 at approx. NIS 23 million), which is designed to assure Canit Hashalom's compliance with its obligations in connection with the performance of the development and construction work for the project. This guarantee is expected to be returned to Canit Hashalom upon the issuance of a certificate of completion for the project. As of the Report Date, Canit Hashalom is acting towards obtaining the aforesaid certificate of completion, and does not expect any part of the guarantee to be forfeited. The provisions of this section constitute forward-looking information which is based upon estimates of the Company in reliance on past experience and the actual results may be different, primarily due to requirements of the authorities which are unknown as of the Report Date.

(2) On February 28, 2008, Canit Hashalom signed a letter of undertaking addressed to the City of Tel Aviv and also provided an additional bank guarantee in the amount of approx. NIS 8 million, linked to the Consumer Price Index (standing, as of December 31, 2012 at approx. NIS 8.5 million), in connection with the granting of a Form 4 for the square tower of the project, in the context of which it undertook to act to establish a steering team to evaluate the need to build another tunnel underneath the Kaplan interchange, and further undertook to build the tunnel at its expense, to the extent determined as aforesaid. Insofar as the construction of the aforesaid tunnel will be required, Canit Hashalom estimates the cost of construction in the amount of approx. NIS 4 million.

(*) The loans are for the construction of the towers and the mall without specific distinction. The amount of the loans was split between the components according to the property fair value ratio, such that as of December 31, 2012, 57.7% of the loans were attributed to the towers.

9.2.9 Details regarding the valuation

		Y2012	Y2011	Y2010
The value determined (NIS in thousands)		2,579,848	2,484,608	2,287,214
Identity of the appraiser		Greenberg Olpiner & Co.	Greenberg Olpiner & Co.	**Greenberg Olpiner & Co.**
Is the appraiser independent?		yes	yes	**yes**
Is there an indemnification agreement?		yes	yes	**yes**
Date of validity of the valuation (the date to which the valuation pertains)		Dec. 31, 2012	Dec. 31, 2011	**Dec. 31, 2010**
The valuation model		DCF	DCF	**DCF**
Main parameters used for the valuation[13]				
The valuation according to the	Gross leasable area used in the	149,421	149,392	149,184

[13] The valuation is attached as annex C to the Board Report in Chapter B of this Report.

Income Approach	calculation (sqm)[14]			
	Representative occupancy rate out of the leasable area for the purpose of valuation (%)[15]	100**%**	100%	99.47%
	Representative average monthly rent per leased sqm for the purpose of valuation	93.9	90.5	86.31
	Representative NOI for the purpose of valuation (NIS in thousands)[16]	200,521	193,070	184,105
	Annual average periodic expenses for preservation	**See in other main parameters below**		
	Weighted cap rate used for the valuation	7.59%	7.59%	7.85%
	Other main parameters	Projected investments in the property were depreciated, as well as investments due to undertakings to the City of Tel Aviv per contract. The overall depreciation of the property value due to the aforesaid totaled to approx. NIS 60 million.	Projected investments in the property were depreciated, as well as investments due to undertakings to the City of Tel Aviv per contract. The overall depreciation of the property value due to the aforesaid totaled to approx. NIS 58 million.	Projected investments in the property were depreciated, as well as investments due to undertakings to the City of Tel Aviv per contract. The overall depreciation of the property value due to the aforesaid totaled to approx. NIS 59 million.
Value sensitivity analyses		**Change in value in NIS in thousands**		
Cap rates	Rise of 0.25%	(84,153)	(81,020)	(71,798)
	Decline of 0.25%	89,882	86,536	77,171
Average rent per sqm	Rise of 5%%	113,729	109,625	101,582
	Decline of 5%	(113,729)	**(109,625)**	**(101,582)**

[14] Not including area for the Company's own use of approx. 1,520 sqm on the last office floor of the round tower.
[15] Represents the ratio of marketed area out of the total area, but in appraisal, value was taken for vacant areas too.
[16] Including 50% of representative NOI of the car park which is included in the property value. (The remaining 50% were included in the valuation of the mall).

9.3 Competition

The income-producing property segment in general and the office and other space for lease segment in particular, is characterized by a high level of competition. The competition in the office and other space for lease segment in Israel, is characterized by a high level of competition which revolves around a number of parameters, the main ones of which are: (1) the geographic location of the properties and the level of demand for spaces for lease in that area; (2) the rent level and management and maintenance costs; (3) the quality of construction of the leased buildings; (4) The level of auxiliary services, and (5) the Lessor's goodwill. The competition in this sector exists both at the stage of identification of the properties for purposes of initiation, development and construction of properties, and at the stage of the leasing of the properties.The Group is exposed in Israel to competition by numerous companies engaging in the lease of business property, in areas of demands similar to those in which the Group's properties are located, while in most cases, the competition is local competition. Thus, for example, the competition for the Azrieli Center are the high priced office buildings in Tel Aviv and the competition for the Herzlia Business Park are other alternate office buildings in that area.

To the best of the Company's knowledge, several bodies are active in Israel, holding significant shares of the office and other space for lease segment, including Reit 1 Ltd., Gav Yam Land Ltd., Nitzba Holdings 1995 Ltd., Industrial Buildings Ltd., British Israel Investments Ltd. and Amot Investments Ltd. In the Company's estimation, the scope of its business in the office and other space for rent in Israel segment is among the leading companies in the segment, particularly with completion of the projects which are, as of the Report Date, under construction.

The factors assisting the Company to deal with the competition in this segment are as follows:

- The Company's volume of operation in the segment enables the Company to communicate with companies and service providers at beneficial terms;

- The Company's volume of operation in the segment enables the Company to specialize in the management of commercial parks and office buildings in an efficient manner which leads to savings in costs and in manpower;

- Most of the Company's tenants are companies with high financial strength and the lease agreements therewith are for a relatively long period of time;

- The Company's office and other space for lease is located in areas of high demand, enabling the Company to lease the properties to numerous diverse types of tenants.

- The unique characteristics of the Group's properties, such as: a retail center in proximity to the office space for rental, access to public transportation, including the railroad and underground car parks for the convenience of the tenants and their customers.

- Most of the Company's office space is characterized by its high quality and prestigious nature, which distinguishes the Company's property from those of the competing companies and strengthen its competitive ege.

9.4 Goals and business strategy in the segment

See Section 24 of the Report for details on the Company's goals and the Group's strategy.

10. The income-producing property in the U.S.A. segment

10.1 General

As of the Report Release Date, the Group owns five office rental properties outside of Israel, of a total leasable area of approx. 166 thousand sqm (the Company's share is approx. 155 thousand sqm), which is leased to approx. 250 tenants, as well as one retail center of a total leasable area of approx. 13 thousand sqm, wholly owned by the Company, containing approx. 12 tenants. The Company's properties in this operating segment do not amount to material properties or very material properties. For aggregate details regarding all of the Company's income-producing properties in this operating segment, see Section 7 above, under the geographic region U.S.

The Group's office properties in this operating segment are Class A multi-tenant properties, which also include parking lots (above ground and underground) which are used by the tenants. The properties are located in high demand areas with more office building clusters. Unlike the Company's properties in Israel, in some of the Company's properties in the U.S., the Company holds the property together with one or more local partners.

The office buildings in the operating segment are mostly intended for businesses (*inter alia* from the energy industry) and service providers which are characterized by a large number of employees and demand for adjacent parking spaces.

Most of the Group's lease contracts in this operating segment are for periods of between three (3) and ten (10) years, while often the tenant is given an option for additional lease periods of up to five years. The rent is at a fixed amount per square meter (or the corresponding measure – SQF) of the leased area, while often the lease contract includes a rent increase during the term of the lease.

Unlike the Group's office properties in Israel, the Group's office space in the U.S. is managed by professional and local management companies with which the Company has engaged in agreements, and which the Group is entitled to terminate by advance notice of 30 days. The management companies collect from the tenants the rent, as well as current expenses, such as security, cleaning, maintenance, municipal taxes, insurance, gardening, maintenance of elevators and public systems.

10.2 The structure of the operating segment and changes occurring therein

During 2011 and 2012, the Company expanded its business in the U.S.A. through two purchase transactions, one of three office towers in the "Galleria" area of the city of Houston, Texas, and the other of an additional office building in the "Energy Corridor" area of the city of Houston, Texas.

The income-producing property segment in the U.S.A is affected by the economic activity in the U.S. economy, and mainly by the economic business in Houston and its office lease market.

To the best of the Company's knowledge, in the years following the recent economic crisis, the U.S. income-producing property market suffered an acute crisis and general sweeping deterioration. The occupancy of properties and rent decreased, the rate of available areas in the office market increased and as a result of liquidity and credit problems, banks and other lenders have toughened the financing conditions for commercial properties, mostly by reducing the leverage rates and raising the required equity.

In 2011 this situation began to change and in 2012, an evident improvement occurred in the segment. The real estate market as a whole, and the offices in the U.S. segment, behave inconsistently. Thus, for example, the effect of the global economic crisis in Houston was minor relative to other regions, both in the rates of the vacant space and in the decline in the rent prices. During 2012, the office property market in Houston began to significantly recover. Approx. 4.3 million additional SQF were filled with tenants during that year in Houston and in addition, the rent prices rose, while in category A offices, the price climbed to price levels which are higher than the 2008 peak levels. In addition, the percentage of vacant spaces in the city was reduced, down from 15% in 2011 to 12.9% during Q4 2012. In 2012, there was a rise in the development of new projects in the sought after areas of Houston, after several years of an absolute standstill in the development of such projects[17].

10.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the local planning and building laws and land laws. In addition, the business in this segment is affected by legislation and regulation of authorities in the fields of environmental protection, safety, business licensing, land taxation and municipal taxation. See Section 10 of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the entire Group.

10.4 Changes in the volume of business and profitability of the segment

As aforesaid, it appears that in 2012, an evident improvement occurred in the office properties segment. In the Houston metropolis, even more significant improvement was evident when in 2012, approx 3.4 million SQF more office space was rented than that rented in 2011[18]. The total rate of vacant space in the city of Houston decreased from 15% to 12.9%, while in Class A office buidlings, the rate of vacant space at the end of 2012 was 8.2%.[19] In addition, to the best of the Company's knowledge, in 2012 there was a significant rise in rent prices in the office segment in the city of Houston.

10.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors in this operating segment are its know-how, expertise and experience in the location and acquisition of attractive properties that will yield a high return, and the location of local management companies specializing in the local market and in property, for the purpose of management of the properties and marketing of the space therein. The Company estimates that the success factors in the acquisition of such properties in the operating segment are, *inter alia*,

[17] According to figures appearing in MarketView, Houston, Office, published by CBRE in Q4 2012.
[18] According to figures appearing MarketView, Houston, Office, published by CBRE in Q4 2012.
[19] According to figures appearing in MarketView Snapshot, Houston, Office, published by CBRE in Q4 2012.

location of worthwhile transactions and identification of opportunities in the market with a fast response capability, acquisition of properties in attractive, high demand locations with improvement potential, acquisition of properties of a high building and finishing standard, acquisition of properties with a range of related services that are not available in nearby properties which are competing for new contracts, performance of meticulous due diligence investigations, *inter alia* with respect to the expected expense structure in the property and the profit increase potential, the strength of the tenants in the property and the nature of the collateral, as well as knowledge of the financial markets and the various players therein for the purpose of achieving attractive financing terms.

10.6 Main barriers to entry and exit in the operating segment and changes occurring therein

Barriers to Entry - To the Company's belief**,** entities operating in this operating segment require mainly equity and financial strength which allow the acquisition of existing properties at relatively low financing costs. In addition, professional know-how, experience in the segment of acquisitions and management of income-producing properties, as well as know-how and experience in the credit and financing sector are important. Positive goodwill is another important element, both during tenders for the acquisition of income-producing properties and in order to attract attractive tenants to the properties.

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

10.7 Structure of competition in the operating segment and changes occurring therein

The income-producing property industry, in the U.S. and in Houston in particular, is characterized by a high level of competition. Competition in this segment revolves around a number of parameters, of which the principal ones are; (1) the geographic location of the properties and the level of demand for the space for lease in that area; (2) the amount of the rent and the management and maintenance costs; (3) the granting of incentives to new tenants or upon renewal of a lease agreement, such as improvements in the leased premises or a certain lease period in which rent will not be charged; (4) the quality of construction of the leased buildings; (5) the level of auxiliary services; and (6) the reputation of the lessor. The competition in this sector exists both at the stage of acquisition of the properties and at the stage of the leasing of the properties. See Section 10.10 below for a description of the structure of competition in this operating segment.

10.8 Manner of executing acquisitions of the Company

For the purpose of the Group's development in this operating segment, the Group focuses, as of the Report Date, on the acquisition of existing and populated income-producing properties, and is not building new properties itself. In addition, the Company usually enters into financing agreements with different financing bodies for the purpose of the acquisition of the properties in this operating segment, usually under non-recourse terms (with exceptions standard in the U.S.). See section 8.1.9 of this Chapter for a description of the manner of acquisition and exercise of the entire Group's rights in properties.

10.9 Properties acquired during the Report Period – acquisition of an office building in Houston

For details on the acquisition of an office buiding in the city of Houston, Texas, in the Report Period, see Section 1.3.3.1 above.

10.10 Competition

The income-producing property segment in the U.S.A. is, in general, characterized by a high level of competition in all aspects pertaining to the rent, the quality of the finishing of the building and other unique characteristics of the property. The Group is exposed in the U.S.A. to competition by numerous companies engaging in business property lease, in areas of demands similar to those in which the Group's properties are located. The market of leasable offices in Houston, Texas, constitutes approx. 191 million sqf of leasable office space (of which approx. 92 million SQF is defined as Class A), and includes a large number of properties. To the best of the Company's knowledge, several bodies are active in Houston, holding significant shares of the office lease areas segment[20], and the Group's share in the income-producing property segment in the U.S. is negligible.

The factors assisting the Company to deal with the competition in this segment are as follows: (1) The Company's office lease areas are located in high demand attractive areas, enabling the Company to lease the properties to numerous and diverse types of lessees; (2) most of the Group's properties in this operating segment have special characteristics, including: a "Leed Gold Certificate" rating of the Green Building Council, tenants with a high rating, attractive location adjacent to large retail centers, as well as a high parking space ratio relative to the size of the property; (3) most of the Company's office space in this operating segment is characterized by a high building and finishing standard and has been granted the highest rating level of office properties (Class A).

The Group engages in this operating segment in management agreements with strong local entities which have vast experience in and deep knowledge of the local market, for the purpose of management and lease of the properties.

10.11 **Goals and business strategy in the segment**

See Section 24 of the Report for details on the Company’s goals and the Group’s strategy.

[20] According to figures appearing in MarketView Snapshot, Houston, Office, published by CBRE in Q4 2012.

Part Five - Granite Segment

11. Granite Segment

On October 30, 2006, Canit Hashalom purchased approx. 53.99% of the issued and paid-up capital of Granite Hacarmel, which was at that time a public company whose shares were listed for trade on the TASE, in consideration for the sum of approx. NIS 631 million (reflecting a value for Granite at that time in the sum of NIS 1,166 million) (the "**Purchase Agreement**").

On December 13, 2006, Canit Hashalom purchased from an interested party in Granite Hacarmel approx. additional 10% of Granite Hacarmel's issued and paid-up capital, in consideration for the sum of approx. NIS 109 million (reflecting a value for Granite at that time in the sum of NIS 1,092 million). As a result of the purchase, the rate of Canit Hashalom's holdings in Granite Hacarmel went up to 63.83% at that time.

On October 10, 2012 Canit Hashalom completed a full tender offer for all of the shares of Granite which were publicly held (i.e. 39.39%), in consideration for NIS 318 million (NIS 5.49 per share) and Granite turned into a private company. As of the date of the financial statements Canit Hashalom holds 100% of Granite's issued and paid up capital.

For the sake of convenience, in this Section 11, the following abbreviated terms shall have the meanings set forth beside them:

Granite -	Granite Hacarmel Investments Ltd.;
The Granite Group or the Group -	Granite and its consolidated companies;
The Azrieli Group -	The Azrieli Group Ltd., which holds, through Canit Hashalom Investments Ltd., the full share capital and voting rights of Granite;
NIS	New Israeli Shekel
The Companies Law	The Companies Law, 5759-1999;
The Securities Law	The Securities Law, 5728-1968;
TASE	The Tel Aviv Stock Exchange Ltd.;
U.S. $	United States Dollar;
Income Tax Ordinance	The Income Tax Ordinance [New Version], 5721-1961
The Fuel Administration -	The Fuel Administration at the Ministry of Energy & Water Resources;
Tambour -	Tambour Ltd., a wholly owned subsidiary of Granite (100%) as well as its consolidated companies;
Sonol -	Sonol Israel Ltd. – A subsidiary company wholly owned (100%) by Granite and its consolidated companies;

Supergas -	Supergas Israel Gas Distribution Company Ltd. – A wholly owned (100%) subsidiary of Granite and its consolidated companies;
GES -	GES Global Environmental Solutions Ltd. – A subsidiary wholly owned (100%) by Granite and its consolidated companies;
ORA -	Paz Oil Refinery Ashdod Ltd.;
ORL -	Oil Refineries Ltd.;
Oil Distillates -	The various types of fuels, including Liquefied Petroleum Gas ("LPG");
LPG -	Liquefied Petroleum Gas;
The Report Period	A period of one year ending on December 31, 2012

Financial data on the Granite Group operating segments

Below is financial data on Granite's various operating segments. The revenues data in the tables below is net of excise.

Financial data on the Corporation's operating segments for the year ended December 31, 2012 (NIS in thousands)

	Sonol									
	Fuelling complexes	Direct marketing	Not associated	Total	Supergas	Tambour	GES	Other	Adjustments(2)	Consolidated
Revenues										
From external parties	3,512,843	2,122,970	-	5,635,813	585,700	858,382	563,275	15,394	-	7,658,564
From other operating segments	12,816	11,976	-	24,792	15,501	1,115	1,283	37	(42,728)	-
Total	3,525,659	2,134,946	-	5,660,605	601,201	859,497	564,558	15,431	(42,728)	7,658,564
Attributed costs										
Costs that do not constitute revenues in other operating segment	3,475,248	2,055,934	13,128	5,544,310	525,657	762,275	489,347	11,092	5,439	7,338,120
Costs that constitute revenues in other operating segment	134	876	-	1,010	4,194	34,004	5,533	(246)	(44,495)	-
Total	3,475,382	2,056,810	13,128	5,545,320	529,851	796,279	494,880	10,846	(39,056)	7,338,120
Operating profit attributed to the operating segment	**50,277**	**78,136**	**(13,128)**	**115,285**	**71,350**	**63,218**	**69,678**	**4,585**	**(3,672)**	**320,444**
Fixed costs attributed to the operating segment	292,830	34,018	30,831	357,679	112,116	145,500	58,686	2,647	16,821	693,449
Variable costs attributed to the operating segment	3,182,418	2,021,916	-	5,204,334	414,029	619,392	431,263	7,411	-	6,676,429
(Rise) Fall in value of investment property, net	-	-	(15,439)	(15,439)	-	-	-	1,479	-	(13,960)
Other expenses (revenues), net	-	-	(2,264)	(2,264)	(488)	(2,617)	(602)	(445)	(11,382)	(17,798)
Operating profit attributed to the owners of the parent company	50,277	78,136	(13,128)	115,285	70,922	54,890	69,496	2,851	(3,672)	309,772
Operating profit attributed to rights which do not confer control	-	-	-	-	428	8,328	182	1,734	-	10,672
Total Assets attributed to the segment	-	-	-	2,406,122	603,944	1,042,855	1,117,442	37,885	52,384	5,260,632

Financial data on Granite's operating segments for the year ended December 31, 2011 (NIS in thousands)

	Sonol									
	Fuelling complexes	Direct marketing	Not associated(1)	Total	Supergas	Tambour	GES	Other	Adjustments(2)	Consolidated
Revenues										
From external parties	3,014,440	1,774,174	-	4,788,614	499,740	769,270	233,062	14,156	-	6,304,842
From other operating segments	12,401	8,366	-	20,767	14,961	1,535	1,621	337	(39,221)	-
Total	3,026,841	1,782,540	-	4,809,381	514,701	770,805	234,683	14,493	(39,221)	6,304,842
Attributed costs										
Costs that do not constitute revenues in other operating segment	2,970,860	1,721,839	34,799	4,727,498	454,224	681,508	201,884	12,317	19,099	6,096,530
Costs that constitute revenues in other operating segment	471	1,210	-	1,681	3,391	30,367	5,779	(246)	(40,972)	-
Total	2,971,331	1,723,049	34,799	4,729,179	457,615	711,875	207,663	12,071	(21,873)	6,096,530
Operating profit attributed to the operating segment	55,510	59,491	(34,799)	80,202	57,086	58,930	27,020	2,422	(17,348)	208,312
Fixed costs attributed to the operating segment	293,565	35,877	33,760	363,202	108,061	139,170	54,765	2,978		
Variable costs attributed to the operating segment	2,677,295	1,685,962	-	4,363,257	346,560	544,917	154,020	6,472		
(Rise) Fall in value of investment property, net	-	-	(2,015)	(2,015)	-	-	-	1,794		
Other expenses (revenues), net	-	-	3,054	3,054	(397)	(2,579)	(6,901)	1,073		
Operating profit attributed to the owners of the parent company	55,510	59,491	(34,799)	80,202	56,839	47,086	23,180	836		
Operating profit attributed to rights which do not confer control	-	-	-	-	247	11,844	3,840	1,586		
Total Assets attributed to the segment	-	-	-	2,376,892	532,855	979,475	816,464	37,171	15,001	4,757,858

Financial data on Granite's operating segments for the year ended December 31, 2010 (NIS in thousands)

	Sonol									
	Fuelling Complexes	Direct marketing	Not associated	Total	Supergas	Tambour	GES	Other	Adjustments(2)	Consolidated
Revenues										
From external parties	2,518,206	1,411,520	-	3,929,726	419,912	683,647	205,202	13,982	-	5,252,469
From other operating segments	7,433	19,489	-	26,922	7,668	551	1,755	499	(37,395)	-
Total	2,525,639	1,431,009	-	3,956,648	427,580	684,198	206,957	14,481	(37,395)	5,252,469
Attributed costs										
Costs that do not constitute revenues in other operating segment	2,400,652	1,380,064	48,901	3,829,617	367,262	612,990	194,283	10,999	26,142	5,041,293
Costs that constitute revenues in other operating segment	-	1,472	-	1,472	14,851	17,178	3,878	39	(37,418)	-
Total	2,400,652	1,381,536	48,901	3,831,089	382,113	630,168	198,161	11,038	(11,276)	5,041,293
Operating profit attributed to the operating segment	124,987	49,473	(48,901)	125,559	45,467	54,030	8,796	3,443	(26,119)	211,176
Fixed costs attributed to the operating segment	268,277	35,401	71,157	374,835	110,596	177,151	54,577	2,422		
Variable costs attributed to the operating segment	2,132,375	1,344,663	-	3,477,038	257,688	439,900	142,159	7,934		
(Rise) Fall in value of investment property, net	-	-	(165)	(165)	-	-	-	1,246		
Other expenses (revenues), net	-	-	(22,091)	(22,091)	(1,022)	(4,061)	(2,453)	(603)		
Operating profit attributed to the owners of the parent company	124,987	49,460	(48,901)	125,546	45,522	44,657	8,043	2,610		
Operating profit attributed to rights which do not confer control	-	13	-	13	(55)	9,373	753	833		
Total Assets attributed to the segment	-	-	-	2,009,337	480,808	907,083	778,591	75,237	(361)	4,250,695

Below are details regarding the operating segments of Granite: the Sonol segment, Supergas segment, Tambour segment and GES segment.

The Sonol Segment

11.1. General information regarding the segment

11.1.1. Granite holds 100% of the rights in Sonol, which is active in the following fields: (1) local purchase, import, storage, marketing and distribution of Oil Distillates in fueling and commerce complexes and in direct marketing; (2) production, storage, marketing and distribution of lubrication oil, engine oil, transmission oil, oil for industry, additives and other auxiliary products; (3) Transport of Oil Distillates and oils; (4) marketing of various products in Sonol's chain of convenience stores.

11.1.2. In direct marketing, the sales of Oil Distillates and oils is made to institutional, governmental, commercial and business customers, to transportation companies, airlines, industry and agriculture. Sales of fuels and oils to such customers do not involve the public fuelling stations operated by Granite and/or any other operator. Some of the commercial and institutional customers may in the future have a potential substitute such as natural gas; however as of the Date of the Report it is not yet available to them. Furthermore, the gross profitability of the sales of distillates which would be replaced with natural gas is low.

11.1.3. In the fuelling stations and commerce complexes segment, Oil Distillates and oils are sold to individual customers and to business customers operating fleets of vehicles with automatic fuelling systems installed for fuelling at fuelling stations in the Sonol Chain and to distributors and operators of public fuelling stations which are not operated by Sonol. It should be noted that in fueling stations which are operated by the subsidiary Sonol also sells other consumer products, both in convenience stores and at the pump docks.

11.1.4. The critical success factors in the Sonol segment are the finding of new, strategic locations for the establishment of public fuelling stations; growth in the national coverage of fuelling stations in the Granite Group's chain; dealing with the surrounding competition and optimal use of fuelling station land to establish a chain of convenience stores and mini-malls. Additionally, the Company's management deems operational streamlining and cutting back on expenditures as essential measures, which aid in the improvement of its profitability in this segment and in overcoming the decrease in the marketing margin as stated.

11.2. Main products

The main products and services in the operating segment are white fuels, mostly Gasoline and diesel fuel for transportation, fuels and oils. In addition, at the fuelling stations chain operated by Sonol, Sonol sells a range of consumer products in convenience stores and at the pump docks. As of the Date of this Report, the chain operates 172 convenience stores under the brand name: "Sogood" (as of December 31, 2011 and 2010, 164 and 151 stores operated in the chain, respectively), while Sonol's intention is to construct 8 additional stores in 2013, and all subject to Sonol's resolutions, the competition in the market and Sonol's situation. The sales turnover of various products (except fuels) reached NIS 270 million in 2012, as compared to NIS 240 million and NIS 206 million in the years 2011 and 2010, respectively. It should be noted that the increase rate in 2012 compared with 2011 in the sales turnover of stores that operated in both years is approx. 10.5%.

11.3. Determining the price of products for customers

The maximum consumer price for 95 octane gasoline is controlled and determined by the Fuel Administration, based on the price of the distillate plus taxes, costs incurred for infrastructure, supply and pumping and the fuel companies' marketing margin, which is supposed to compensate those companies for the cost of infrastructure, financing and transportation including, *inter alia*, the marketing margin for fuelling station operators. In September 2011, the Fuel Administration reduced the overall marketing margin for the controlled gasoline. For details, see Section 11.12.2 hereunder.

As pertains to other Oil Distillates sold by Sonol, no maximum price is determined by the Fuel Administration. However, in most instances, Sonol's consumer prices are also determined in accordance with the parameters mentioned above.

11.4. Segmentation of revenues from products

Revenues from direct marketing:

Following is data regarding the segmentation of revenues from products in the direct marketing segment, whose revenues constitute, each, 10% or more of the Azrieli Group's total revenues (during the Period of the Report or in at least one of the preceding two years):

Product Type	**2012**		**2011**		**2010**	
	Revenues in NIS Thousands	**Percentage of Company's Revenues**	**Revenues in NIS Thousands**	**Percentage of Company's Revenues**	**Revenues in NIS Thousands**	**Percentage of Company's Revenues**
Diesel Oil	**1,041,668**	**11.5%**	870,399	11.5%	536,163	8.4%

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The increase in the rate of revenues from diesel oil in the direct marketing business segment out of the Company's total revenues in 2012, compared with their rate in 2011, and in 2011 compared with their rate in 2010, resulted from an increase in the prices and in the quantities sold.

Revenues from marketing and commerce complexes:

The following table regarding the segmentation of revenues from the products of the marketing and commerce complexes segment whose revenues constitute, each, 10% or more of the Azrieli Group's total revenues:

Product Type	**2012**		**2011**		**2010**	
	Revenues in NIS Thousands	**Percentage of Company's Revenues**	**Revenues in NIS Thousands**	**Percentage of Company's Revenues**	**Revenues in NIS Thousands**	**Percentage of Company's Revenues**
Gasoline	2,198,972	24.3%	1,870,590	24.8%	1,552,546	24.5%
Diesel Fuel	1,043,325	11.5%	898,888	11.9%	749,324	11.8%
Total	3,242,297	35.8%	2,769,478	36.7%	2,301,870	36.3%

The rate of revenues from gasoline and diesel oil in the fuelling and commerce complexes' segment out of the Company's total revenues in 2010-2012 has not materially changed.

The gross profit of this operating segment in 2012 was NIS 540,283 thousand compared to NIS 537,618 thousand in 2011 and NIS 578,497 thousand in 2010. The gross profit due to the fuel sale operation increased by approx. NIS 3 million, resulting from an increase in the quantities sold, despite margins' erosion, *inter* alia, as a result of a decrease in the marketing margin in the last quarter of 2011. Furthermore, the gross profit from the convenience stores increased by approx. NIS 10 million.

11.5. **The Segment's customers**

In the direct marketing segment, the Granite Group supplies its products to a broad range of commercial and business customers; to airlines, transportation companies, agriculture, industry, institutional customers and distributors. In this operating segment, the agreements through which Sonol contracts with commercial and institutional bodies are for varying periods.

In the fuelling and commerce complexes segment, the Granite Group supplies its products to a broad range of spontaneous, individual customers, to customers who own fleets of vehicles, purchasing fuels through automatic fuel pumps or using magnetic cards (**"AVR – Automatic Vehicle Recognition"**) and to members of various

customer clubs at the fuelling stations of the Sonol Chain as well as to external operators of fuelling stations.

In each of these two operating segments, Sonol is not dependent upon a single customer or a limited number of customers, the loss of which would have a material effect on the operating segment. Furthermore, Sonol has no single customer in either of these segments, with revenues from that customer constituting 10% or more of the Company's total revenues in the year of the Report.

Below is a segmentation of sales in the operating segments per customer types

The following is a table describing the segmentation of sales in Sonol's direct marketing segment in the years 2012, 2011 and 2010, according to customer types as well as their percentage out of the total revenues from this operating segment in that period:

	2012		**2011**		**2010**	
Customer type	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**	**Sales (NIS in thousands)**	**Sales (NIS in thousands)**	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**
Institutional, governmental, commercial and business customers	1,245,692	58%	980,154	55%	801,400	56%
Airlines	230,675	11%	214,617	12%	295,200	21%
Other,	658,579	31%	587,769	33%	334,409	23%
Total	2,134,946	100%	1,782,540	100%	1,431,009	100%

The following is a table describing the distribution of sales in Sonol's fuelling and commerce complexes segment in the years 2012, 2011 and 2010, distributed according to customer types as well as their percentage out of the total revenues from this operating segment in that period:

	2012		2011		2010	
Customer type	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**
Station operators in the Sonol Chain	614,236	17%	496,491	16%	352,515	14%
Owners of fleets of vehicles fuelling with AVR installed	1,356,028	38%	1,168,777	39%	947,516	37%
Other, including private LPG customers	1,555,396	44%	1,361,573	45%	1,225,608	49%
Total	3,525,660	100%	3,026,841	100%	2,525,639	100%

11.6. **Marketing and distribution**

11.6.1. Storage and dispensing of Oil Distillates

Sonol buys the Oil Distillates for its operations mainly from ORL and from there, they are pumped through pipes belonging to the government owned company Fuel Products Pipeline Ltd. to the various tank fields (only one of which is owned by Sonol – all the others are in third party ownership, among them Oil Refineries Ashdod and Delek) for storage and supply to its customers.

11.6.2. Supply of Oil Distillates

The supply of fuels to the direct marketing customers and fuelling stations in the Sonol Chain is executed mainly by transportation in tanker trucks, with the exception of a small number of commercial and institutional customers, who receive their oil products through direct pipelines between ORL into their plants.

11.6.3. Fuelling stations in the Sonol Chain

As of the Date of the Report, there are 235 Sonol public fuelling stations throughout Israel (the "**Sonol Chain**").

As of the Date of the Report, 191 fuelling stations, constituting approx. 81% of the Sonol Chain, are operated by Sonol and the remaining fuelling stations are operated by

external operators, and revenues from the stations which are so operated are not included in Granite's revenues.

Some 18% of the public fuelling stations in the Sonol Chain are owned by Sonol. Sonol has other proprietary rights or merely the rights to supply fuels. The supply of fuels to public fuelling stations is executed in accordance with an array of agreements deriving from the type of right held by Sonol in the fuelling station.

Public fuelling stations in the Sonol Chain can be divided up into three main categories: (A) Fuelling stations owned or on a primary lease from the Israel Lands Authority (including "key money" contracts) (some 18%), most of which belong to Sonol; (B) Sub-leased or rented fuelling stations (some 68%), in which most of the buildings were erected by Sonol and the fuelling station equipment belongs to Sonol; (C) Fuelling stations at which Sonol has no rights of possession whatsoever and Sonol has contracted with the owners of those fuelling station through short terms agreements for the supply of fuels (some 14%). It should be noted that the fuelling stations in category C also display Sonol signs and in most of them, the above ground equipment belongs to Sonol and is maintained thereby.

11.7. **Competition**

The fuelling and commerce complexes segment is characterized by relatively high barriers to entry, because of the need for considerable investment in the erection of fuelling stations, the need to comply with regulatory requirements, long processes for the receipt of licenses and a scarcity of suitable land. Therefore, there are four competitors in the market (including Sonol), which hold the primary market share in Israel. The competition between them is fierce. The main competitors are Paz Oil Company Ltd. ("**Paz**"), Delek Israel Fuel Corporation Ltd. ("**Delek**") and Dor Alon Energy in Israel (1988) Ltd. ("**Dor Alon**").

In contrast, in the direct marketing segment, the barriers to entry are lower. Therefore, a large number of bodies are active in this segment under conditions of very fierce competition which is characterized, *inter alia*, on sizeable discounts and long term credit.

To the Company’s estimation, based on information which it has as of the Date of this Report, Sonol's share of the fuels diesel oil and gasoline alone market in Israel is approx. 18% of total sales (including sales of fuels to the Israel Electricity Corporation and the Palestinian Authority). These estimations are based on data published by the Fuel Administration in reference to total sales of fuels and there can be no certainty that the said estimations are correct and accurate.

11.8. **Fixed assets and facilities**

11.8.1. Storage and dispensing facilities

Sonol owns manufacturing, storage and dispensing facilities in Haifa extending over an area of some 80 dunam that mainly includes a tank field with a capacity of some 25 million liters and some of the area (about 28 hectares) houses an oil production factory and a central distribution warehouse for oils and products. The fuels are being pumped from ORL, while various additives are being added during the pumping into the facilities and the material is being mixed in the storage tanks in the Haifa facilities in order to produce the products Gold 95 and Goldiesel. The existing production and storage capacity supplies the demand in Northern and Central Israel. In the South Sonol purchases distillates supply services from EPI, Delek and the Ashdod Oil refineries, owned by Paz.

11.8.2. Public Fuelling Stations

As mentioned above, as of the date of this Report, the Sonol Chain consists of approx. 235 public fuelling stations. A standard fuelling station has a building on an area ranging from 40 sqm to 120 sqm, which includes a convenience store, office, storeroom, washrooms, and also roofed over pump islands, lanes for traffic movement, an area for re-fuelling the underground tanks and parking areas.

Most of the equipment installed at Public fuelling stations in the Sonol Chain is owned by Sonol, including operating equipment at fuelling stations not owned by the Chain.

11.8.3. Fixed assets

Granite management and Sonol management operate from an office building in Netanya, which is owned by Sonol and was established on land leased from the Israel Land Administration, with an area of approx. 3,000 sqm. Sonol has additional fixed assets including a fleet of tanker trucks which is used for the transportation of distillates, trucks and commercial vehicles, computers, furniture and office equipment.

11.9. **Raw Materials and Suppliers**

11.9.1. The principal raw materials used in the operating segments

The main raw material from which petroleum products are manufactured is crude oil.

Sonol purchases Oil Distillates from both refineries, although ORL remains the main supplier to the Granite Group, and it is

dependent on ORL as the main and central supplier of the petroleum products.

ORL has a monopoly in the field of petroleum product sales and therefore, it is obliged to sell its products to all the oil companies, including Sonol.

Sonol also exploits opportunities to purchase petroleum products through independent imports, when such importing is cheaper than purchasing the same product at that time from the refineries and such is subject to operational limitations and Israeli standards.

11.10. **Working capital**

11.10.1. Policy for holding inventory of finished goods

Due to the volatility in oil prices, Granite's policy is to hold in its storage plants an inventory of finished petroleum products for a short period of several days of supply, which facilitate ongoing operations.

According to the Arrangements in the State Economy Law, 5761-2001 and its regulations, the Granite Group is required to hold an emergency inventory of fuels in separate tanks at sites that have been determined. The inventory is guaranteed, in any event, by the State by determining compensation based on the exchange rate of the dollar at the time of sale. The costs and expenses related to the holding of the emergency inventory are covered by the State.

11.10.2. Credit policy

11.10.2.1. Customer credit

In the direct marketing segment, Sonol provides its customers with credit ranging from 20 to 100 days, according to the type of product, the nature of the customer's characteristics, the purchase volume, the status of the securities and the type of engagement therewith.

In the fuelling and commerce complexes segment, most private customers pay Sonol in cash or through credit cards. Business customers in this segment, as well as Granite Group's customers in the direct marketing segment, receive credit from Sonol for periods ranging from 20 to 105 days, depending on the nature of the engagement with each customer. During the past year, Sonol acted to significantly reduce the number of credit days

offered to these customers. The average period of credit to Sonol's customers during the years 2010-2012 was approx. 41 days, 42 days and 38 days, respectively. The trade accounts receivable balances as of December 31, 2012 totaled approx. NIS 1,116,600 thousand and the balance for December 31, 2011 totaled approx. NIS 1,135,260 thousand.

11.10.2.2. Suppliers credit

Sonol's main supplier, ORL, grants credit for a period of end-of-month + 15 days.

The excise component, levied within the price of the Oil Distillates which Sonol sells, is transferred thereby pursuant to the law to the Treasury after 10 days of supplying the fuels and before the funds are collected from the customer, which causes high financing costs to the Company, as the excise component in the price of Oil Distillates increases.

Other suppliers of Sonol grant it credit for a period of between end-of-month and 130 days. The trade accounts payable balances as of December 31, 2012 amounted to approx. NIS 499,872 thousand and the balance for December 31, 2011 amounted to approx. NIS 551,710 thousand.

11.10.3. The Corporation's policy and its plans for dealing with working capital

As of December 31, 2012, Sonol has a negative working capital totaling approx. NIS 467,149 thousand, comprised of current assets in the amount of NIS 1,383,356 thousand, net of current liabilities of NIS 1,850,505 thousand. On December 31, 2011 Sonol had a negative working capital totaling approx. NIS 343,124 thousand, comprised of current assets in the amount of NIS 1,360,954 thousand, net of current liabilities of NIS 1,704,078 thousand. The increase in the negative working capital is attributable, *inter alia*, to Sonol's decision to finance its activity through short-term credit which is cheaper. Sonol examines, from time to time, the advisability of converting the short-term loans into long-term loans, in accordance with the changing market conditions.

11.11. **Environmental risks and ways of their management**

11.11.1. Main Legal Provisions pertaining to the Protection of the Environment

In order to prevent environmental pollution, Sonol's business is subject to various legislative and standardization provisions concerning environmental protection, including:

The Water Law 5719-1959 and the Water Regulations (Prevention of Water Pollution) (Gasoline Stations), 5757-1997 (the "**Water Regulations**"). These standards and orders include a range of provisions including, *inter alia*, provisions referring to prevention of soil pollution and the pollution of ground-water, the Maintenance of Cleanliness Law 5744-1984, the Hazardous Substances Law 5753-1993, the Environmental Protection Law (the Polluter pays) (Punitive Measures) (Legislative Amendments) 5768-2008, and more.

The water regulations provide that the long-existing stations are to be adapted to some of the Regulations' provisions which apply to new stations. As of the date of the Report, most of Sonol's stations comply with the requirements of the water regulations to install protective measures, subsequently to Sonol's performance of the regulations' requirements in a several-year process starting on the date when the regulations had entered into effect. In the remaining stations, which are yet to be completely adapted to the regulations, Sonol is acting for the completion of the required protective measures. In the Company's estimation, based on the best knowledge of Granite's and Sonol's managements and as of the date of this Report, the cost of conducting leakage testing in the fueling stations and the cost of adapting older fuelling stations to part of the new provisions is not material for the Company. It shall be noted that gaps have been discovered in the performance of impermeability tests in stations. As the repair of flaws in the stations that had been checked until 2011 has yet to be completed, Sonol acted during 2012 to close most of the aforesaid gaps, and plans to continue the activity for closing the gaps in 2013. The Company estimates, based on Granite's management's best knowledge, that the cost of completing the adjustment of the protective measures to the regulations is not substantial to the Company.

Preventing air pollution

Sonol has installed vapor recovery systems (Stage I) in most of its Public fuelling stations, as required. The vapor recovery system prevents the emission of gasoline fumes from the underground storage tanks when they are refilled by tanker trucks. In addition, all fueling stations in Israel are required to install fuel vapor recovery systems, which are pumps that

draw in the vapor emitted from vehicle fuel tanks during fuelling and return that vapor to the fuelling station tanks (Stage II) according to a scheduled timetable. According to the law, Sonol completed during 2012 the installation of the systems, as required according to the timetables.

In addition, there are regulations pertaining to tanker trucks and facilities, Business Licensing Regulations (Hazardous Plants), 5753-1993 and more.

11.11.2. Material legal or administrative proceedings relating to the environment

For details regarding legal proceedings in which Sonol is involved which pertain to environmental issues, see Note 34 to the financial statement.

11.11.3. Sonol's policy for environmental risk management

Sonol takes many actions and invests considerable resources in order to prevent damage to the environment and prevent environmental risks. In this framework Sonol operates continuously to maintain quality systems, conduct various tests, increase the safety amongst its employees, customers, suppliers and third parties and avoid accidents, *inter alia*, by enforcement of procedures, investment in equipment and devises to prevent soil and air contamination, and for safety and fire protection needs, in performing training, lectures and more.

11.12. **Limitations and regulation of the corporation's business**

11.12.1. Operating segments subject to specific laws

Sonol's business is subject to laws, regulations and orders pertaining, *inter alia*, to price control, determining standards of quality, safety, security, storage, packaging, labeling and identifying products, transport, proper business management and environmental protection (See Section 11.11.3 above).

11.12.2. Price Control of Commodities and Services Law, 5756-1996 and the Regulations pursuant thereto

By virtue of the law, orders were issued to determine the maximum price for 95-octane gasoline and a method for updating prices and dates of updating was determined as well, subject to certain exceptions.

The Order further provided that it is permissible to charge an additional price, which was also fixed in the Order, for gasoline sold at full service, and also for sales at fueling stations at night and on rest days. Pursuant to the Order, the

maximum price of gasoline is based on the price of fuel at the Oil Refineries Ltd. rate (which was also controlled until January 1, 2007) plus infrastructure costs, transport, financing and marketing margin that is divided between the fueling station's operator and the fuel company.

The structure of such price is published monthly by the Fuel Administration.

On August 31, 2011 a Goods and Services Prices Order (Maximal Prices at Fueling Stations)(Amendment) 5771-2011 was released (hereinafter in this Section: the "**Amendment**"), whereby the marketing margin of the fuel companies and the additions added on the ORL ex-works price were reduced by approx. 16.1 Agorot per liter (without VAT). Upon the adoption of the Amendment, Sonol and other fuel companies filed appeals to the HCJ against the Minister of Finance, the Minister of Energy and Water, the Price Committee and the Price Commissioner, moving for an order to cancel the Amendment.

On May 30, 2012, the Ministry of Finance and the Ministry of Energy and Water published the recommendation of the Price Committee regarding the marketing margin. The Committee's recommendation was to amend the provisions of the control order such that it will include the following modifications: the basis of the marketing margin for self-service fueling without VAT shall be 63.3 agorot per liter, as compared to 58.9 agorot per liter; in addition, the increment for full-service fueling, without VAT shall be 14.2 agorot per liter, as compared to 18 agorot today. On May 31, 2012 a new control order was issued, whereby the marketing margin of gasoline 95 octane in self-service fueling was increased by 5 agorot, and the allowance for full-service was decreased by 4 agorot per liter.

The reduction of the marketing margin had an adverse effect on Granite's financial results, as it causes a decrease in Sonol's gross profit from the sale of gasoline 95. In order to increase its revenues, Sonol acts to reduce discounts for automobile fleets and customer club members, reduction of discounts given at the fueling stations to private customers, change of trade conditions, increase in the number of convenience stores. Concurrently, Sonol operates to reduce its expenses, mainly through reduction of the lease fees paid to the fueling station owners, transfer from full service to self-service fueling stations, reduction of manpower and compensation related costs, reduction of maintenance expenses, improvement of business customers (reduction of credit days, increasing guarantees and margins); finding alternate markets for the purchase of fuels and oils, improvement of terms of agreements with suppliers and other

inter-organizational streamlining steps. Such actions compensated for the reduction in Sonol's revenues and diminished the damage to Sonol's profitability as a result of the reduction of the marketing margin.

It shall be mentioned that within the framework of the Trachtenberg Committee Conclusions it was recommended to expedite the proceeding of imposing control on diesel for transportation. In 2011Sonol was requested by the Ministry of Energy and Water and the Ministry of Finance joint price committee, pursuant to the Law for Supervision of Goods and Services Prices, 5756-1996 to provide its opinion regarding the committee's intention to impose control on the marketing margin due to the sale of diesel for transport, and it had provided its opinion, as requested. On July 31, 2012, a control order had been published in the Official Publications, on the prices of products and services (implementation of the Diesel Fuel for Transportation Law and determination of level of control) 5772-2012, whereby every company which engages in the marketing of fuel to fueling stations, including Sonol, is required to annually report its profitability and provide figures on profitability and prices for the years 2009, 2010 and 2011.

The imposition of such control as aforesaid on diesel for transportation may have an adverse effect on the financial results of the Company; however, as of the date of the release of the Report, the Company is unable to quantify such influence. The information stated in this Section is forward looking information, as defined in the Securities Law and there is no certainty of the materialization thereof.

11.12.3. Antitrust

A. Exclusivity arrangements for the supply or purchase of fuels at fuelling stations – In 1993 the Commissioner of Israel Antitrust Authority (the "**Commissioner**") published a decision according to the Restrictive Trade Practices Law, 5748-1988 (in this Section: the "**Law**"), on the matter of a set of agreements between the fuel companies and the operators of the fuelling stations of Paz, Delek and Sonol. Within this framework, it was determined that these agreements, which comprise an undertaking of the station operators to purchase products exclusively from the fuel companies or an undertaking for the exclusive supply of such products, constitute a Restrictive Arrangement as defined in the Law.

In 1995 the Commissioner reached an agreed upon arrangement with Sonol and Paz pertaining to new rules of conduct of the companies. According to the arrangement, the application of the Commissioner's

original decision was limited so that it would apply solely to fuelling stations with which the fuel companies have no "customary lease agreement" (i.e., a lease agreement where the lease fees paid or other consideration given according thereto are real. As part of the arrangement, conditions were determined, *inter alia*, for the future engagement of the Paz and Sonol companies with fuelling stations in exclusivity agreements.

As a result of the publication of the arrangement, several proceedings were initiated in a variety of courts pertaining to the set of agreements between the fuel companies and operators of fuelling stations, including against Sonol, with several operators contending that they ought to be released from the exclusivity agreements. To date, no in-principle decision has yet been given by the Supreme Court pertaining to these proceedings. On this matter see Note 34 of the Financial Statements of the Company in Chapter C of this Report.

B. Agreements for lease of stations – In June 2001, the Commissioner contacted the fuel companies, Paz, Sonol and Delek and informed them that he is examining the possibility that the lease agreements between the fuel companies and the fuelling stations constitute "a merger" as defined in the Law. As aforesaid, as regards the Commissioner's approach, the rationale that stood at the base of his examination is that the lease or operating agreements between the fuel companies and the fuelling stations grant the fuel companies rights to the effect that their activities at the fuelling stations are subject to the decision-making system of the fuel company, which, according to the Commissioner's approach, amounts to a merger. Accordingly, the Commissioner advised the fuel companies to agree with him on a text for an agreed order to the effect that any rental agreement of a fuelling station, for a period that exceeds 7 years, shall be deemed a merger that requires the authorization of the Commissioner. Sonol was of the opinion that each rental agreement ought to be examined in substance and if it comprises a type of merger, in Sonol's opinion, then Sonol will act in accordance with the provisions of the Law as regards a merger. Delek accepted the Commissioner's proposal and agreed with him on a text of an agreed order, as aforesaid, that entered into effect in November 2003. It should be clarified that the aforesaid accords do not apply to Sonol.

The Supergas Segment

11.13. Marketing and supply of LPG

11.13.1. The main business of Supergas, which is 100% held by Granite, is in the segment of marketing and supply of LPG. The LPG is a gas that is released in the distilling process of the crude petroleum. The main use of LPG is energy for operating burners in industry, bakeries and restaurants, for heating institutions, for heating henhouses in agriculture as well as for cooking and heating in households. In the context of this activity thereof, Supergas performs local purchase, import, storage, marketing and distribution of LPG to domestic customers as well as to institutional, governmental, commercial and business customers, for industry and agriculture. The supply of LPG is made through mobile and stationary containers directly through Supergas, through agencies controlled by Supergas as well as through independent distributors and agents owned by third parties.

11.13.2. The revenues of Supergas from the marketing and supply of LPG do not exceed 10% of the total revenues of the Company.

11.13.3. Some of the commercial and institutional customers of Supergas may in the future have potential substitutes to LPG, such as natural gas, and Supergas estimates that future penetration of natural gas to the Israeli market might affect the quantities of LPG marketed thereby; however, as of the date of the Report, natural gas is still not available for them. Nevertheless, to the best knowledge of Supergas, bodies in the Israeli economy start to prepare for the use of natural gas. Supergas aspires to compensate for the loss of LPG customers and the aforesaid expected decline in the quantities of LPG sales, through the marketing of natural gas. On this matter and on the matter of Supergas's preparation for the marketing of natural gas, see also Section 11.14.3 below.

11.13.4. The main success factors in the market of marketing and supply of LPG are professional knowledge, reliability of the supply, the safety level, service quality and price.

11.13.5. Supergas, like other gas companies in Israel, is dependent on ORL and ORA as the major and central suppliers of LPG. In case ORL and ORA will not provide Supergas with the quantity of LPG that it wishes to purchase therefrom and Supergas will be required to increase the quantity of LPG directly imported thereby, a preparation period will be required and additional costs may be involved. Such import will be subject to and contingent on finding a solution to an

existing problem of lack of sufficient storage spaces for the imported LPG and possibility of the discharge thereof. However, it should be noted that ORL and ORA are obligated by law to avoid discrimination in the supply of LPG to the customers thereof.

11.13.6. Various regulatory requirements, including those which compel meeting strict safety requirements for the supply of LPG, impose on Supergas an obligation to perform substantial monetary investments in order to meet them.

11.13.7. The operation of Supergas in the LPG field is subject to laws, regulations and orders which pertain, *inter alia*, to the determination of specific instructions pertaining to marketing and supply of LPG to domestic customers, to the determination of standards of quality, safety, security, storage, marking and identification of products, transportation, proper business management, consumer protection, environmental issues and price control.

11.13.8. In the segment of marketing LPG, there are three large gas companies other than Supergas – Pazgas (1993) Ltd., the American Israeli Gas Corporation Ltd. (known as Amisragas) and the New Dorgas Ltd., which are the main competitors in this segment. The LPG market is characterized by the existence of competition with regard to both marketing and distribution to commercial and institutional customers and marketing and distribution to domestic customers. As per the Company's estimation, based on the estimations of Supergas' management as of the Date of the Report, Supergas' market share in the said segment is approx. 18%. These estimations are based on internal estimations only, and there is no certainty that Supergas' estimations are correct and accurate. In the Company’s estimate, based on the best knowledge of the managements of Granite and Supergas, no material change is expected in Supergas’ share in the markets of marketing and supply of LPG to domestic customers and to commercial and institutional customers.

11.13.9. Supergas operates two main logistic facilities for the marketing and supply of LPG (1) storage, filling and distribution facility in Kiryat Ata in an overall area of approximately 15 dunams. This area is leased by Supergas from the Israel Land Administration. The facility includes LPG warehouses with an overall storage capacity of approximately 780 tons in bulk tanks and 250 tons in containers. Following agreements with the Ministry of Environmental Protection, recently Supergas have been actually using approximately 10% of the facility’s storage capacity; (2) a central logistical center located in the Ramla

industrial zone in an overall area of approximately 4.4 dunams. This area is leased by Supergas from the Israel Land Administration. The facility includes two warehouses for the storage of LPG cylinders with an overall storage capacity of 100 tons, equipment warehouses, a heating department, a workshop, a laboratory and a machining shop. In addition, Supergas leases storage volume of hundreds of tons in the facilities of EAPC in Ashkelon, which allows it to accumulate stock of LPG and thereby reduce imports of LPG in the winter season. In addition, Supergas stores LPG in bulk tanks installed at the customers' premises.

Supergas has permits for the construction and operation of LPG repositories across the country, including Supergas's logistic center at Ramla and Supergas's refilling, storage and distribution facility at Kiryat Ata. For the past several years, the facility at Kiryat Ata has not had a business license due to the municipality's refusal to grant a business license, as stated. In the matter of legal proceedings pertaining to the gas farm in Kiryat Ata and the conditions required for its operation, see Note 34 of the consolidated financial statements. Supergas has a fire department approval for the Kiryat Ata facility, effective until March 1, 2014, in the context of which the facility will operate in a reduced scope as a filling and distribution facility, while reducing the quantities of LPG held, in accordance with the restrictions of the approval.

Toxic materials permit – pursuant to the conduct of Supergas vis-à-vis the Ministry of Environmental Protection, the Ministry's approval was obtained for the continued operation of the gas farm in a reduced format in the outline which was specified in the approval. On March 1, 2012, the gas farm was issued a toxic materials permit effective until May 30, 2013, which permits Supergas to use the facility subject to conditions which were specified in the permit. In addition, Supergas believes that both in the short term and in the long term, solutions will be found for LPG storage and filling, and it is preparing to find temporary and long-term alternative solutions, subject to the provisions of the law, which will enable it to continue to provide services to its customers.

The aforesaid is forward looking information, based on the company's assessments based on the assessments of the managements of Granite and Supergas. There is no guarantee that a long-term alternative solution will be found, or that the cost thereof shall be worthwhile to the company.

11.13.10. Antitrust –

Since 1999, Supergas participates in the internal enforcement plan on behalf of the antitrust authority (in this section, the "**Antitrust Authority**"). On August 10, 2010, a team of the Antitrust Authority arrived at the offices of Supergas to

perform a search regarding Afikei Gas Ltd., 50% of which is held by Supergas. Supergas cooperates, insofar as required. In addition, several officers were investigated on the issue. On March 19, 2012, Supergas's counsel received notice (the "**Notice**") that the Antitrust Authority had decided, subject to a hearing, to file an indictment against Supergas and three officers thereof, claiming non-delivery of information, documents, ledgers or certificates that were required by the entity authorized by the Antitrust Authority. As per the right granted to Supergas in the Notice, a hearing was held in July and August 2012, prior to the filing of an indictment. On December 30, 2012 the Antitrust Authority informed the Company that it had decided to file an indictment against Supergas and two officers thereof , with an option to reach an agreed upon order and avoid the criminal procedure. For further details, see Note 34 to the financial statements.

11.14. **Natural Gas**

11.14.1. General

Natural gas is a mixture of gases that the main component therein is Methane CH4 which is extracted from wells and pumped directly to the consumer through piping. Recently, large deposits of natural gas were found under the Mediterranean Sea and they are will be a significant source of energy for Israel in the decades to come. Supergas, through subsidiaries, is expanding its business to the natural gas segment. In this segment Supergas operate in three main sub-segments: establishment and operation of regional natural gas distribution networks under appropriate licenses, marketing of natural gas and establishment of a natural gas compression system ("**CNG**") and the marketing thereof.

11.14.2. Establishment and operation of natural gas distribution networks

In the segment of the establishment and operation of a natural gas distribution network, Supergas acts through Super N.G. Natural Gas Distribution Company Ltd. (“**Super NG**”) which is held by a subsidiary of Supergas (Supergas Natural Holdings Ltd.) and by Shapir Civil and Marine Engineering Ltd. (“**Shapir**”) in equal proportions (50/50). In November 2009 Super NG was granted a license for the construction of a natural gas distribution network in the Central Region and the operation thereof for 25 years. Pursuant to the terms of the license, Super NG shall receive the revenue thereof from a one-time connection fee and from the distribution fee tariff by the size of the customer (the extent of natural gas consumption) as specified in the license.

In November 2010, Super NG signed an agreement with the government company Israel Natural Gas Lines Ltd. ("INGL"), for the ordering of four pressure-reduction stations ("PRMS") for connection of the transmission system to the distribution system. The construction of the PRMS will be performed in the coming years by INGL, or another on its behalf, and it shall also operate them. As of the date of the report, Super NG is performing the network's planning and construction activities.

According to the provisions of the license granted to Super NG, it is required to invest in the construction of the distribution network a sum of approximately NIS 160 million, spread over 8 years, in accordance with the milestone prescribed in the license. For the activity of Super NG, the shareholders thereof provided a guarantee, according to the holdings thereof, in favor of the Natural Gas Authority in accordance with the terms of the tender and the license.

In addition, in December 2012 Super N.G. Hadera and the Valleys Natural Gas Distribution Company Ltd. ("**Super NG Hadera**"), which is held in equal parts (50/50) by a subsidiary of Supergas (Natural Supergas Holdings Ltd.) and Shapir, won a tender for the construction and operation of a natural gas distribution network in the area of Hadera and the Valleys, and it currently acts to complete the conditions which were determined for the purpose of receiving an appropriate license. It is noted that there is a limitation whereby each company is entitled to operate only two distribution areas.

11.14.3. Marketing of Natural Gas

In the field of natural gas marketing, Supergas is acting, through a wholly owned subsidiary (Supergas Natural Ltd.), which is active in the marketing of natural gas to potential industrial and institutional customers in various areas throughout the country, to which the natural gas distribution network is planned to arrive.

For this purpose, Supergas started to perform the preparations required for the performance of this activity, including the location of potential customers and engaging therewith in appropriate agreements. As of the date of release of the Report, Supergas engaged with a number of customers in contracts for the supply of natural gas.

11.14.4. Compressed Natural Gas – CNG

Since natural gas is an energy source which is cheaper than the alternatives, most large and medium energy consumers would want to use is as a prime energy source. However, the

natural gas distribution network is not planned to reach all of these customers. Furthermore, the laying of the network would take a number of years. In order to provide solution to the aforesaid problems, compressed natural gas shall be marketed in bulk tanks. Supergas is currently constructing in Alon Tavor, through a subsidiary controlled thereby, a facility for the compression of natural gas. The compressed natural gas will be transported to the customers in special containers on tanker trucks.

11.15. **Production of Solar Electricity in a Photo-Volt Technology**

11.15.1. Supergas acts for the development and expansion of its activity in the segment of solar electricity production. In this segment, Supergas engages with the initiation and construction of photo-volt facilities for the production of electricity, according to the regularization which was published by the Public Services Authority - Electricity in January 2010. The regularization pertains to facilities for the production of energy in a photo-volt method with output of over 50KW and up to 12MW which are connected to the electricity network, in an overall scope of 300MW. Supergas, through subsidiaries and partnership controlled thereby, filed several applications for conditional licenses as defined in the regularization, some of which have been approved, and it progresses in the course of the additional approvals required for the construction of the systems. The construction and operation is performed through subcontractors. Supergas obtained, through subsidiaries and partnership controlled thereby, financial closing approvals for 10 projects with a total installed output of 11.132 MWP, of which three projects (with a total installed output of 1.7 MWP) have received permanent production licenses and were connected to the electricity network during December 2012. Supergas' total investment in the said facilities in 2012 amounted to approx. NIS 47 million. Supergas plans to invest additional significant amounts in the construction of the said facilities in 2013.

In October 2011 the Israel Land Administration published three land tenders for the lease of lots in the Southern Region for a period of 24 years and 11 months for the construction of photo-volt systems. The Electricity Authority allocated a designated quota in a scope of installed 60 MW, which will join the quota of the medium facilities published in January 2010, see above. Supergas, through subsidiaries controlled thereby, won two tenders: One lot is in Mizpe-Ramon, for the construction of a system with an output of approx. 4MW; the other lot is in Ein Evrona, for the construction of a system with an installed output of 5MW. During December 2012 the companies received a contingent tariff approval.

It is hereby clarified and stressed that the information regarding Supergas' activity in the natural gas segment and in the production of solar electricity segment is forward-looking information, as defined in the Securities Law, which is based on information known to the Company based on the management of Granite and on the management of Supergas on December 31, 2012, on subjective estimates and assessments of the Company based on the management of Granite and the management of Supergas, considering the past experience thereof and on the intentions and plans thereof on the date of the Report. These may not materialize in case changes occur in the plans and intentions of Granite and Supergas as aforesaid, for any reason, including - the structure of the markets, the regulatory and statutory regularizations in the segment, the availability of natural gas and the price thereof, competition, Granite's and Supergas' estimates regarding the business profitability or due to the realization of any of the risk factors specified in Section 15 below.

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Tambour

11.16. General information

The Granite Group operates in the paint and building finishing industry through Tambour Ltd. and its consolidated companies (the "**Tambour Group**" or "**Tambour**"). The Tambour Group operates in the manufacture, import and marketing of a broad range of paints and building finishing products, as listed below and is Israel's leading group in the field of paints and coatings. Tambour is also one of Israel's leading companies in the field of advanced construction materials.

On May 29, 2012, Granite completed a full tender offer for all of the shares of Tambour which were publicly held (i.e. approx. 16%), in consideration for NIS 61,620 thousand (NIS 6 per share) and Tambour became a private company.

Within this segment, Tambour operates in the four sub-segments described below.

(1) The paint segment –local – this is the principal business of this operating segment (some two thirds of Tambour's businesses, also including the printing-local). (2) Supplementary products segment-local – This business include cement based building products, various types of sealing products, additives, grout, paint emulsions, adhesives, adhesive compounds for the paint, textile and paper industries, tiles, etc. (3) Gypsum and dry construction segment-local – in this framework Tambour manufactures and markets gypsum boards and blocks and auxiliary products as well as building finishing products based mainly on gypsum, through the plaster factory in the subsidiary Tamboard Ltd. in Akko South, and Gesher Gypsum in a plant at Kibbutz Gesher in the Jordan Valley. Furthermore, Tambour imports and markets acoustic ceilings, insulation products and complementary products for the gypsum segment. (4) International marketing segment – This segment includes the international marketing activity of the sub-segments of the activity as described above, including vis-à-vis local customers who purchase the products in order to export the same.

Tambour engages, from time to time, in franchise agreements with multinational companies such as Henkel KGaA, the BASF International conglomerate and more, to receive manufacturing know-how or a distribution franchise for various unique products, in its different activity segments.

The critical success factors in this operating segment are improvements in the security and economic situations, changes in the building segment, Tambour's branding as a leader, the high quality of Tambour products, production efficiency, innovation, service levels, new growth engines and synergy between the sub-segments of activities.

11.17. **The Products**

11.17.1. Below are Granite Group's principal products in this operating segment:

Paints – Paint is described as a mixture of materials that are intended for smearing or spraying on various surfaces in order to coat them. After the paint dries on the surface, the paint serves as protection against the hazards of time and nature and to provide an esthetic appearance. Paints are categorized by their usages, which are *inter alia*, as follows: Wall paints, metal paints, powder paints, paint for the wood industry, wood paints and oils for domestic use, road marking paint, vehicle paints, thinning products for wood and metal paints, filler products and supplementary paint accessories, printing paints for the industry of printing shops and cardboards.

Supplementary products - This range of products includes: (1) Sealing materials – coatings to seal roofs, verandas, etc. (2) Adhesives for construction, adhesives for industry, contact glues for wood and carpets, PVA adhesives for the paper, cardboard and wood industries, plastic adhesives and contact adhesives for home and office uses. In addition, Tambour markets cement adhesives for the building industry. (3) Liquid additives used in plaster mixes and the import of powdered additives for the building industry. (4) Adhesive compounds for the paper, glue and textile industries. (5) Tiles – for the decoration and sealing of internal and external walls. (6) Polymer emulsions, which are used as binders and as bases in the manufacture of paint for construction, for coatings and textile (7) cement-based and acrylic-based construction materials – cement-based products for the construction sector, such as powdered glues for tiles, rapidly-drying concrete products, products for concrete infrastructure fortification and acrylic-based construction materials.

Gypsum and dry construction – Finishing products for the construction industry based mainly on natural gypsum, such as: gypsum boards, gypsum blocks, profiles (construction for gypsum), insulation products, acoustic ceilings, cement boards, gypsum plaster, white gypsum, powdered fillers, adhesives etc., as well as supplementary products to the dry construction segment that are marketed in the local market.

11.18. **Customers**

In this segment, Tambour is not dependent upon a single customer or a small number of customers. Granite has no revenues from a principal customer in this operating segment, the revenues from which constitute 10% or more of the Company's total turnover. Tambour's customers are DYI chains and building materials shops (Tambour stores) (approx.

55% of sales), wholesale contractors and institutional and industrial customers (approx. 35% of sales), printing shops and others.

11.19. **Marketing and distribution**

The Tambour Group invests in a variety of marketing activities, including *inter alia*, advertising and public relations; sales people; activities aimed at building and refurbishing industry professionals and online marketing activities.

In addition, this segment also includes product export activities, mainly under the Tambour brand name. In specific markets, some Tambour products are sold under customers' private brand names. Tambour markets to more than 20 countries, in which it mainly operates purchasing bodies (such as local paint companies), distributors and local sales agents, some of which have signed agreements with Tambour. Local distributors and sales agents are responsible for promotion, marketing and sales of products.

11.20. **Competition**

To the Company's estimation, based on the best knowledge available to and estimates of the managements of Granite and Tambour, Tambour is a significant factor in the paint and building-finishing segment, which is exposed to fierce, vibrant competition from a number of local manufacturers and importers competing against Tambour principally within the borders of the Israel and the Palestinian Authority and there are no barriers to entry to those segments in which Tambour is involved in Israel, with the exception of the paint products market, which is mostly branded and requires considerable investment in the establishment of brand identity and considerable investment in advertising and color mixing machines and, in the gypsum board and block sub-segment, requiring investment in the establishment of a manufacturing plant, although there are no barriers to import.

Tambour's main competitors are: Nirlat Ltd, Jacoby Jack and Sons Ltd.; B.G. (Israel) Technologies Ltd.; Carmit Construction Improvement Products (1982) Ltd.; Pazkar Ltd.; B.G. Polymers Ltd.; Termorkir Industries (1980) Ltd. In the gypsum sub-segment, Tambour's main competitor is Orbond Gypsum & Gypsum Products Industries Ltd.

Utilizing the best of Tambour management's knowledge, the Company cannot estimate its market share for the aforementioned products. In 2012 Tambour applied to the Antitrust Commissioner to cancel Tambour's declaration as a monopoly in a number of categories in the paint segment, in which the declaration was not yet cancelled, including internal walls and heavy duty maintenance. The Commissioner's decision has not yet been made.

Tambour implements a number of different measures in order to deal with competition, including brand reinforcement, expanding and safeguarding knowledge, maintenance of high product quality and investment in constant improvement of the Company's products and the expertise of Tambour's sales force and its customer service array.

11.21. **Fixed assets and facilities**

Tambour's property is used entirely for the production and marketing array. Tambour's production arrays are concentrated at seven sites: In the Akko area (South Akko and Askar), in the Ashkelon area, the Jordan Valley (two), at Migdal Ha'Emek as well as a production plant in Nizanei Oz.

11.21.1. The paints segment

The main manufacturing site for this segment is at south Akko and it is on land owned by Tambour with an overall area of some 108,000 sqm, of which some 78,000 sqm serves the purposes of the paint segment. The site includes a number of buildings with an overall constructed area of about 37,360 sqm. The land is mortgaged to the banks on a first and equal charge. The Tambour Group has additional manufacturing sites, including the Askar site in south Akko which is situated on land located south of Akko of a total area of approx. 53,200 sqm, upon which are built various buildings with a total constructed area of about 19,500 sqm. Tambour has non-capitalized leasing rights from the Israel Lands Administration, which will end in 2039. The manufacturing of printing inks is carried at the Tzah facility which is located in the supplementary products site – see below.

11.21.2. The supplementary products segment

This segment, as well as the Tzah segment, use an area of 32,000 sqm out of which approx. 12,000 sqm are built-up in the manufacturing site at the Ashkelon industrial area. The site is on an area with a total size of 47,000 sqm, of which some 15,000 sqm is constructed buildings. Tambour owns 80.5% of the capitalized lease rights from the Israel Land Administration, which terminate in 2043. Tambour has been granted the right to purchase the rights to the rest of the land (19.5%) at its fair value on the date on which the right shall be exercised. Under specific conditions, Tambour has the right to extend the leasing period for another 49 years. The remaining leasing period, including the option, comes to a total of approx. 61 years.

11.21.3. The gypsum and dry construction segment

This segment includes two sites: at the Akko south site – an area of approx. 36,000 sqm which is leased to Tamboard and is used by the gypsum board and block factory, of which approx. 11,000 is a built-up area; at the Gesher Gypsum manufacturing site located at Kibbutz Gesher – an area of approx. 29,000 sqm which is used for Gesher Gypsum activities and is leased to Tambour for the purposes of its activities, plus, as of this year, an area of approx. 10,000 sqm in total which is leased to Tamboard for the purpose of operating an additional facility for the production of gypsum blocks. In addition, a built-up area of some 3,000 sqm is used for storage of the gypsum and dry construction products at the site in Ashkelon and an area of approx. 2,400 sqm at the South Akko site, adjoined to the Tambour site, which his leased from a third party.

In addition, Tambour has machinery and equipment which are used to manufacture the paints, supplementary products and gypsum and dry construction products at the various sites, and the computerized color mixing machines placed with the customers, computing systems, office equipment and vehicles.

11.22. **Raw materials and suppliers**

The principal raw materials used by Tambour are titanium dioxide – a white pigment for paint (T102) and VAM (Vinyl Acetate Monomer), which is used as the raw material in the manufacture of emulsions for water colors, emulsions (binding materials), plastic packaging and raw gypsum. Most of the raw materials needed in the production processes of the products in this business segment are imported and purchased from manufacturers in Europe and the Far East. In the years 2010 to 2012, imported raw materials constituted two thirds of all the raw materials used by the Tambour Group to manufacture its products.

Customarily, Tambour does not enter into long-term contractual agreements with any supplier for the supply of raw materials. The raw materials for the paint industry are readily available and the Tambour group has no dependency on any supplier whatsoever. Undoubtedly, the scope of purchases therefrom exceeded 5% of the purchase scope of the entire raw materials of this segment.

11.23. **Credit policy**

Customer credit – The payment terms for customers of this segment ranges from payment in cash to credit of end-of-month + 120 days. Most of the customers deposit personal guarantees with Tambour, some with collateral, such as various types of liens and bank guarantees. In addition, Tambour has insured most of its customers' debts with external credit insurance. The trade receivables as of

December 31, 2012 totaled approx. NIS 351,278 thousand and the balance as of December 31, 2011 totaled approx. NIS 305,039 thousand.

Supplier credit – Credit received by Tambour from its suppliers as aforesaid is for periods of end-of-month plus 60 -120 days, with most being for periods of end-of-month plus 90 to 120 days. The trade accounts payable as of December 31, 2012 totaled approx. NIS 142,906 thousand and the balance as of December 31, 2011 totaled approx. NIS 138,840 thousand.

11.24. **The Environment**

11.24.1. General

Tambour treats environmental protection as an integral part of its policy. Tambour and its employees take the required steps to prevent environmental hazards, to minimize the environmental effects resulting from the processes in the plant and the products supplied by it, and work, *inter alia*, to reduce hothouse gas emissions by lessening the use of electricity and water. Tambour is obligated to all laws pursuant to the legislative demands in the quality of the environment field relevant to the plant's activity. When it receives building permits and business licenses for its new plants, Tambour is required to meet the various demands of protecting the quality of the environment, the guidelines of the Ministry of Environmental Protection, the Ministry of Health and more, as well as the various legislative demands e.g. the Business Licensing Law.

Tambour invests in ensuring compliance with the environmental law guidelines to which it is subject, in fixed and ongoing expenses, and acts to prevent or minimize the environmental risks that are likely to occur during its operation. Tambour acts to assimilate processes related to the quality of the environment and include its employees therein.

It should be noted that Tambour is developing green solutions by development and manufacture of unleaded and chromatized paints and insulation and sealing materials (saving energy, blocking radiation etc.) with green tags approved by the Ministry of Environmental Protection and the Standards Institution of Israel. In 2012, Tambour participated in Maala's corporate responsibility index and received the platinum grade and in 2012 it also received the diamond standard mark from the Standards Institution of Israel on the existence of many standard marks for the Company's products.

Environmental regulation

Tambour is subject, *inter alia*, to the provisions of the following environmental laws: the Prevention of Hazards Law, 5721-1961, the Hazardous Substances Law, 5753-1993, the Business Licensing Law, 5728-1968, the Water Law, 5719-1959, the Freedom of Information Law, 5758-1998, the Clean Air for Israel Law, 5768-2008 and the regulations promulgated thereunder, and the Regulation of the Handling of Packaging Law, 5771-2011.

Most of Tambour's operating segments are based on use of chemicals, including use of hazardous substances. Accordingly, Tambour's potential environmental damage is air pollution, soil, water and hazardous substances contamination. In view of the aforesaid, Tambour is under the supervision of Ministry of Environmental Protection and the municipal authorities and is obliged to maintain environmental quality and to work in accordance with environmental laws, planning and construction laws, quality standards, directives of the Ministry of Environmental Protection and the relevant associations of municipal authorities and relevant city unions and municipal by-laws. Tambour's plants that are dealing with hazardous substances have toxic materials permits that are renewed each year, and it acts according thereto.

11.25. **Restrictions on and control of the Tambour segment**

Tambour is governed by the general laws in Israel that apply to the seller of products and services and to an industrial manufacturing company, which employs employees, and the environmental protection laws, to which the laws specified hereunder are added.

11.25.1. Antitrust

Tambour constitutes a monopolist in several paint products, as defined in the Restrictive Trade Practices Law, 5748-1988. In accordance with the decision of the Antitrust Commissioner, in February 2012, Tambour filed an application with the Antitrust Commissioner, whereby it requests to revoke its definition as "monopolist". As of the Report Date, there has been no answer from the Antitrust Authority. In addition, Tambour acts in accordance with an internal enforcement program of the Antitrust Authority.

11.25.2. Standardization

The Standards Institution of Israel has granted Tambour factories a permit to mark various types of paints and additional products manufactured by Tambour with a standards symbol.

The GES Segment

11.26. **General information on the business in the GES segment**

In the water and wastewater segment, the Company operates through GES, and consolidated companies thereof. GES engages in engineering design, establishment and production, operation and maintenance of facilities for the improvement of water and water filtering, sea water desalination, pumping stations and water pools, treatment of well water and effluent water and treatment of sanitary, industrial, municipal and organic wastewater. In addition, GES by itself and thorough its subsidiaries engages in marketing and development of chemical products for the purpose of metal treatment and protection as well as importation and marketing of oils, adhesives and chemicals for industry.

GES and its consolidated companies act in this operating segment through two divisions:

11.26.1. The water and wastewater division

The water and wastewater division engages in the establishment, building and operation of desalination plants of sea water and brackish water; wastewater treatment and return of effluent water; water improvement and wastewater treatment in the industrial segment; water and wastewater purification in the municipal segment; implementation of special chemicals for treatment of water, wastewater, desalination and chilling plants for the municipal and industrial segment; provision of system operation and maintenance services; planning and production and construction of systems for wastewater and water treatment. To-date, GES operates approx. 70 plants all over Israel (approx. 40 plants for water treatment and approx. 30 plants for wastewater treatment).

11.26.2. Industrial chemicals division

The industrial chemicals division engages in production, importation and marketing of chemicals and finishing processes for metals; Chemicals for preparing surfaces for painting and industrial paint stripping; Materials for electrochemical plating for high-tech and electronics industry; Industrial cleaning materials; Special adhesives and lubricants for industry and handling of hazardous material wastewater through a waste treatment facility owned by GES.

11.26.3. Via Maris

GES holds 100% of the share capital of Via Maris Desalination Holdings Ltd. and subsidiaries thereof ("**Via**

Maris”) which operates the Palmachim desalination plant, for desalination of sea water which was intended to supply drinking water quality water to Mekorot pipes as specified below.

The basic agreement: In October 2002, Via Maris executed a concession agreement with the State of Israel (the "**Concession Agreement**") for the planning, financing, establishment, operation and maintenance of a sea water desalination plant with an annual capacity of 30 million cubic meters using the BOO (Build, Own and Operate) method (the "**Desalination Plant**"). The concession period of approx. 25 years will end in 2029. In accordance with the concession, Via Maris established a desalination plant with an annual production capacity of 30 million cubic meters and it is obligated to supply to the State the quantity of desalinated water to be determined by the State, with the minimum quality determined in the Concession Agreement. In return for the establishment of the Desalination Plant and its operation, Via Maris is entitled to receive a fixed payment for the availability of the desalination capability and a varying payment for the quantities of desalinated water which will be supplied. In accordance with the provisions of the Concession Agreement, failure to supply water in a timely manner, in the quantities determined by the State, or the supply of water at a quality level lower than the minimum quality determined in the Concession Agreement, shall incur the payment of liquidated damages to the State and the adjustment of the price of the water. As of May 2007, Via Maris has been supplying water to the national network at the required level of quality. On August 30, 2007, Via Maris received the final permit to operate (PTO) to manufacture in said output.

First expansion of the plant: In March 2009, an agreement was executed with the State for the supply of the additional quantities of an additional 5 million cubic meters per annum on an immediate basis (Stage A) and of an additional 10 million cubic meters per annum after 14 months (Stage B). In April 2009, Via Maris began the immediate supply of an additional 5 million cubic meters per annum and in April 2010 it completed the expansion of the plant to supply the additional 10 million cubic meters per annum. The permanent permit to operate for manufacturing in the output of 45 million cubic meters a year was received in July 2010.

In August 2009, Via Maris signed a financing agreement with the bank, in reference to several credit facilities for Via Maris, to finance approx. 90% of the expansion costs in the amount of approx. $20 million. In addition, further credit in the

amount of approx. NIS 85 million was extended to Via Maris for the financing of the repayment of the shareholder loans.

In May 2011, Via Maris signed an agreement with the State, to supply additional quantities of desalinated water from the surplus capacity of the Desalination Plant, over and above the existing engagement. The agreement was frozen by the State on November 1, 2012.

Second expansion of the plant: On October 30, 2011, an agreement was signed between the concessionaire company and the State to double the Desalination Plant's output to a total annual production scope of approx. 90 million cubic meters (the "**Additional Expansion**"). Pursuant to the agreement, the output's doubling will be done in two stages: by the end of 2012, approx. one half of the additional output will be added and the balance will be completed by July 13, 2013. The overall scope of investment in the project is estimated at approx. $100 million. Via Maris's annual revenues for the addition of desalinated water will exceed the full increased amount by approx. NIS 95 million, as described above. Insofar as Via Maris will fail to meet the timetables set forth in the agreement, penalties will be imposed thereon for the delay as provided in the agreement.

Via Maris completed the first part of the expansion in a timely manner and received a temporary permit to operate for manufacturing in the output of 68 million cubic meters per year.

Financing agreements of Via Maris: Following are details of the average interest rate on long and short term bank loans, for the financing of Via Maris Desalination as of December 31, 2012 and December 31, 2011:

	2012		**2011**	
	Book value in NIS in thousands	**Average interest rate**	**Book value in NIS in thousands**	**Average interest rate**
Bank sources, long-term, in NIS, index-linked , fixed interest	309,215	5%	325,541	5%
Bank sources, long-term, in NIS, variable interest	201,927	3.3%	113,690	4.2%
Bank sources in foreign currency	121,139	4.6%	-	
Total of loans from banking corporations	632,281		439,231	

In 2005, Via Maris Desalination Ltd. (the "**Concessionaire Company**") signed an agreement with Bank Hapoalim (the "**Bank**") for the provision of the senior financing required for the foundation of the Desalination Plant, at an overall scope of approx. NIS 315 million (the "**Original Financing Agreement**").

In August 2009, in the context of implementation of the plant's expansion plan, Via Maris executed a new financing agreement with the Bank, incorporating the provisions of the Original Financing Agreement as well. Accordingly, the Bank provided financing facilities, in NIS and foreign currency, for the financing of up to 90% of the costs of the first expansion, which was completed. The balance of the financing was provided by the shareholders of Via Maris, by way of providing inferior shareholders' loans.

The financing agreement stipulates various provisions, representations and undertakings, including compliance with minimal financial ratios as follows:

Required ratio	**Ratio as of December 31, 2012**
Debt coverage ratio – 1.10:1	1.23
Fixed payment to fixed expense ratio – 1:1	1.17
Loan term coverage ratio – 1.15:1	1.22

Repayment of the senior debt during the operation period will be made according to a pre-fixed payment schedule, in semi-annual payments until 2028.

On January 30, 2012, an additional financing agreement was executed between the parties, for the purpose of carrying out the project of the additional expansion of the Desalination Plant, which incorporates the provisions of the Original Financing Agreement, as amended on August 13, 2009 and December 30, 2010 (the "**Consolidated Financing Agreement**"). It should be noted that the Consolidated Financing Agreement is a credit agreement which is material to the Company, as defined in Legal Position no. 104-15 of the ISA dated October 2011.

The principal provisions of the agreement are as follows:

The plant's expansion is financed through construction loans and through shareholders' loans from the shareholders of Via Maris (GES) at a ratio of 20:80 during the construction period.

The Consolidated Financing Agreement includes senior debt facilities from the Bank for two terms of financing for the Concessionaire Company: In the construction period – short term loans with variable interest in three tracks: NIS, Euro and US Dollars (based on the Bank of Israel interest, Euro LIBOR and US Dollar LIBOR, respectively).

	Amount of Loan Facility	**Currency**	**Interest**
Construction loan in NIS	NIS 225 million	NIS non-linked	Prime + 0.65%
Construction loan in Dollars	Approx. $16 million	USD	US Dollar LIBOR + 4.40%
Construction loan in Euros	Approx. €25 million	EURO	Euro LIBOR + 4.40%

The operation period – 24 months from the date of receipt of the full permit to operate for the additional expansion (PTO Phase C) the short-term loans will be converted into a long-term NIS loan in the amount of NIS 400 million at a fixed interest linked to the index (to the last index known on the conversion date), the price of which, as of the Report Date, is 4.35% (the "**Conversion Date**").

Repayment of the senior debt in the operation period will be according to a pre-determined payment schedule, in bi-monthly payments until 2028.

On the Conversion Date, the required financing's reduction (Take-Out) will be performed from the shareholders at the rate of 5% of the amount invested in the construction against an increase in the scope of the senior debt, such that the leverage ratio due to the new expansion will be 85:15 and the leverage ratio due to the entire facility will be 80:20. The said capital reduction will be performed subject to conditions stipulated in the agreement, mainly the provision of a guarantee and compliance with a minimal coverage ratio.

On March 1, 2012, upon the closing of the Consolidated Financing Agreement as specified below, Granite's execution of, *inter alia*, the following documents, guaranties and undertakings took effect: (1) Granite's guaranty to perform GES's undertakings by virtue of a direct undertaking issued by GES and Via Maris vis-à-vis the Bank.

On March 1, 2012, the Consolidated Financing Agreement was closed as aforesaid. GES made the required equity available and Granite provided a performance guaranty in the scope of approx. 10% of the consideration amount.

Pursuant to the Consolidated Financing Agreement, all of Via Maris's property, assets, shares, rights, in relation to the Bank accounts, its intellectual property assets and the concession agreements and insurance policies are pledged to the Bank.

For further details on Via Maris financing agreements see Note 20 of the financial statements in Chapter C of this Report.

11.27. **Changes in the purchase of desalinated water**

After the completion of the construction of two large desalination facilities in Soreq and in Ashdod and the expansion of existing desalination facilities in Ashkeon and Hadera, the quantity of desalinated water available to the State will increase. Following the increase, as aforesaid there is a future possibility of changes in the demand for desalinated water. However, as long as the water shortage in Israel persists, GES does not expect a decrease in the purchase of the desalinated water quantities.

11.28. **Customers**

The Company’s business in the water and wastewater segment does not depend on a single customer or a limited number of customers, whose loss will materially affect this operating segment. However, it should be mentioned that the Company's operations in the desalination segment are influenced by government policy and are dependent on, *inter alia*, the demand level for desalinated water and the scopes of anticipated State purchases.

11.29. **Production**

GES production is concentrated in two sites: Akko South and Askar (in the Akko area) which are leased from Tambour. In the water and wastewater division, GES is capable of manufacturing, simultaneously, in a large number of plants. In the chemicals division, according to GES policy, no fixed inventory is produced, but in accordance with customer orders and forecasts.

11.30. **Fixed assets, property and facilities**

11.30.1. Property

As aforesaid, GES production plants are concentrated on two sites which are leased from Tambour. Via Maris, which is a subsidiary of GES, entered into a lease contract with third

parties for the lease of areas in the proximity of Kibbutz Palmachim. The leased property includes a main area of approx. 30 dunam, on which the Desalination Plant was established, an area of 22.3 dunam which is held for option holding fees for the purpose of future expansion, out of which were exercised, over the years, approx. 4,500 sqm, and an additional area of approx. 3.6 dunam on which the transformation station was established. The term of the lease of all of the areas is 24 years and 11 months, beginning from February 2005.

11.30.2. Machines and equipment

GES has several water treatment facilities in the context of BOT and BOO agreements with the private segment. The cost of establishment of the facilities is reduced throughout the period of the operation contract. GES has machines and equipment used to produce chemicals and an evaporation plant for industrial wastewater treatment located on the production site in Akko south. GES's subsidiary – Dan Viro Ltd. ("**Dan Viro**"), has a sanitary sludge treatment plant in the Dan Metropolitan wastewater plant (The Dan Region Wastewater Treatment Plant). As of November 2011, the plant is operated, as a commercial pilot by Dan Viro, for a period of at least 3 years after which it will be transferred to the ownership of the Dan Metropolitan conurbation (The Dan Region Wastewater Treatment Plant). With regard to the discontinuation of use of the plant after the Report Date, see Section 11.31.1 below. The subsidiary of GES – GES Facility Operation Ltd. has a wastewater treatment facility which treats the wastewater of Akko and the surrounding area. The facility is undergoing an expansion process which is expected to end in 2014.

11.31. **Environmental risks and manners of management thereof**

11.31.1. Environmental Risks of Material Effect

GES fully treats industrial wastewater, which are created in the production of chemicals at GES's production site South Akko, in accordance with the law's provisions and the requirements of the Ministry of Environmental Protection and the Urban Union for Environmental Protection. Additionally, GES handles poisonous and hazardous substances within its business operation of manufacturing products in the segment of chemicals for industry and water and within the maintenance of GES's water and wastewater treatment facilities. GES has valid poison permits and a hazardous substances approval. The operation of the desalination of sea water at Palmachim also entails, *inter alia*, the use of hazardous substances. Accordingly, the plant operates pursuant to a valid poison permit from the Ministry of

Environmental Protection. In addition, as part of the desalinated water production process at the sea water Desalination Plant at the Palmachim site, salts (desalination concentrate) are created which are discharged by Via Maris into the sea, in accordance with a valid discharge permit from the Ministry of Environmental Protection.

After the Report Date, on February 19, 2013, Dan Viro received the letter of the Director of Public Health Services at the Ministry of Health, which was sent to the National Coal Ash Board, on the use of the Dan Viro facility product – N-Viro sludge.

In his letter, the Health Services Director is demanding to receive research work on agricultural use of N-Viro sludge, in order to perform a risk assessment pertaining to its use, and to terminate the marketing of agricultural produce in which the Dan Viro facility product was used.

Upon receipt of such notice and in view of the practical significance of the aforesaid – the lack of distribution destinations in view of the uncertainty facing farmers, the Company terminated the use of the facility and is acting in order to clarify matters and remove the restriction. In such context, the Company is performing tests and providing data to the Ministry of Health in order to advance the removal of the restriction which was created. At this preliminary stage, it is not possible to assess the scope of the effect of the notice on GES.

11.31.2. Material implications of the legal provisions on GES

GES's business in the water and wastewater segment is subject to the environmental regulation which is relevant to the operating segment. The water and wastewater business is performed under the supervision of the Ministry of Health which performs routine tests to examine the quality of the water which is generated in the treatment facilities and the Desalination Plant, and under the supervision of the Ministry of Environmental Protection and the Water Authority pertaining to the quality of the treatment of the wastewater in the treatment facilities and compliance with the generation permit. In addition, in the context of this activity, supervision is exercised also by government authorities such as the Water Commission and the Water Economy Administration.

On GES's chemical production site there is a wastewater treatment facility. The plant handles the production site's wastewater and customers' wastewater which is transported to the site with the approval and supervision of the Ministry of Environmental Protection.

In addition, since a large slice of GES's activity is based on the use of chemicals, GES is supervised by the Ministry of Environmental Protection and by the municipal authorities and is committed to protection of the environment and working according to the environmental standards, laws and regulations of the Ministry of Environmental Protection and relevant conurbations.

11.31.3. Material legal proceedings in connection with the environment

For a specification of material legal proceedings in connection with the environment see Note 34 of the financial statements in Chapter C of this Report.

11.32. **Limitations and supervision of the activity**

11.32.1. Specific laws which apply to the activity

The water and wastewater unit

This activity in Israel is subject to the legal provisions which regulate the environmental protection issue, the main ones of which are the Water Law, 5719-1959, which sets forth a list of provisions pertaining to the preservation of the water sources and prevention of water pollution. In addition, the water and wastewater unit is affected by the Water and Sewage Corporations Law, 5761-2001, which mainly targets ensuring a level of proper service, quality and credibility for consumers at reasonable prices, ensuring the designation of revenues to investments in the segment and regulating the business and professional management of the municipal sewage and water economy.

Palmachim sea water Desalination Plant

The Desalination Plant's operation is subject to the provisions of various environmental laws, pertaining to, *inter alia*, the prevention of contamination of water sources, the assurance of the sanitary quality of drinking water and the matter of hazardous substances. Among the laws applicable to the plant's operation are: The Water Law, 5715-1955, which stipulates various provisions for the prevention of water sources' contamination, the People's Health Ordinance, 1940, the People's Health Regulations (the Sanitary Quality of Drinking Water), 5764-1974, the Business Licensing Law, 5728-1968 and the regulations thereunder, the Hazardous Substances Law, 5753-1993 and the regulations thereunder, the Overland Sources Law and the regulations thereunder, the Environmental Protection Law (Emissions and Transfers to the Environment – Reporting and Recording Obligation),

5772-2012, the Protection of Coastal Environment Law, 5764-2004, the Clean Air Law, 5768-2008, etc.

Pursuant to the terms of the business license granted to the Desalination Plant, it is provided that the plant is required to comply with a threshold level of water alkalescence. As of the date of this Report, the plant does not comply with the required level due to an inconsistency between the required levels and the original planning characteristics of the plant, and the Ministry of Health is aware of this issue. In July 2012, the Knesset's Internal Affairs and Environmental Protection Committee (the "**Committee**") approved the People's Health Regulations (the Sanitary Quality of Drinking Water), 5771-2012 (the "**People's Health Regulations**") which will replace the People's Health Regulations (the Sanitary Quality of Drinking Water) 5734-1974. Pursuant to the People's Health Regulations, operational and other changes may be performed in the Desalination Plant's activity. According to the language of the regulations which was approved by the Committee, and the business license which the Desalination Plant received, the Desalination Plant is obligated to comply with a threshold level of water alkalescence which is higher than such level for which the plant was designed and for which it is prepared, in terms of land area and technology. However, the Director of the Water Authority may, at his discretion, exclude a desalination plant from the aforesaid requirement and determine a different method for water stabilization to minimize pipe corrosion. In addition, the Director of the Water Authority can obligate a desalination plant to conduct a pilot of adding magnesium to the desalinated water in the method and for the period determined by him. As of the Report Date, based on GES's estimation (through Via Maris Desalination), the People's Health Regulations may have an effect on the manner of activity of GES's Desalination Plant in Palmachim, as aforesaid. As of the Report Date, the Company is unable to assess such effect.

GES holds all of the licenses and permits which are required by law, as aforesaid.

The Palmachim Desalination Plant continuously invests in acts which are related to environmental issues and compliance with the provisions of the environmental laws and statutes which apply thereto. The costs of the environmental protection acts are included in the context of the plant's activity budget, while most of the amount is invested in reducing environmental risks and prevention of damage to the environment.

Chemical Segment

This activity is subject to legal provisions which regulate the environmental protection issue, primarily the Hazardous Substances Law, 5753-1993.

Other Business and Information on the Granite Group in its Entirety

11.33. General information

The Granite Group has several different businesses which are not included in the operating segments described above, and from which revenues is immaterial to Granite Group:

Tourism activities – the Mini Israel site

The Granite Group holds a 50% stake as a limited partner in the limited partnership, which built and operates the unique tourist site known as “Mini Israel”, where miniature models of well-known sites in Israel are on display.

Communications infrastructure activities

Granite holds 60% of the rights in Green Anchors Ltd. ("**Green Anchors**"), which leases real estate assets and sub-leases them to as many wireless communications parties as possible, primarily, mobile phone companies ("**Telecommunications Operators**") and provides Telecommunications Operators with civil engineering services.

11.34. Human capital

Granite's management is headed by Granite's CEO. The CFO, General Counsel and Company Secretary report to Granite's CEO. The Company's CEO also serves as the Chairperson of the Board of Directors in major subsidiaries in the Group. There are approx. **3,100** employees at Granite Group. Some of the employees are employed pursuant to provisions of collective bargaining agreements, some are employed under personal agreements while the employment terms of those remaining are mostly based on provisions of the labour laws.

Granite Group has a director and officer insurance policy. In addition, officers at Granite, Sonol, Supergas, Tambour and GES receive letters of exemption and indemnification as approved by the organs of the aforesaid companies and in accordance with the law.

11.35. Financing

11.35.1. Financing sources

Granite finances its activity from bank loans and monies received from the issuance of non-negotiable shares and bonds to institutional investors.

In addition, Supergas provided Granite with a loan whose balance, as of the Report Date, is approximately NIS 256 million, originating from a bond issue in Supergas, see 1.35.4 below.

11.35.2. Loans and interest rates at Granite Group

Details of the average interest rate and the effective interest rate on long-term and short-term loans, from bank sources and non-bank sources, in the Granite Group, including Via Maris, as of December 31, 2012 and December 31, 2011, are as follows:

As of December 31, 2012:

	Long-term			Short-term		
	Amount (NIS in thousands)	**Average interest rate**	**Effective interest rate**	**Amount (NIS in thousands)**	**Average interest rate**	**Effective interest rate**
Non-bank sources – index linked	657,616	5%	5%			
Bank Sources – index linked	441,273	4.1-5.4		1,472	4	4
Bank sources –dollar linked	33,123	4.78		134,631	3.85-4.85	
Bank sources – Euro linked	90,521	4.65				
Bank sources – NIS	834,282	3.2-5.7		1,147,075	2.65-4.35	
Total financial liabilities	2,056,815			1,283,178		

(1) Net of issue costs.

As of December 31, 2011:

	Long-term			Short-term		
	Amount (NIS in thousands)	**Average interest rate**	**Effective interest rate**	**Amount (NIS in thousands)**	**Average interest rate**	**Effective interest rate**
Non-bank sources – unlinked	10,000	4.75				
Non-bank sources – index linked	730,076(1)	4.2-6.3	4.2-6.3	1,400	4	4
Bank Sources – index linked	454,477	1.07-6		1,400	4	4
Bank sources –Dollar linked	314	8-15		112,840	2.4-5.3	
Bank sources – NIS	585,649	4.25-7.6		1,029,432	3.65-5.3	
Total financial liabilities	1,788,298			1,143,672		

(1) Net of issue expenses.

11.35.3. Credit facilities

On December 13, 2012, Granite entered into an agreement with Mizrahi Tefahot Bank Ltd., for receipt of credit in the total amount of NIS 300 million for the purpose of debt refinancing and adjustment thereof to the source cash flow by extending its average lifetime. The credit comprises a loan in the amount of NIS 200 million for 6 years, semi-annual

principal payments and quarterly interest payments, and a two-year loan of NIS 100 million. At the time of provision of the credit, existing loans in the total amount of NIS 220 million were repaid. To secure the debt, Granite pledged to the bank all of Tambour's shares held thereby, which constitute 98.5% of Tambour's issued and paid-up share capital, and undertook not to pledge any assets to others, so long as the short-term loan shall not have been repaid. Granite undertook to comply with covenants determined in the agreement, including minimum equity, equity to assets ratio and a credit limit. The agreement provides for a gradual mechanism for release of the pledge.

The subsidiaries have long-term loans from banks and short-term credit facilities which are agreed with the banks in the amount of approximately NIS 1.5 billion, out of which the total of approximately NIS 500 million are signed facilities. The credit balances which have been used as of the Report Date amount to NIS 1.15 billion. The average interest rate applicable to said facilities is Prime+0.7%. Due to the high financial costs of receipt of letters with respect to existing credit facilities the subsidiaries have decided not to request facility confirmation letters for all of the short term credit. Nonetheless, the Company, based on the management of the Granite company, believes that when necessary, the banks will grant to the companies the credits required thereby for their operations. This information is prospective and based on Granite’s assessments in accordance with its many years of experience in working with the banks. However, for reasons of a change in policy, change in the economic situation, etc. there is no certainty that, when needed, the banks will grant Granite, including all of the companies in the Granite Group, all of the requested credit, due to reasons of a change in policy, a change in the economic situation and so forth. It should be noted that short-term credit from banks generally bears unlinked shekel interest, at variable interest which is a function of the Prime interest rate. The Prime interest rate varies monthly according to determination of the Bank of Israel.

11.35.4. Liabilities and restrictions of Granite vis-à-vis the banks.

The balance of the credit which remained from a loan which Granite took upon the acquisition of Tambour as of December 31, 2012, amounted to approx. NIS 22 million. Tambour shares which were pledged in favor of securing the debt were released.

11.35.5. Bonds issued by the Granite Group

In July 2007, a subsidiary of Supergas, to which were transferred the domestic gas activity and some of the commercial gas activity for marketing gas in portable gas containers, issued to institutional investors by way of private placements, NIS 600 million of bonds. For details see Note 20B(4).

Series 3 Bonds

The bonds are non-negotiable, index-linked, and bear semi-annual interest at 5.7% per annum. The balance of the bonds, as of the Report Date, is approx. NIS 27 million and will be paid in June 2013. The bonds are rated A with a stable outlook by S&P Maalot ("**Maalot**"). To secure repayment of the abovementioned bonds, six fuelling stations, the Sonol office building, and a lot which is adjacent to a fuelling station, are pledged.

11.35.6. Series 4 Bonds

The bonds are non-negotiable, index-linked and bear semi-annual interest at 6.35% per annum. The balance of the bonds, as of the Report Date, is approx. NIS 16 million and will be paid in August 2013. The bonds are not secured and they are rated A by Maalot with a stable outlook.

11.35.7. Liens and guaranties

A floating charge, unlimited in amount, on all of the assets of Sonol and Supergas (including the fixed assets thereof), and a fixed charge on their uncalled and/or unpaid share capital, reputation, securities and mortgaged documents have been placed in favour of the banks financing its operation. Pursuant to the floating charge Sonol and Supergas undertook not to create additional charges without the consent of the banks and subject to the conditions as set forth in the bonds. To the best of the Company's knowledge, there is an inter-bank agreement between the banks holding the charges, according to which they are holding the liens *pari passu* on the assets of Sonol and Supergas as aforesaid. Additionally, there is a first-ranking fixed charge, unlimited in sum, on Sonol's proprietorship rights in several realties in favour of the Company's bondholders.

For details as to the liens created by Supergas due to the issuance of bonds by a subsidiary of Supergas, see Section 1.35.5 above.

For details as to the lien on Via Maris's assets, see Section 1.26.3.4 above.

As aforesaid, all of Granite's holdings in Tambour are pledged to Mizrahi Bank to secure a loan in the amount of NIS 300 million.

To secure the liabilities of Tambour vis-à-vis the banks for credit, Tambour provided the following collateral in favour of the banks: (1) a first ranking mortgage, unlimited in amount, on approx. 100 dunam in Akko, which is registered in favour of the banks in equal ranking (*pari passu*); (2) a first ranking fixed charge, unlimited in sum, on the outstanding share capital and on its reputation and a first ranking floating charge on its plant, its business and all the assets and rights of any kind whatsoever that Tambour has or will have at any time in the future; (3) a first ranking pledge, unlimited in amount, of Tambour's holdings in the shares of Tambour Distributions Ltd. ("**Tambour Distributions**"); (4) a first ranking floating charge on the plant of Tambour Distributions, its business and all the assets and rights of any kind whatsoever that Tambour Distributions has now and will have at any time in the future and a first ranking fixed charge on the outstanding share capital of Tambour Distributions and on its reputation. With regard to the liens placed by Tambour as aforesaid, it was decided that the proceeds from the sale of the Company's assets will be distributed *pari passu* according to the extent of its debts to the banks.

In addition, Tambour undertook to create a permanent lien in an unlimited amount on all of the equipment of the gypsum boards plant owned by Tambour. In addition, Tambour undertook to sign a perpetual guarantee, unlimited in sum, to secure all of Tambour's debts and liabilities vis-a-vis the banks.

With regard to additional guarantees given by the Granite Group, see Note 33 to the Company's financial statements in Chapter C of this Report.

11.36. **Legal proceedings**

The Granite Group is a party to many legal proceedings, including class actions that have been filed against the Granite Group. For details regarding the material legal proceedings of the Granite Group, see Note 34 to the Financial Statements of the Company in Chapter C of this Report.

11.37. **Goals and business strategies at the Corporation level**

The Granite Group is concentrating its business on its core activities, to strengthen the standing of the portfolio companies in their respective fields. Expansion of activity in paint and building finishing, projects in the fields of energy and ecology, such as the treatment of water and industrial wastewater, sea-water desalination, “green” electricity production based on solar energy and integration in the field of infrastructures, conveying and marketing of natural gas.

Part Six - Azrieli Group - Additional Business

12. Azrieli Group - Additional Business

12.1 Investments in available for sale financial assets in the banking and finance segment

12.1.1 Investment in Leumi Card

12.1.1.1 On May 26, 2008, the Company invested the sum of NIS 360 million, as a passive financial investment, in Leumi Card Ltd. ("**Leumi Card**") (the total investment less a dividend received as of the Date of the Report, is NIS 350 million), and in consideration for which Leumi Card issued shares to the Company representing 20% of the issued and paid-up capital of Leumi Card (post money and on a fully diluted basis) (the "**Investment Agreement**"). The Company's investment in Leumi Card is presented on its books as an available for sale financial asset, according to GAAP. The value of the Company's investment in Leumi Card as of December 31, 2012, in accordance with an independent valuation was approx. NIS 514 million.

Within the framework of the Investment Agreement, the Company undertook to comply with and fulfill regulatory requirements to be imposed, if any, on the shareholders of Leumi Card, in its capacity as an Auxiliary Corporation, as this term is defined in the Banking Law (Licensing), 5741-1981. To the best of the Company's knowledge, as of the Date of the Report, no regulatory requirements as aforesaid have been imposed on the Company.

On May 6, 2010, for the purpose of clarifying the lack of material effect of the Company on Leumi Card, the Company's board of directors decided to irrevocably waive the Company's voting rights in connection with two percent (2%) of the issued and paid-up capital of Leumi Card held thereby, such that, in view of the said waiver, the Company is holding 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

12.1.1.2 Within the framework of the Investment Agreement, the Company and Leumi Card undertook to one another, *inter alia*, as follows:

a. **Recommendation on the appointment of directors** – The Company will be entitled to recommend the appointment of two directors to the board of directors of Leumi Card, as well as their removal from office and the appointment of others in their stead, with one director serving as an outside director according to the provisions of Proper Conduct of Banking Business. The agreement provides that should the Company's holdings decline to less than 20% due to a sale of shares or transfer thereof to an unauthorized third party, or less than 18% as a result of a private placement of Leumi Card shares, or less than 15%, the Company will be entitled

to recommend the appointment of only one director. The Company's right to appoint directors shall expire in the event that its holdings decline to less than 10% due to a sale of shares or transfer thereof to an unauthorized third party or in any other event in which its holdings decline to less than 8%. On May 6, 2010, further to the said resolution of the same date, the Company's board of directors resolved to irrevocably waive the right to recommend the appointment of another director to Leumi Card, as an outside director. As of the Date of the Report, only one director holds office on behalf of the Company on the board of directors of Leumi Card, which comprises 12 directors (4 of whom are outside directors).

b. **Letter of indemnification** – In the agreement, the Company granted Leumi Card a letter of indemnification, under conditions back-to-back with the conditions of the letter of indemnification provided by Bank Leumi in favor of the directors holding office at Leumi Card (and as long as it shall not have been changed without the advance written consent of the Company), whereby in any event in which Leumi Card will be obligated to indemnify the directors holding office therein on behalf of the Company, the Company will indemnify Leumi Card, upon receiving its written demand, for any amount paid by Leumi Card as aforesaid.

c. **Rights upon a transfer of shares** – The Company will have the right to tag along in a sale and/or transfer of control in Leumi Card to a third party who is not an authorized transferee of Leumi Financial Holdings Ltd. ("**Leumi Holdings**"), Leumi Card's controlling shareholder, until the occurrence of certain events which are specified in the agreement, such as a public offering. In addition, Leumi Holdings was granted a right of first refusal and a bring-along right vis-à-vis the Company upon a transfer of shares.

d. **Shareholder financing –** The parties have undertaken to provide financing to Leumi Card proportionately to their holdings at such time, pursuant to a resolution of the board of directors of Leumi Card. The agreement sets forth dilution formulae for the dilution of a party which does not finance its share as aforesaid.

On May 24, 2010, the board of directors of Leumi Card approved a dividend policy whereby a dividend in a sum equal to 30% of Leumi Card's net current profit shall be distributed, subject to the directives of the Supervisor of Banks, to regulatory directives and to the requirements of the Companies Law. Further to the requirement of the Supervisor of Banks with respect to capital adequacy targets, the dividend distribution policy was changed and on May 22, 2011, Leumi Card's board of directors determined that distribution of a dividend will be possible subject to risk appetite restrictions and the

supervision requirements. Accordingly, the board of directors of Leumi Card approved, on February 23, 2012, the distribution of a dividend to the shareholders of Leumi Card in the sum total of NIS 40 million from Leumi Card's profits in 2011, which was distributed on March 29, 2012. Leumi Card's financials are publicly posted on Leumi Card's website and are available for inspection at the following link:

https://www.leumi-card.co.il/he-il/GeneralPages/Pages/FinancialReport.aspx

12.1.1.3 Concurrently, on May 26, 2008, the Company entered into a cooperation agreement with Leumi Card for the establishment of a program for the benefit of customers of the commercial centers and malls owned by the Company and/or affiliates of the Company, whose members would hold a Leumi Card card conferring special benefits and services (the "**Loyalty Program Agreement**").

The Loyalty Program Agreement regulates the relationship between the parties, and, *inter alia*, sets forth provisions with regards to the terms of the loyalty card to be issued to the customers of the commercial centers and malls of the Company and its design, including the Company's rights to the loyalty program trademark and the member database, and registration thereof in its name.

On January 7, 2010, the Company entered into a licensing agreement with Leumi Card for the use of trademarks, whereby the Company granted Leumi Card an exclusive license to use all of the trademarks registered in the Company's name in connection with the "Multi Azrieli" mark, in connection with the operation and advertising of the loyalty program. The license is effective throughout the term of the Loyalty Program Agreement and subject to the conditions thereof. During 2011, the Company registered the trademark "Multi Azrieli" with the Registrar of Patents, Designs and Trademarks at the Ministry of Justice, including the registration of the Leumi Card as a licensee of the "Multi Azrieli" trademark, in accordance with the said licensing agreement.

In the agreement, the Company undertook to employ a management team to manage the Program's activities throughout the term of the agreement, at an annual cost that shall not exceed the amount of NIS 250,000, to be financed by Leumi Card. In addition, the Company neither has had, nor expects to have any revenues or benefits in connection with the Loyalty Program Agreement.

To the best of the Company's knowledge, as of the Date of the Report, the Loyalty Program comprises approx. 146,000 valid loyalty cards, out of, to the best of the Company's knowledge, approx. 2.14 million valid credit cards that are held by Leumi Card customers.

The loyalty card provides discounts on products of some of the Group's companies, and at the parking lots adjacent to the Azrieli malls.

12.1.2 Investment in Bank Leumi

On April 30, 2009, the Company acquired from third parties, unaffiliated with the Company, as a passive financial investment, ordinary shares of Bank Leumi, a banking corporation whose shares are listed on TASE, representing approx. 4.8% of the issued and paid-up share capital of Bank Leumi, in consideration for a sum total of approx. NIS 742 million (as of the Date of the Report, the total investment less a dividend received is approx. NIS 676 million). The value of the Company's investment in Bank Leumi as of December 31, 2012 was approx. NIS 895 million. As of the Date of the Report, no change has occurred in the said holdings of the Company. The Company's investment in Bank Leumi is presented on its books as an available for sale financial asset, according to GAAP, and as of the Date of the Report, no decision has been made by the Company in connection with an increase or decrease of such holdings.

In 2012, the Company recorded a total profit (before tax) of approx. NIS 124 million due to this investment. For details, see Section 1.2.4 of the Board of Directors' Report.

The acquisition of the Bank Leumi shares was financed through loans taken by the Company. On the date of the acquisition, on April 30, 2009 (the "**Acquisition Date**"), the share price was 1,055 (agorot). As of December 31, 2012, the share price was 1,267 agorot, whereas on March 14, 2013, the share price was 1,304 agorot.

12.1.3 In 2012 Bank Leumi did not distribute a dividend to its shareholders; the total amount of dividends received from the date of investment due to Bank Leumi's shares is NIS 67 million. Bank Leumi's financials are publicly posted on the distribution website of the ISA at www.magna.isa.gov.il and on the TASE website at www.tase.co.il.

12.2 Investments in high-tech start-up companies and investment funds

The Company from time to time invests in various high-tech start-up companies with a special emphasis on the medical, telecommunications, software and other such segments, which, in its estimation, have a large market potential and reflect innovation in their segments. The Company's investments in risk capital are made in amounts that are immaterial to the Company, with the intention of disposing of these investments upon the sale of the target company, the sale of its technology or its issue to the public. As a general rule, most of the Company's investments are in companies that have undergone the preliminary stage of development of the products and/or the services thereof. These investments are risk-intensive, and their results depend, *inter alia*, on many external factors over which the Company has no control.

As of December 31, 2012, the Company has invested in approx. 8 active investment funds and start-up companies, which are presented at fair value in the sum of approx. NIS 20,088 thousand, as compared to a fair value in the sum of approx. NIS 16, 737 thousand as of December 31, 2011. Additionally, the Company has invested a total sum

of approx. NIS 42,828 thousand in approx. 7 start-up companies, the investment in which was fully amortized in the Company's Financial Statements.

12.3 **Holdings in other foreign companies**

As of the Date of the Report, the Company holds, through Otsem, full ownership of Azrieli Insurance Corporation in Barbados, which serves as a reinsurer for companies that provide property insurance services. As of the Date of the Report, Azrieli Insurance Corporation provides reinsurance services only with respect to insurance granted to the Group's companies.

In addition, the Company holds approx. 3.8% of the issued and paid-up share capital of Health and Fitness East Med. B.V., which operates the "Holmes Place" chain of fitness centers in Greece.

In 2012 the Company exercised a PUT option for the sale of its entire holdings (approx. 6.41%) in the issued and paid-up share capital of Health and Fitness Central Europe B.V, which operates fitness centers of the "Holmes Place" network in various European countries, at a price equal to its total (unrecovered) investment in the company plus annual interest of 5%.

Part Seven: Matters Common to the Group's Activities in All of its Operating Segments[25]

13. Fixed assets, land and facilities

The Company's offices are situated on the 48th floor of the Round Tower in Azrieli Center in Tel Aviv. The Company leases its offices, a gross area of 1,520 sqm, from Canit Hashalom for a long-term period, for immaterial amounts.

The Group has no substantial fixed assets.

14. Intangible assets

The Company and the Group companies' primary trade mark is a designed mark which includes the inscription "Azrieli Malls Group", in addition to the name of the mall and/or relevant commercial center, and the Group's logo:

As of the Report Release Date, the Company has registered many trademarks, in the format as described above, in the Trademarks Register of the Patents, Designs and Trademarks Authority which is maintained by virtue of the Trade Marks Ordinance [New Version], 5732-1972 in connection with services in the Group's operating segment and services ancillary thereto.

As of the Report Release Date, the Company owns approx. fifty registered trademarks, in the format described above and forthe trademark Multi Azrieli, in respect of all of the malls and commercial centers owned by the Group. In addition, the Group filed additional applications for registration of trademarks that are still in the process of registration and review, mainly due to new properties and properties under construction, including an application to register trademarks (including a 3D trademark) of the shape of the ball that appears at the entrance to some of the Company's malls, which is under registration process.

Registration of trademarks is valid for 5 years and can be renewed, in a resolution of the Company, for additional periods of 10 years each, without restriction.

For details regarding the Company's trademark "Multi Azrieli" within the framework of the Company's loyalty program and Leumi Card, see Section 12.1.1.3 of the Report.

15. Human capital

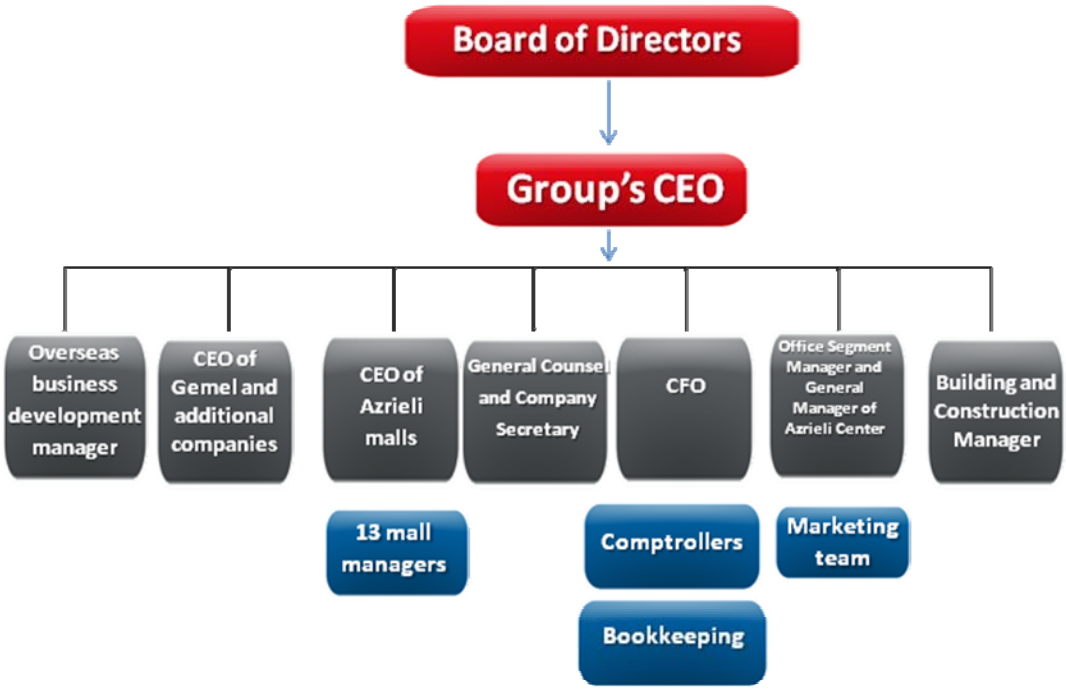
15.1 General

The Company places special emphasis on the quality of human capital, particularly at the Company's management level, by hiring a professional workforce with vast knowledge and experience in a variety of fields which are required within the framework of the Company's operating segments. Most of the Company's employees, mainly at its management level, have significant seniority in the Company, and vast experience in its operating segments.

[25] The provisions of this part four "Matters Common to the Group's Activities in All of its Operating Segments" do not include the Granite Hacarmel operating segments unless explicitly stated otherwise.

15.2 Organizational structure and workforce

The diagram below describes the Group's organizational structure:



As of December 31, 2012, the Group companies (excluding employees hired in the Granite operating segment) employ 236 employees. The segmentation of the employees is detailed below:

Department	Number of Employees as of December 31, 2012	Number of Employees as of December 31, 2011
Management Headquarters	**36**	**32**
Commercial Centers and Malls Segment	**135**	**131**
Office and Other Space for Lease in Israel Segment	**63**	**62**
Income-producing property in the U.S. Segment*	**2**	**1**
Total	**236**	**226**

* One employee from the management headquarters is attributed to the income-producing property in the U.S. segment.

The Group's management and headquarters employs 36 employees, including the Active Deputy to the Chairman of the Board of Directors, Vice Chairman of the Board of Directors, the Group's CEO, CFO, General Counsel and Company Secretary, CEO of Azrieli Malls and Manager of the Offices Segment and CEO of Azrieli Mall. The people that belong to the Group's managerial headquarters are people with vast managerial experience, who have been by the Group's side for many years. The Company's representatives serve on the boards of directors and committees of the Group Companies and maintain current contact with the Group companies'

management. 135 employees work for the Group's commercial centers and malls segment, of which 118 work on the management and maintenance teams of the commercial centers and malls, which engage in the current management of the commercial centers and malls, and 17 employees provide marketing services to all of the Group's commercial centers and malls.

63 employees work in the office and other space for lease in Israel segment, of which 59 work on the segment's management and maintenance teams which engage in the current management of the offices, and 4 engage in the provision of marketing services.

As of the Date of the Report, the income-producing property in the U.S. segment is managed by the Company's headquarters and the Overseas Business Development Manager. Management services and other services are provided to the Group in this segment by local professional management companies.

As of the Date of the Report, there are, between the Company and the Group companies, cooperation and agreements in connection with the provision of management services between themselves, including, *inter alia*, financial advice, strategic advice and current management advice, in consideration for a monthly payment. In addition, there are management agreements with the Group companies which derive, in part, as a percentage of such company's total expenses. The total payments that were made between the Group companies (including a management agreement between Granite Hacarmel and Canit Hashalom) for these management services, in 2011 and 2012, amounted to the sum of approx. NIS 33.1 million and approx. NIS 36.1 million, respectively.

15.3 **Investing in training, instructing and developing the human capital**

The Group companies hold training and instruction workshops from time to time for their employees in accordance with the employee's position and the Group's needs, in order to ensure that employees have adequate training. Employees of the Group companies keep abreast of fields touching on their responsibilities in the Group, from time to time, by participating in exhibitions, seminars, conferences and professional courses.

15.4 **Benefits given to employees and the nature of the employment agreements**

Employees in this Group are hired pursuant to personal contracts and no collective bargaining agreements apply.

The employment conditions of the Group's employees include, in some cases, *inter alia*, *per diems*, travel expenses / car maintenance / making a vehicle available to the employee, managers insurance / pension fund, advanced training fund, annual leave, recuperation pay, basic health insurance, payment for global overtime, reimbursement of expenses and a 13th salary.

Additionally, the Group's third party insurance policy is an extended policy that includes coverage for professional liability for the management companies and the Company's employees who are professionals, with a liability cap of $2 million per incident and per insurance period, as part of the policy's liability cap.

In addition to the above, all of the Company's and the Group Companies' liabilities are covered in respect of the employees' social rights and termination of the employment relationship by deposits that are made in severance pay funds and insurance policies

and/or provisions that exist on the Company's books. For a description of the Company's liabilities in relation to the employees' social rights and termination of the employment relationship, see Note 21 to the Company's Financial Statements.

15.5 **Hiring officers and senior management employees in the Group**

As of the Date of the Report, members of senior management in the Group are hired as employees under personal employment agreements or through management agreements. For further details regarding employment agreements of senior officers in the Group, see Section 21 of Chapter D of the Report.

As aforesaid, the Group's business has developed, *inter alia*, on the basis of the know-how and vast experience accrued thereby over many years in the income-producing property in Israel segment, utilizing the experience and expertise of its main controlling shareholder, Mr. David Azrieli, who founded and established the Company from its inception. The Company estimates that the activity, status, contacts, professionalism within the Company's operating segments and vast experience of Mr. David Azrieli, the Company's controlling shareholder and Chairman of the Company's Board of Directors, confer upon the Company, *inter alia*, knowledge and an advantage in its operating segment and are among the success factors that contributed to the Company's business results and which had and still have a positive effect on its success and activity during the report period. Therefore, in the Company's estimation, Mr. David Azrieli, who serves as Active Chairman of the Company's Board of Directors, has made a significant contribution to the Company's development and to its success in the Report Period, due to Mr. Azrieli's know-how, expertise, experience and contacts. In addition, Mr. Menachem Einan who serves as Active Deputy to the Chairman of the Board of Directors, and served as the Group's CEO for many years alongside Mr. Azrieli, has also made a significant contribution to the Group due to his know-how, expertise, experience and contacts. Over the many years that the Group has been in operation, Mr. Azrieli and Mr. Einan have trained a senior management team which has served in this role for over a decade and which has led the Group during its development in recent years. Therefore, the Company estimates that although cessation of provision of the services by either Mr. David Azrieli or Mr. Menachem Einan to the Group may have a short-term effect on the Company until a replacement is found with the appropriate credentials, their ending their roles would not materially affect the Group's business results.

15.6 **The Group's employee compensation plan**

For details regarding the allotment of phantom units to officers and employees of the Company, see Note 23 to the Financial Statements as of December 31, 2012, in Chapter C of this Report.

For details concerning the compensation plan for senior officers and employees of Granite Hacarmel and its subsidiaries and affiliated companies, see Note 23 to the financial statements.

16. Working capital

16.1 **Working capital**

As of December 31, 2012, the Group has positive working capital (without Granite) in the sum of approx. NIS 1,339 million compared with positive working capital in the

sum of approx. NIS 368 million, as of December 31, 2011. The decrease in the working capital mainly derives from use of the IPO proceeds managed in marketable security portfolios for the financing of the acquisition and construction of investment property, from long-term loans for the Azrieli Center, with less than one year to maturity, as well as from the decision of the Company's management, at this point, to finance its activity through short term credits, considering the business opportunity of low rates of interest on these credits.

The company estimates that should it decide to exchange the said credit for long term credit at any point in time, it would be able to do so and therefore the aforesaid working capital deficit does not affect its ability to timely repay its liabilities.

It is the Company's intention to refinance the Azrieli Center loans whose balance as of the Date of the Report is apporx. NIS 932 million and whose payment due date is August 2013.

For details regarding the Company's liquid means and its credit raising possibilities, see Section 1.5 of the Board of Directors' Report.

16.2 **Customer credit**

In the income-producing property segment there is no customer credit since the lease agreements with tenants contain provisions for payment of rent in advance and for monthly or quarterly periods. The Group collects the rent pursuant to the terms and conditions of the lease agreement, usually, by way of a standing order, bank transfers and postdated checks. The tenants, before the handing over of the leased premises thereto, provide securities for performance of their undertakings pursuant to the lease agreements and the management agreements (bank guarantees, deposits, promissory notes, personal guarantees, etc.). The cases in which rent is not paid in advance are immaterial to the Group.

16.3 **Suppliers credit**

The Company receives credit from its suppliers (primarily contractors and maintenance service providers) for average periods ranging from 15 to 60 days, after the requested service has been completed (on average - a period of approx. 45 days). The scope of credit from suppliers in the Group (excluding Granite Hacarmel), as of December 31, 2012, amounted to approx. NIS 59 million, compared with a sum of approx. NIS 77 million as of December 31, 2011.

The data concerning the Group’s working capital do not include financial data in Granite Hacarmel's operating segment. For details concerning the working capital of companies in the Granite Hacarmel Group, see Sections 11.10 and 11.23 of the Report.

17. **Financing**

17.1 **General**

The Group finances its activities from independent resources, from bank credit from financial institutions and non-bank credit, including through the issue of bonds from institutional bodies that are not listed on TASE.

The Group’s financing section below does not include data in connection with financing in Granite Hacarmel's operating segment. For details concerning Granite

Hacarmel's financing (mostly Via Maris Desalinated Ltd., a company in the Granite Hacarmel Group), see Sections 11.26.3 and 11.35 of the Report.

The Group has long-term liabilities to banking corporations and non-bank financing sources amounting, as of December 31, 2012, to the sum of approx. NIS 4.3 billion (including current maturities). Most of the agreements include provisions pursuant to which the Company has the right to prepayment which is contingent, in most cases, upon the payment of a prepayment fine to the financing entity. Additionally, the loan agreements with banking corporations contain certain conditions, upon the occurrence of which, the banks may accelerate the loan amounts (primarily in the case of restructuring and a change of control in the Company, delinquent payments, receivership, and an adverse change in the value of the securities, if and insofar as securities were provided). To the best of the Company's knowledge, as of the Report Release Date, the conditions for acceleration of the loans have not been fulfilled.

For details concerning the financial liabilities of the Group (excluding Granite) as of December 31, 2012, see Section 1.5 of the Board of Directors' Report. For details concerning projected payments per year, see T-126 as of March 20, 2013 which is published concurrently with this Report.

For further details concerning the Company's financing in general, see the Board of Directors' Report attached to this Report in Chapter B.

17.2 The Group's loan balance (not intended for specific uses) as of December 31, 2012

Set forth below is a specification of the average interest rate and the effective interest rate (which as detailed below, on the Date of the Report, is identical to the average interest) on long-term loans and short-term loans that were in effect during 2012, and which are not intended for specific uses by the Group, while distinguishing between bank credit sources and non-bank credit sources:

As of December 31, 2012						
	Long-Term Loans			**Short-Term Loans**		
	Amount (NIS in thousands)	**Average Interest Rate**	**Effective Interest Rate**	**Amount (NIS in thousands)**	**Average Interest Rate**	**Effective Interest Rate**
Non-bank Sources - Index Linked Financing	1,091,441	4.86%	4.86%	--	--	--
Banking Sources - Index Linked Financing	474,592	4.74%	4.74%	--	--	--
Banking Sources - NIS Financing	25,000	5.5%	53.5%	--	--	--
Non-Bank Sources - NIS Financing	**--**	**--**	**--**	**331,751**	**2.43%**	**2.43%**
Total Financial Liabilities	**1,591,034**	**4.83%**	**4.83%**	**331,751**	**2.43%**	**2.43%**

17.3 Reportable credit made available to the Company

Set forth below is a specification of the balances of the material loans that were provided to the Company as of December 31, 2012 (NIS in thousands).

The following data include specific reference to material loans only, in accordance with legal position 104-15 of the ISA regarding reportable credit[26]:

Date of provision of the Loan	Designation of the Loan	Type of Loan			Balance (including current maturities) as of December 31, 2012 (NIS in millions)	Type and rate of annual interest	Linkage	Guarantees / collateral (NIS in thousands)	Date for payment of long-term loans
		Banking corporation	Short-term	Long-term					
January 2010	Acquisition of Haifa Mall	Banking Corporation A		X	206	4.2%	Linked to the consumer index	1) Fixed charge on the Company's rights in Azrieli Haifa Mall. 2) Fixed charge on the Company's rights in the lease agreements in Azrieli Haifa Mall; 3) First-ranking floating charge on all of the Company's rights in Azrieli Haifa Mall.	**Until October 2019**
June 2009	Acquisition of Givatayim mall	Banking Corporation A	X		161	Prime-0.6%	Not Linked	1) Undertaking to register a mortgage. 2) First-ranking pledge of contractual rights deriving from the mall. 3) First-ranking fixed charge on all of the rights deriving from the mall. 4) First-ranking floating charge on all of the rights in the mall. 5) Undertaking not to create a floating charge on all of the assets without receipt of the banking corporation's consent.	---
June 2009	Acquisition of Givatayim Mall	Banking Corporation A		X	135	3.2%	Linked to the consumer index	1) Undertaking to register a mortgage. 2) First-ranking pledge of contractual rights deriving from the mall. 3) First-ranking fixed charge on all of the rights deriving from the mall. 4) First-ranking floating charge on all of the rights in the mall. 5) Undertaking not to create a floating charge on all of the assets without receipt of the banking corporation's consent.	**Until December 2013**
March 2009	Acquisition of Givatayim Mall	Banking Corporation A		X	278	4.7%	Linked to the consumer index	1) Undertaking to register a mortgage. 2) First-ranking pledge of contractual rights deriving from the mall. 3) First-ranking fixed charge on all of the rights deriving from the mall. 4) First-ranking floating charge on all of the rights in the mall. 5) Undertaking not to create a floating charge on all of the assets without receipt of the banking corporation's consent	**Until March 2017**
March 2007	Current needs	Banking Corporation B		X	358	4.75%	Linked to the consumer index	Undertaking not to create a floating charge on all of the assets without receipt of the banking corporation's consent	**Until March 2017**

The Company has other non-material loans from banking corporations whose balance on the books, as of December 31, 2012, is approx. NIS 0.4 billion. These loans bear interest ranging between 4.25% and 5.8%, which shall be paid in 2013-2020. There are no financial covenants for these loans or for the material loans.

The Company undertook vis-à-vis some of the banking corporations not to create a floating charge on all of its assets without receipt of their consent, and that in the event of a breach vis-à-vis the banking corporations, they will be entitled to accelerate also other loans that shall have been given to the Company.

[26] Legal position no. 104-15: Reportable Credit Event, of October 30, 2011, *http://www.isa.gov.il/Download/IsaFile_6187.pdf*.

As of December 31, 2012, the total short-term and long-term credit received from Bank Hapoalim amounts to the sum of approx. NIS 487 million thousand, and the total short-term and long-term credit received from Bank Leumi amounts to the sum of approx. NIS 931 million.

As of December 31, 2012, the sum total of the Company's short-term loans taken thereby from banking corporations amounted to approx. NIS 161 million, and long-term to NIS 1,328 million.

As of December 31, 2012, the scope of the Group's non-pledged investment property is in the sum of approx. NIS 7.6 billion, as specified in Section 1.5 of the Board of Directors' Report, out of the sum total of the Group's income-producing properties in the sum of approx. NIS 15.9 billion.

17.4 Reportable credit made available to the Group Companies

Set forth below is a specification of the balances of the material loans that were provided to the Group companies as of December 31, 2012 (NIS in thousands):

Borrower Corporation	Date of Provision of the Loan	Designation of the Loan	Type of Loan			Balance as of December 31, 2012 (Company's share) (NIS in millions)	Annual Interest Rate	Linkage	Guarantees NIS in thousands/ Pledge	Date of Payment of Long-Term Loans
			Banking Corporation / Financial Institution	Short-Term	Long-Term					
Canit Hashalom	August 2001	Azrieli Center	Banking Corporation B		X	285	6%	Linked to the consumer index	Mortgage and Undertaking Not to Create a Floating Charge. The loan is secured by all of the collateral that was or shall be given to the banking corporation and any breach of another undertaking vis-à-vis the banking corporation confers a right to accelerate the loan.	**Until August 2013(1)**
Canit Hashalom	August 2001	Azrieli Center	Banking Corporation A		X	516	5.975%	Linked to the consumer index	Mortgage and Undertaking Not to Create a Floating Charge	**Until August 2013(1)**
Shareholders in the property[27]	February 2011	Acquisition of Three Galleria	Financial Institution A		X	481	5.998%	US Dollar	Pledge of the property and all of the rights relating thereto and deriving therefrom. Guarantee of the Company, forfeitable only in several specific instances defined in the loan agreement. The Company's undertaking to indemnify the financer for its damage in the event of certain breaches of the buyer's undertakings in the loan agreement	**Until February 2021**
AG Plaza At Enclave LLC	January 2012	Acquisition of a property in Huston	Foreign financial institute		X	261	3.6% fixed	US Dollar	(2) Pledge of the property and all of the rights relating thereto and deriving therefrom. Guarantee of the Company, forfeitable only in several specific instances defined in the loan agreement. The Company's undertaking to indemnify the financer for its damage in case of certain breaches of the Buyer's undertakings in the Loan Agreement.	**February 1, 2017**

(1) It is the Company's intention to act for the purpose of re-financing the balance of the said loans for the Azrieli Center.

(2) On January 10, 2012, a U.S. corporation indirectly held at the rate of 100% by the Company (in this Section: the "**Buyer**"), engaged with a U.S. financial institution (in this Section: the "**Financer**"), whereby the Financer will provide the Buyer with a loan in the sum of approx. U.S. $70 million, for the purchase of a property in Houston, Texas, the details of whose purchase are described in Section 1.3.3.1 of the Report. For further details regarding the property, its financing and the agreement for the purchase thereof, see the Company's reports dated January 1, 2012 (ref. no.: 2012-01-000444) and January 11, 2012 (ref. no.: 2012-01-012534).

The Group has other non-material loans from banking corporations whose balance on the books, as of December 31, 2012, is approx. NIS 0.3 billion. These loans bear interest ranging between 2.4% and 7%, which shall be paid in 2013-2021. There are no financial covenants for these loans or for the material loans.

As of December 31, 2012, the Group companies' total long-term and short-term credit received from Bank Hapoalim amounts to the sum of approx. NIS 441 million, and the sum total of the Group companies' long-term credit received from Bank Leumi amounts to the sum of approx. NIS 523 million.

[27] The loan was taken by Three Galleria Office Buildings, LLC, which is indirectly held 90% by the Company. The amount of the loan is in respect of 100% of the loan.

17.5 Non-Bank Financing for the Company

17.5.1 Commercial papers

17.5.1.1 As of the Date of the Report and as of the Report Release Date, the liabilities balance in respect of issuing commercial papers which the Company has issued to various commercial entities amounted to a sum of approx. NIS 132 million. For details regarding the CPs which the Company has issued, see Note 20 to the Financial Statements as of December 31, 2012 and the Company's immediate report of January 12, 2012 (ref. no.: 2012-01-013743)).

17.5.2 The Company's Series A Bonds

As of the Date of the Report the balance of the par value of the Company's Series A Bonds in circulation, is NIS 555 million. For details regarding the CPs which the Company has issued, see Note 20 to the Financial Statements as of December 31, 2012. For further details regarding the current credit rating of Series A bonds, see Section 17.11 of the Report.

17.6 Non-Bank Financing for the Group Companies

17.6.1 Series A Bonds of Canit Hashalom

As of the Date of the Report, the balance of the par value of the Series A Bonds of Canit Hashalom in circulation, is approx. NIS 355 million. For details regarding the PCs which the Company has issued, see Note 20 to the Financial Statements as of December 31, 2012. For further details regarding the current rating of the Bonds (Series A), see Section 17.11 of the Report. For details regarding the Company's undertakings with respect to the rating report for the Bonds (Series A) of Granite Hacarmel, see Regulation 11 in Chapter D of this Report.

17.6.2 Inter-Company Loans

Set forth below is a specification of the balances of loans provided between the Group companies as of December 31, 2012 (NIS in millions) in amounts exceeding NIS 20 million:

The Lending Corporation in the Group	The Borrowing Corporation in the Group	Date of Provision of the Loan	Original Loan Amount (NIS in millions)	Last Date For Payment	Annual Interest	Linkage	Balance Of Loan Amount As Of 31.12.12
Canit Hashalom (1)	Gemel Tesua	January 2009	74	January 2014	---	---	**74**
Canit Hashalom (2)	Gemel Tesua	April 2005	771	June 2015	---	---	**555**
Canit Hashalom (2)	Otzma Investments	April 2005	85	June 2015	---	---	**51**
Canit Hashalom (3)	**AG Galleria Office Buildings LP**	February 2012	99	Not yet determined	Libor+ 7.1%	U.S. $	**106**

*For a description of the balances of the loans provided by the Company to the Group companies, see Section 11 of Part D of the Report.

(1) Against the loan, Gemel Tesua issued a capital note in the sum of NIS 74 million to Canit Hashalom, bearing neither interest nor linkage, and the date of payment thereof will be no earlier than January 1, 2014, although the parties may agree to postpone the payment date. Payment of the capital note is not secured by any collateral and is inferior to other Gemel Tesua undertakings and precedes only the distribution of surplus assets upon dissolution.

(2) For details on the bonds that were assigned to Canit Hashalom, see Section [_] of the Report.

(3) The loan is in the sum of approx. U.S. $28 million.

17.7 **Credit Restrictions**

17.7.1 The Series A bonds issued by the Company included an undertaking not to distribute dividends to the Company's shareholders if the credit rating may be prejudiced. For further details, see Section 17.5.2 of the Report.

17.7.2 For a description of Canit Hashalom's undertaking in connection with the issue of the Series A bonds vis-à-vis the bondholders and the rating company, see Section 17.6.1 of the Report.

17.7.3 For the purpose of securing sufficient liquidity for payment of the commercial papers, the Company has undertaken to keep an amount of no less than approx. NIS 200 million in a deposit, which may not be offset against a bank loan, at a bank whose short-term rating is P-1 and/or in State of Israel bonds, free and clear of pledges, until the date of payment of the commercial papers.

As of December 31, 2012, and as of the date of release of the Report, the Company meets all of the restrictions imposed thereon as stated above.

17.8 **Credit Facilities**

As of the Date of the Report, the Group has not been provided with any binding credit facilities or non-binding credit facilities.

17.9 **Bank and Non-Bank Credit Received Between the Date of the Financial Statements as of December 31, 2012 until Close to the Report Release Date**

No such credit had been received.

17.10 **Loans that were repaid between the date of the Financial Statements as of December 31, 2012 and close to the Report Release Date:** During the period between the Financial Statements as of December 31, 2012 and the Report Release Date, short-term loans from banks in the sum of approx. NIS 105 million have been paid, over and above current payments in accordance with the payment schedule of each loan.

17.11 **Credit Rating**

17.11.1 Rating of the Company's Series A Bonds:

Rating Company	Date of the Rating	The Rating	Comments
Maalot	March 2007	AA	
Maalot	May 2009	AA	The rating is on the monitoring list with negative implications
Maalot	December 2009	AA – stable outlook	The Company was removed from the monitoring list
Maalot	December 2010	AA – outlook positive	
Maalot	November 2011	AA stable	
Maalot	**December 2012**	**AA stable**	**Present rating**
Midroog	March 2007	Aa2	
Midroog	August 2010	Aa2 stable outlook	
Midroog	June 2011	Aa2 stable outlook	
Midroog	**June 2012**	**Aa2 stable outlook**	**Present rating**

To inspect Maalot's annual monitoring report, see the Company's immediate report of December 13, 2012 (ref. 2012-01-299292). To inspect Midroog's annual monitoring report, see the Company's immediate report of June 28, 2012 (ref. 2012-01-170247).

17.11.2 Rating of the Company's Commercial papers:

Rating Company	Date of the Rating	The Rating	Comments
Midroog	July 2009	P-1	
Midroog	June 2011	P-1	
Midroog	**June 2012**	**P-1**	**Present rating**.

To inspect Midroog's annual monitoring report, see the Company's immediate report of June 28, 2012 (ref.: 2012-01-170247).

17.11.3 Series A Bonds of Canit Hashalom

Rating Company	Date of the Rating	The Rating	Comments
Midroog	June 2005	Aa2	
Midroog	August 2010	Aa2	
Midroog	June 2011	Aa2, stable outlook	
Midroog	**June 2012**	**Aa2, stable outlook**	**Present rating**

To inspect Midroog's annual monitoring report, see the Company's immediate report of June 28, 2012 (ref. 2012-01-170442).

17.12 **Pledges**

For details regarding various pledges which were created by the Company and the Group's companies for the securing of their liabilities, see Note 33 to the Financial Statements as of December 31, 2012.

17.13 **Guarantees**

In the ordinary course of business, at the request of the Company (excluding Granite Hacarmel)'s, bank guarantees are issued by banking corporations in connection with its properties, including guarantees to secure the undertakings of the Company and the Group companies, and performance guarantees which, as of December 31, 2012, are in the aggregate sum of approx. NIS 72 million. For information regarding additional guarantees which the Company (excluding Granite Hacarmel) has issued, *inter alia* in relation to the financing of the acquisition of properties overseas, see Sections 4-7 of Note 33 to the Financial Statements as of December 31, 2012.

17.14 **Credit at Variable Interest**

The Group has several loans from banking sources in credit at variable interest. Most of the credit was taken in Shekel currency linked to Prime or Bank of Israel interest, and the remainder in foreign currency linked to the LIBOR, plus a margin determined in relation to each loan. The foregoing credit changes in accordance with changes in the LIBOR interest or the Prime or Bank of Israel interest.

Set forth below is a specification of the range of (nominal) interest for the periods of the Report, as well as the interest rate in proximity to the Report Release Date in respect of the loans at variable interest:

Type of Credit	Currency	Scope of the Credit in Proximity to the Report Publication Date (NIS in millions)	Interest Rate in Proximity to the Report Publication Date (in %)	Interest Range in the Reported Periods (in %)		
				December 31, 2012	December 31, 2011	December 31, 2010
Bank Credit	NIS	160	2.65%	2.65%	3.55%-3.85%	2.9%
Non-Bank Credit	NIS	332	2.35%-2.55%	2.35%-2.55%	3.35%-3.55%	2.6%-2.8%
Bank Credit	Pound Sterling	27	2.31%	2.43%	3.19%	2.475%

The Company's management estimates that the Company and/or the companies of the Group will be required to raise additional resources for the purpose of re-financing the credit for the Azrieli Center in Tel Aviv, and insofar as required, according the Company's decision, also for the purpose of its business operations and the continued construction of the projects under construction.

17.15 **Regulatory Implications**

The instructions of the Supervisor of Banks in Israel include borrower group limits and "individual borrower" that affect the provision of credit beyond certain scopes, relative to the total liability of one group of borrowers and total liabilities of the six largest borrowers of the bank. Azrieli Group, together with Granite Group, and companies controlled thereby may be considered a one "group of borrowers" for this purpose.

However, it should be noted that insofar as is known to the Company's management, as of the Date of Report, a borrower limit does not apply to the Azrieli Group and/or Granite.

18. Insurance

The Company's insurance policies for the insurance of property and liability include insurance policies which cover certain risks in the Group's properties, up to the amounts set in such policies. These policies include: all-risks property insurance at reinstatement value, which includes coverage of fire, machinery breakdown, electronic equipment, loss of rent and loss of profits from machinery breakdown, terror and war insurance, third party liability insurance, employers' liability insurance, contractor work insurance and crime insurance.

The amounts of the Group's property insurance were determined thereby according to its estimation, and the insurance policies are reviewed periodically by the internal auditor and the audit committee.

For details regarding the insurance coverage applicable to the Company's officers, see Note 38 to the Financial Statements as of December 31, 2012.

19. Taxation

For details regarding the tax applicable to the Company and the Group companies (including Granite Hacarmel, see Note 31 to the Financial Statements.

20. Environmental risks and the management thereof

In the framework of its activities, the Group is required, *inter alia*, to meet the Ministry of Environmental Protection's conditions and requirements, including in the field of land which may be expressed, *inter alia*, in the framework of approval of zoning plans and building permits, but also during the construction process itself and even thereafter. The Group companies are liable, by virtue of their owning or leasing land, under certain circumstances, pursuant to law, to the provisions of the environmental laws, including pursuant to the Water Law, 5719-1959, the Business Licensing Law, 5728-1968 and the Hazardous Substances Law, 5753-1993, the Planning and Building Law, 5725-1965, including the Planning and Building Regulations (Environmental Impact Surveys), 5763-2003, Abatement of Nuisances Law, 5721-1961, Sewage and Water Corporations Rules (Waste from Plants Discharged into the Sewage System), 5771-2011, Maintenance of Cleanliness Law, 5744-1984, Preservation of the Coastal Environment Law, 5764-2004, and the regulations promulgated thereunder, etc. To the best of the Group's knowledge, these conditions, as of the Date of the Report, had no material ramifications on the Group's business or business results, including its capital investments, profit and its competitive position.

In this context it is noted, that as of the Report Release Date, several bills are pending which, if passed, will affect the Group's business, including: the Prevention of Soil Pollution and Treatment of Polluted Soil Bill, 5771-2011.

It shall be noted that in recent years, environmental activity, in Israel and worldwide, has significantly increased, as expressed, *inter alia*, in supervision and enforcement by government agencies and activity by environmental organizations. In the Group's estimation, this trend is expected to continue in the coming years. The Group is investing many resources in ensuring its compliance with the provisions of the environmental laws that apply thereto, and is acting to prevent and minimize the environmental risks from its activity.

The Group's policy is to comply with the provisions and requirements of the law, including the environmental laws, as well as the requirements of the various supervisory bodies. For this purpose, professional environmental consultants are assigned to each project of the Group, who assist the Group and advise it throughout the project.

Complex at the Check Post intersection in Haifa - In accordance with the information leaflet that was received from the City of Haifa, the lot that is located at the Check Post intersection in Haifa may be affected by hazardous substances, and the Company may be required by the Ministry of Environmental Protection to carry out various tests on the soil in the framework of the planning and building proceedings on the land.

Azrieli Akko Mall complex –Due to the proximity to the Strauss plant, in which there are ammonia refrigeration systems, the Group installed, *inter alia*, various means of sealing, prevention and alarm in the property, according to the requirements of the competent authorities and as a condition to the population and operation thereof. On January 8, 2013, the appeal which was filed by the Ministry of Environmental Protection against the receipt of a certificate of occupancy for the property was dismissed without prejudice. For details, see Note 34(e) to the financial statements.

Sarona Azrieli Center – During the licensing process required for the construction work in the complex, various soil and groundwater tests were required. The Company carried out the tests and forwarded the findings to the authorities and is awaiting receipt of the appropriate approvals. The Company will be required to perform various actions in accordance with the instructions of the competent entities in connection with the treatment of the soil and fossil water.

Rental space for cellular - In some of the Group's income-producing properties, the Group leases space to the cellular companies (the "**Leased Space**") for the purpose of installing and operating cellular antennas and/or miniature transmitters (the "**Telecommunications Equipment**"). In accordance with most of the agreements between the Company and/or the Group's management companies and the cellular companies, responsibility for obtaining all of the approvals required by law to set up and operate the antennas and/or miniature transmitters, and responsibility for complying with the various environmental protection laws lies with the cellular companies, including holding, so long as they lease the Leased Space, the approval of the Radiation Commissioner at the Ministry of Environmental Protection regarding instructions and restrictions relating to the use of the Telecommunication Equipment, and acting in accordance with this approval, and they also undertake to comply with the safety instructions that shall be published by the Company or the management companies. Additionally, in the framework of these agreements, the cellular companies undertake to indemnify and compensate the Company and/or the management companies for any damage and/or expense that shall be caused as a result of the cellular companies' activities on the Leased Space, and for their liability by law for any act or omission of the cellular companies, and they undertake to insure their liability under the law for any damage and/or harm that may be caused to a third party. Finally, pursuant to the provisions of most of the agreements as stated above, each cellular company undertake to cooperate with the other cellular companies with which the Company has engaged, with respect to the operation of the Telecommunications Equipment in the Leased Space.

Treatment of Waste water from Businesses in Azrieli Holon Mall and in Azrieli Tel Aviv Mall – In 2011, warnings prior to the institution of legal proceedings pursuant to the Abatement of Environmental Nuisances Law (Civil Claims), 5752-1992 were sent to the Company, claiming that deviations were found, at the Company's malls in Holon and in Tel Aviv, in the values of the waste discharged into the municipal sewage system. The Company

responded that it has no knowledge of the alleged existence of the said nuisances, and that the Company places great importance on environmental issues and uses a professional consultant for this purpose.

For further details regarding the environment in Granite Hacarmel's operating segment, see Sections 11.11, 11.13.9, 11.24 and 11.31 of the Report.

21. **Restrictions and Monitoring the Corporation**

Below is a brief overview of the laws, regulations, orders, restrictions and requirements with which the Group is obligated to comply in its various operating segments:

21.1 **In Israel**

21.1.1 Activity in the field of real estate

The Company's activity in Israel is subject to the land laws, including in relation to land taxation and lease and borrowing laws, as well as directives and contracts of the Israel Land Administration and Local Authorities, planning and building laws and environmental laws.

21.1.2 General laws concerning the Group's operating segments

In the framework of its activities, the Company and the Group companies are subject to municipal bylaws in each one of the local authorities in which the Group's income-producing properties are located, insofar as relevant, including regarding the opening and closing of businesses. In addition, the Group is subject to the Prevention of Smoking and Exposure to Smoking in Public Places Law, 5743-1983.

Additionally, some of the Group companies purchase electricity from the IEC at high voltage according to the IEC's tariff for the purchase of high voltage electricity, and supplies the electricity to tenants according to the IEC's low voltage tariff. To the best of the Company's knowledge, as of the Date of the Report, the Ministry of National Infrastructures and the Public Utilities Authority are acting to regulate the licensing of electricity distribution in the commercial centers and malls throughout the country.

21.1.3 Business Licensing

In the framework of the Group companies' activities, some of the Group companies are required to obtain a business license pursuant to the Business Licensing Law, 5728-1968. In addition, in the lease agreements in which the Group engages with the various lessees, the lessee is required to hold a lawful business license for the operation of its business in the property. To the best of the Company's knowledge, as of the Date of the Report, all of the Group's buildings have the permits and licenses required pursuant to this law, except for the offices in Petah Tikva, the business license for which expired on December 31, 2012, and which the Group is acting to renew the same.

21.1.4 Antitrust

In the framework of expansion of the Group's activities, *inter alia*, by acquiring shares in companies that are companies owning the rights in real properties, the Company and the Group companies are required, under certain circumstances, to approve the merger pursuant to the Restrictive Trade Practices Law, 5748-1988.

On January 8, 2012, the Company withdrew the merger application it had filed with the Antitrust Authority for approval of the acquisition of the "Ir Yamim" Mall in Netanya, in view of the Company's not consenting to the conditions presented by the Antitrust Authority for approval of the transaction. In accordance with the aforesaid, the closing condition for the acquisition of the "Ir Yamim" Mall was not fulfilled.

On November 25, 2012, the Antitrust Commissioner announced his objection to the acquisition of the One Plaza power center in Beer Sheva by the Company, despite the preliminary approval granted by him prior to the execution of the agreement. On January 20, 2013 the Group filed an appeal from this decision with the Antitrust Court.

21.2 **Outside Israel**

The Group's activities in the USA and in England are subject to the laws and regulations in the said countries and *inter alia* in the field of land, planning and building and lease, the environment and laws on the municipal level and in connection with land taxation.

For further details regarding restrictions and monitoring of Granite Hacarmel's operating segment, see Sections 11.12, 11.13, 11.25 and 11.32 of the Report.

22. Material Agreements and Collaboration Agreements

The Group is a party to collaboration agreements with third parties with respect to some of the projects within the Group's activities.

Excluding agreements which were specified in this Chapter, in the Additional Details Chapter and in the Notes to the Financial Statements of December 31, 2012, the Company is not a part of any material agreements which are not in the ordinary course of business.

23. Legal Proceedings

As of the Date of the Report, the Company and/or the Group companies are not a party to pending material legal proceedings, except as specified in this Report and in Note 34 to the Company's Financial Statements as of December 31, 2012. For details regarding the Company's appeal on the decision of the Antitrust Commissioner see Section 21.1.4 above. In addition, as of the date of this Report, the Company and/or the Group companies are conducting various proceedings, as determined by law, *inter alia*, for the resolution of demands received from the various local authorities in respect of mandatory payments and levies, in a total amount that is immaterial to the Company, and in respect of which no provisions have been made in the Company's financial statements due to the low probability thereof, in the opinion of the Company's outside advisors, under the circumstances.

24. Goals and Business Strategy

As a leading company in its operating segments, the Company focuses on real estate investments. The Group's business strategy is primarily to continue to expand its extensive activity in the segments of commercial centers and malls and office and other rental space in Israel and overseas. The Company intends to continue to act for the expansion of its business, as aforesaid, by acquiring land for the development and construction of properties and/or acquiring additional properties and/or improving existing properties and promoting plans of building and expansions, while exploring business opportunities in related operating segments on a current basis and preserving high financial strength and a relatively low leverage level:

The Company estimates that expansion of the Group's extensive business in the commercial income-producing real estate in Israel sector will be, *inter alia*, through its main growth engines, including the projects that are in the planning and building phase, and through the purchase of land, the development and construction of malls and commercial centers and office buildings and know-how-intensive industrial parks throughout the State of Israel, while considering areas in demand, large population centers, primary traffic intersections and good accessibility to public transport.

The Company focuses, on a current basis, on improving the Group's existing properties, and acts to optimize the utilization of its commercial space and create a suitable and contemporary tenant mix, increase the number of visitors while maintaining and even improving the attractiveness of its malls and retail centers and increasing the tenants' revenues, as well as continuing to offer management services to its properties through the Group's management teams, maintaining the level of its tenants and renewing the lease agreements therewith for additional long-term periods.

The Company reviews, from time to time, the business opportunities in Israel and overseas in relation to the expansion of its activity, mostly in the real estate segments which constitute its core business. Concurrently, it also explores related real estate segments such as senior housing. One of the Company's goals is investment of not more than approx. 15% of the value of the Company's investment property in Western countries (mainly the U.S.) with a high investment rating. Furthermore, the Company reviews from time to time additional options to expand its segments of activity in other fields of business, while taking advantage of market conditions and/or crisis conditions in leading, cash generating target companies. In addition, the Company regularly reviews the holdings which are not at the core of its activity in the field of property. On October 16, 2012, the Company released a presentation which was presented in an investors conference, within which it specified a strategic plan for 2013-2016 (see the Company's immediate report of October 16, 2012 (ref. 2012-01-256701), as amended on November 1, 2012, ref. 2012-01-270033).

For details concerning Granite Hacarmel's strategy and goals, see Section [_] of the Report.

The Company's objectives as of the Report Release Date are based on the management's estimates in connection with the market conditions as of such date, and there is no certainty that the aforesaid will indeed materialize. For further details, see the Board of Directors' Report in Chapter B of this Report.

25. Forecast for Development

As the Company reported in the past, during the Report Period until the Report Release Date, the Group has continued exploring business opportunities, in Israel and overseas, in connection with the expansion of its business, mainly in the real estate segment,. In addition, the Company

may, from time to time, look into further possibilities for expanding its operating segments, As of the Date of the Report, the Company is holding initial contacts only with several entities, there being no certainty that they will develop into negotiations. The Company shall report in the future insofar as developments shall occur which mandate a report by law.

26. Discussion of Risk Factors

In the Company's estimation, the Group is exposed to several fundamental risk factors deriving from the economic environment and the Group's unique characteristics. In addition to the aforesaid risk factors, the Group is exposed to general risk factors which affect the economy as a whole, without having any other unique effect on the Company, such as the condition of the economy and the market in the U.S. and Israel, and the security situation in Israel, 'which, should they adversely change, might harm Company's results. For further details regarding the market risks to which the Company is exposed, and the way of management thereof, see Note 36 to the Financial Statements as of December 31, 2012.

It is clarified that the information concerning risk factors to which the Group is exposed is forward-looking information. The Company's expectations with respect to this issue are based on past experience, the Group's familiarity with the markets in which it is active and its estimations in relation to its economic and business development. However, the Group's expectations and forecasts may not be realized, *inter alia* due to dependence on external factors that are beyond the Group's control and which are detailed below:

26.1 Macro Economic and Financial Risks

26.1.1 The growth and consumption rates in Israel – the Company's activity is dependent, *inter alia*, on the growth of the Israeli economy and the per capita consumption rates, which affect the demand for the Company's income-producing properties and the soundness of the tenants of the Group's properties and their ability to fulfill their undertakings thereto.

26.1.2. A change in the building inputs index - An increase in the building inputs may affect the price of the Company's engagement with sub-contractors. While construction costs are usually linked to the building inputs index, income is usually linked to the consumer price index. Therefore, the Company may be exposed to negative effects in the event of changes in these indexes.

26.1.3 Changes in the economy's interest rates - Changes in the economy's interest rates and the banking corporations' conditions for provision of bank credit may affect the Group's financing costs in relation to each project, the yield from the properties, the value of the income-producing properties and the Group's profitability.

26.1.4 Regulatory changes in the Company's business environment – the Group's activity is exposed to various regulatory limitations, including in accordance with the antitrust law, the securities law, corporate law and the supervision on banks law. Stricter regulation in areas pertaining to the Company, as well as possible implications of further regulatory changes might reduce and/or limit the Company's activity through, *inter alia*, organizational changes and the imposition of conditions on the Company's business activity and financial holdings. In addition, the Company is exposed, in the Granite Hacarmel segment to regulatory changes which apply from time to time with respect to its products, including the supervision of its products' prices and regulatory

limitations on engagements in relation to fueling stations and the marketing of LPG. Furthermore, limitations might be imposed on Tambour on the grounds of being a monopoly.

26.1.5 Changes in the value of financial investments available for sale – In view of the condition of the capital market in Israel, the Company is exposed, to a certain extent, to adverse changes in the value of the companies in which it has invested as a financial asset available for sale. Impairment of these companies may adversely affect the value of negotiable investments which affect the comprehensive income of the Company and its equity.

26.2 **Industrial Risks**

26.2.1 A decline in the demand for rental space – A decline in the demand for rental space and/or renewal of existing lease agreements may lead to a decline in occupancy rates in the Group's properties and a decline in income from rent and will necessarily harm the Company's business results.

26.2.2 A decline in the rent prices – A decline in the demand for rental space together with competition becoming fiercer in the industry may lead to erosion of the Company's rent and harm its financial results.

26.2.3 Strength of main tenants – Damage to the financial strength of tenants, and particularly main tenants, may lead to an increase in provisions for doubtful debts or alternatively, termination of lease agreements and/or eviction of tenants from the Group's properties, and therefore to a decrease in the Group's income from rent and necessarily harm the Company's business results.

26.2.4 Competition - The income-producing commercial property segment in Israel is subject to significant competition. For details regarding the effect of the Group's competitors on its business results, see Sections 8.4 and 9.3 of the Report.

26.2.5 Approvals from the authorities – Activity in the income-producing property segment is characterized by the need to obtain permits from various entities at the different authorities, particularly in the area of usage and rights confirmations (zoning plans), obtaining building permits, business licenses etc. A delay in obtaining any permit or failure to obtain a permit could harm the profitability of the project or entail various financial expenses for the purpose of compliance with the requirements of the authorities for receipt of the approvals.

26.2.6 Legal and regulatory requirements, including with respect to environmental protection – the Group companies are subject to legal and regulatory requirements from various aspects and, *inter alia* on issues pertaining to the environment (nuisance, underground and above ground pollution, toxic waste etc.), and they are required to bear the costs involved in meeting the same, such that it may have an adverse effect on their results. These requirements could increase and multiply, which may force the Group to allocate additional financial resources to this issue.

26.3 **Unique Risks of the Company**

26.3.1 Fluctuations in the Consumer Price Index - The Group has loans and bonds that are linked to the Consumer Price Index and therefore the Group is exposed to fluctuations in the Consumer Price Index. However, most of the Group's revenues from rent in the commercial centers and malls segment and the office and other rental space segment are linked to the Consumer Price Index, while a rise in the Consumer Price Index may lead to an increase in the revenue from rent and reduce the exposure in relation to this risk.

26.3.2 Foreign Currency Risks - The Company has assets and liabilities that are stated in various foreign currencies. In view of the fact that the total foreign currency liabilities are not always equal in value to the total foreign currency assets, the Company is exposed to possible changes in the exchange rate of the foreign currencies. As a result thereof, there is exposure to possible changes in the exchange rate of the foreign currency versus the NIS.

26.3.3 Dependency on Financing Sources - The Company's activity is also financed by external sources and an adverse change in the conditions for provision of credit and/or renewal of existing credit may materially harm the Company's results.

26.3.4 Variable interest - The Company has credit from banking and non-banking corporations bearing interest at variable rates. Changes in the variable interest rate and the interest margins in Israel may affect the Group's business results, the scope of the Company's financing expenses and the feasibility of investing in certain projects.

26.3.5 Unique risks of Granite Hacarmel Segment

- Changes in global oil prices –changes in global oil prices – a rise in global oil prices causes an increase in trade accounts receivable balances and an increase in the inventory balances and therefore an increase in the scope of the bank credit, which increases Granite's financing expenses. On the other hand, a decline in the oil prices causes a loss on the operating inventory held by Granite Hacarmel.

- The marketing margin in the Oil Distillate Industry –the marketing margin from which the profitability of oil distillate marketing companies, including Granite Hacarmel, derives, is a fixed amount which is not affected by oil prices and is particularly low, and any change therein, both with respect to products which are under supervision and with respect to products which are not under supervision, affects Granite's profitability.

- Dependency on ORL – companies operating in the oil distillate business segments are dependent on ORL, which is the main supplier of the various Oil Distillates purchased by these companies, including Granite Hacarmel.

- Claims – several claims are pending against Granite group on various matters, as well as on restrictive trade practices, including claims with a motion for class certification and others. Therefore, Granite group is exposed to implications deriving from these claims. (With regard to claims against the Granite Group, see Note 34 to the financial statements in Chapter C of this Report).

The aforesaid notwithstanding, it is noted that the Group's business is characterized by a large number of tenants, in multiple sectors, dispersed geographically. These characteristics allow the Group to minimize its exposure to changes in a certain operating segment and to minimize its exposure in relation to a specific tenant's business.

Set forth below are the main risk factors described above that were ranked, in accordance with the Company's estimate, according to the extent of the effect that they may have on the Company's business:

	The Extent of the Effect the Risk Factors may have on the Company		
	Large Effect	**Medium Effect**	**Small Effect**
Macro-Economic Risks			
Growth and consumption rates in Israel	X		
The security condition in Israel	X		
Changes in the interest rates in the economy		X	
Index Changes in the Building Index			X
Regulatory changes		X	
Changes in the value of available for sale financial investments			X
Industrial Risks			
Decline in the demand for rental space	X		
Decline in rent prices	X		
Strength of main tenants			X
Competition	X		
Approvals from authorities			X
Environment and regulatory requirements		X	
Unique Risks			
Fluctuations in the Consumer Price Index			X
Foreign Currency Risks			X
Dependency on Financing Sources		X	
Variable Interest			X
Unique risks for the Granite Hacarmel Segment			X

Part B

Report of the Board of Directors

Azrieli Group

Azrieli Group Ltd.

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

for the year ended December 31, 2012

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the year ended December 31, 2012 and for a period of three months ended on December 31, 2012 (hereinafter respectively: the "**Report Period**" and "**Q4/2012**"), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

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

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 of Directors' Report are based on the consolidated financial statements as of December 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.

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 December 31, 2012.

Extended standalone statement – the income-producing property segment

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bond holders and analysts and sees all of these as its partners. Therefore, the Company had decided to adopt a policy according to which in the Company's Board of Directors' Report disclosure shall be made regarding a summary of extended standalone financial statements – i.e. – a summary of the Company's balance sheets and income statements on a consolidated basis, presented according to the IFRS standards, except for the Company's investment in Granite Hacarmel which is presented on the basis of the book value instead of the consolidation of its statements with the Company's statements (the other investments are presented with no change from the statement presented according to the IFRS standards). The Company's management believes that this Report adds a lot of information which helps in understanding the large contribution of the real estate business to the total profit of the Company, while neutralizing material sections of the consolidated financial statements, deriving from the consolidation of Granite Hacarmel, such as trade accounts receivable, inventory, sales, etc. The extended standalone statement is attached hereto as Annex D.

This Report is not audited or reviewed by the Company's auditors.

Main emphases for the Report Period ended December 31, 2012(*)

Comprehensive Income
• Approx. NIS 1,111 million comprehensive income during the Report Period, compared with a comprehensive income of approx. NIS 204 million in the same period last year. • The comprehensive income in the Quarter is approx. NIS 476 million, compared with a comprehensive loss of approx. NIS 205 million in the same period last year.
Net Profit
• Approx. NIS 986 million net profit during the Report Period, compared with a net profit of approx. NIS 623 million in the same period last year. • The net profit in the Quarter is approx. NIS 378 million, compared with a net loss of approx. NIS 135 million in the same period last year.
Profit Net of Special Effects
• Approx. 37% increase in profit during the Report Period (net of special effects) (see Section 1.10 of the Report). • Approx. 55% increase in profit in the Quarter (net of special effects) (see Section 1.10 of the Report).
Growth in NOI During the Report Period
• Approx. 11% additional growth in the NOI (see Section 1.1.4 of the Report). • Approx. 4% additional growth in same property NOI (Section 1.1.5 of the Report).
Growth in NOI in the Quarter
• Approx. 7% additional growth in the NOI (Section 1.1.4 of the Report). • Approx. 3% additional growth in same property NOI (Section 1.1.5 of the Report).

Value of Investment Property
• A contribution of approx. NIS 247 million to the profit, after tax, due to increase in fair value of investment property during 2012 (approx. NIS 173 per quarter), after update of the investment property according to valuations of an independent appraiser as of December 31, 2012**.**
FFO from the Income-Producing Property Segment
• Approx. 11% growth in the FFO attributed to the income-producing property segment (see Section 1.1.7 of the Report).
FFO from Income-Producing Property
• Approx. 9.4% FFO attributed to the income-producing property segment and derives from the market value of the Group on the TASE (for calculation, see Section 1.1.7).
Cap Rate
• Approx. 7.7% weighted cap rate in the Company's reports from the income-producing property (see Section 1.1.6 of the Report).
Financial Assets
• Increase in the value of the holdings of the shares of Leumi Bank and Leumi Card in the sum of approx. NIS 129 million, after tax during the Report Period (the increase is included in the comprehensive income)
Business Development and Initiation
• During the Report Period the Company invested a sum of approx. NIS 837 million in the purchase of properties, improvement of existing properties and development in the Report Period (approx. NIS 225 million in the Quarter). • For further developments, see Section 1.1 below.

(*) In the aforesaid emphases the Company included the main issues specified below in this Report. In respect of forward-looking information, including, in respect of the progress of the projects under construction, see Sections 1.1.1, 1.1.3 and 1.12 below.

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

1.1 General

1.1.1 Developments during the Report Period and until the date of release thereof

Filing an appeal against the decision of the Antitrust Commissioner

In January 2013 the Company filed an appeal with the Antitrust Court, against the decision of the Antitrust Commissioner to object to the purchase of Power Center One Plaza in Be'er Sheva by the Company, despite his preliminary approval which was granted prior to the execution of the agreement. For details see Section 1.3.4.3 of Chapter A of this Report, and Note 13G to the financial statements as of December 31, 2012.

Full Tender Offer for the shares of Granite Hacarmel

In September 2012, the Company consummated a full tender offer for Granite Hacarmel shares, following which the Company holds, through Canit Hashalom, the full share capital and voting rights of Granite Hacarmel, which became a private company and the shares thereof were delisted from the TASE. For details see Section 1.3.1 of Chapter A of this Report and Note 40C to the financial statements as of December 31, 2012.

Full Tender Offer of Granite Hacarmel for the shares of Tambour Ltd.

In May 2012 Granite Hacarmel consummated a full tender offer for the shares of Tambour Ltd., following which Granite Hacarmel holds the full share capital and voting rights of Tambour who became a private company whose shares were delisted from the TASE. For details see Section 1.3.2 of Chapter A of this Report and Note 40B to the financial statements as of December 31, 2012.

1.1.2 Transactions in respect of investment property during the Report Period and until the date of release thereof

Purchase of rights in a lot on Menachem Begin Road in the Northern Tel Aviv Central Business District

In October 2012, the Company purchased the rights in a lot in an area of approx. 10,000 sqm located on 146 Menachem Begin Road in the Northern Tel Aviv Central Business District in consideration for NIS 240 million (excluding V.A.T). The lot is designated for the building of a project of approx. 75 thousand sqm, comprising office and commerce areas for lease of approx. 58 thousand sqm, residential areas of approx. 17 thousand sqm and 1,500 parking spaces, and is expected

to be handed over to the Company in 2014. For details see Sections 1.3.3.3 and 7.8 of Chapter A of this Report and Note 13H to the financial statements as of December 31, 2012.

Purchase of the additional half of the rights in the Petah Tikva Science and Technology Park

On October 23, 2012 the Group consummated the purchase of half of the rights in the property known as the Petah Tikva Science and Technology Park project from third parties who are partners therewith in the said property, in consideration for NIS 48.8 million (excluding V.A.T), and as of the Report Date the Group holds 100% of the rights in the property. For details see Section 1.3.3.2 of Chapter A of this Report and Note 13F to the financial statements as of December 31, 2012.

Acquisition of an office building in Houston, Texas, U.S.A.

On January 10, 2012, AG Plaza at Enclave, LLC, a US corporation indirectly held by the Company at a rate of 100%, consummated the acquisition of an office building at a total area of approx. 31,986 sqm (344,296 sqf) and at an occupancy rate of 100% in Houston, Texas, USA in consideration for the total sum of approx. U.S. $107.5 million (in addition to transaction costs in the sum of approx. US$ 544 thousand). For details see Section 1.3.3.1 of Chapter A of this Report and Note 13E to the financial statements as of December 31, 2012.

For details regarding transactions for the purchase of investment property during the Report Period which have not been consummated, see Section 1.3.4 of Chapter A of this Report.

1.1.3 Developments in Initiation and Development

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period was approx. NIS 392 million (approx. NIS 177 million in Q4/2012). 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. For further details regarding the properties under construction specified below, see Section 7.8 of Chapter A of this Report:

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

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project in the Company's books as of December 31, 2012[1] (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	121,500	May 2012	2016	595	900-945
Azrieli Kiryat Ata (Phase B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	End of 2013	5	38-48
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 (permit for construction of temporary parking and an excavation and shoring permit)	2015[2]	79	500-530
Azrieli Center Holon[3]	Holon	Jun. 2008	Commerce	83%	34,000	5,000	Phase A[4] – 2010 Phase B[4] – not yet determined	Phase A(1)–2013 Phase A(2)-2014 Phase B – by 2016	296	340-375
			Offices			115,000				
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	Not yet determined	18 months from commencement of construction	6	120-150

Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	2014	127	210-230
Kupat Holim Clalit Land[(5)]	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	49	902-1,002
Total						**400,000**			**1,157**	**3,010-3,280**

(1) The figure reflects the value of the project in the books as presented in the financial statement as of December 31, 2012 and not the cost actually invested in the project.
(2) Contingent upon approval of the city zoning plan.
(3)The figures are for 100%.
(4) 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).
(5)For details see Section 1.1.1 above. As of the Report Release Date, the Company has not received possession of this property.

The Company's estimates stated in this Section 1.1.3 inter alia, in respect of the projected investments and costs for properties under construction, manner of financing the projects, dates for completion of construction, receipt of various regulatory approvals required for the progress of the projects under construction or the results of administrative and legal proceedings are forward-looking information as such term is defined in the Securities Law, based on subjective estimations of the Company as of the Report Date and there is no certainty to their realization, in whole or in part, or they may realize in a materially different manner, inter alia due to causes which are beyond its control, including changes in market conditions, changes in the Company's plans, the duration of time required for approval of the construction plan for performance and prices of construction inputs.

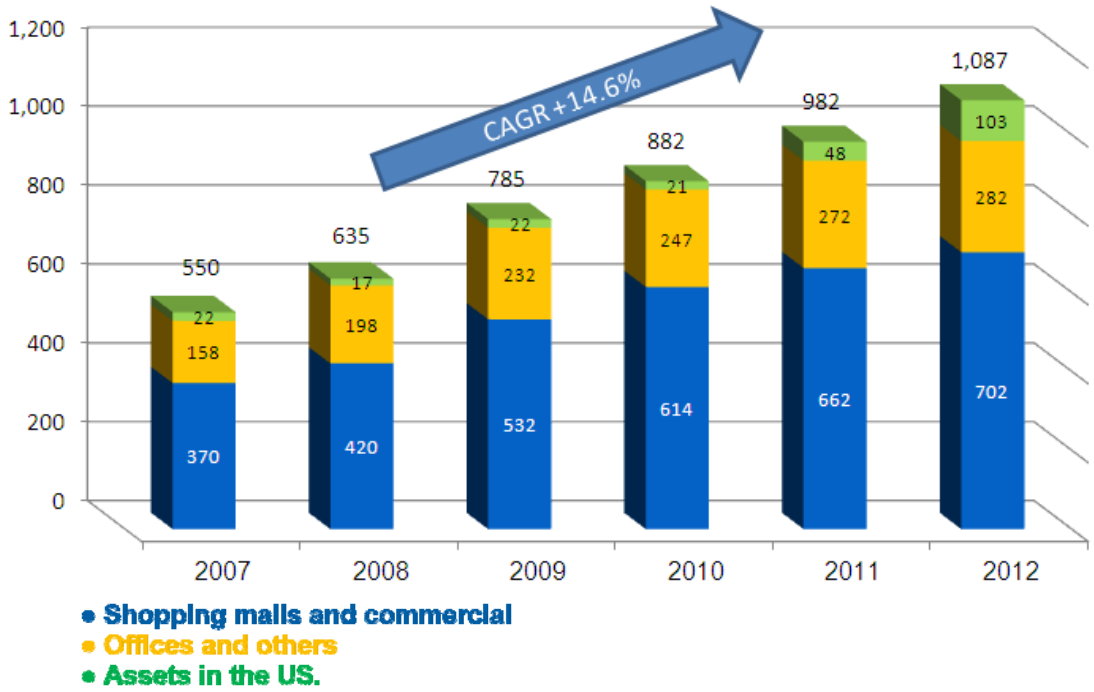
1.1.4 The NOI (Net Operating Income) index

The NOI figure is one of the important parameters in the valuation of income-producing property companies. The indication for determination of the value of income-producing property (over and above other indications such as: market value of similar properties in the same area, sale prices of similar properties in recent transactions that were performed etc.) is division of this figure by the accepted cap rate determined according to the character and location of the property. 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.

We shall emphasize that these parameters do not present cash flows from current operations according to GAAP, do not reflect available cash for financing of all of the Group's cash flows (including its ability to perform a money distribution) and are not supposed to be deemed as a substitute for the net profit for assessment of the Group's results of operations.

For the purpose of calculation of the NOI, all revenues from tenants (including rent, management fees and other payments) were taken into account alongside the income, and the calculation of costs takes into account all of the operating expenses in respect of the properties, including management, maintenance and other costs. The Group is preparing its financial statements on the basis of the international standardization and therefore, in the calculation of the cost of leasing and operating the properties which are classified as investment property, depreciation was not taken into account. In addition, for the purpose of calculation of the above parameters, profit from revaluation of properties was not taken into account.

During 2007-2012, the Group recorded continuous growth of approx. 97.6% in the actual NOI values in all of its income-producing property operating segments in Israel and abroad.



- CAGR = Compound Annual Growth Rate

Below are the NOI figures regarding income-producing property, from the retail centers and malls in Israel segment, from the office and other space for lease in Israel segment and from the income-producing property in the USA segment as of December 31 in the years 2011-2012:

NIS in millions	For the year ended		For the three months ended	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
Retail centers and malls in Israel	702	662	177	175
Growth rate	6%		1%	
Office and other space for lease in Israel	282	272	73	71
Growth rate	4%		3%	
Income-producing property in the USA	103	48	25	12
Growth Rate	115%		108%	
Total NOI	**1,087**	**982**	**275**	**258**
Growth rate	**11%**		**7%**	
For explanations pertaining to the increase in NOI, see Sections 1.11.1, 1.11.2 and 1.11.3.				

1.1.5 Same property NOI Index

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

NIS in Millions	For the year ended		For the three months ended	
	Dec. 31, 2012	Dec.31, 2011	Dec. 31, 2012	Dec. 31, 2011
Retail centers and malls in Israel segment	667	645	177	175
Office and other space for lease in Israel segment	281	272	72	71
Income-producing property in the USA segment	24	19	17	12
Total	**972**	**936**	**266**	**258**
Growth rate	**4%**		**3%**	

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

	2012				2011
	Q4	**Q3**	**Q2**	**Q1**	**Q4**
Same property NOI in all of the periods(*)	266(**)	267	261	262	258
NOI from acquired properties	9	8	8	7	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**275**	**275**	**269**	**269**	**258**
(*) In all of the Company's operating segments (**) The decrease derives from the income-producing property in the USA segment – see Section 1.11.3					

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 December 31, 2012**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex D) (*)	15,923
Net of value attributed to construction rights not utilized yet	(5)
Net of value attributed to investment property under construction	(1,108)
Net of value attributed to advance payments on account of land purchase	(49)
Net of the value attributed to land reserves	(23)
Total value of income-producing investment properties (including fair value of the vacant space)	14,738
Actual NOI for the quarter ended on December 31, 2012	275
Addition to future quarterly NOI (**)	8
Total standardized NOI	283
Pro-forma annual NOI based on standardized NOI	**1,131**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.7%**

(*) In accordance with valuations received as of December 31, 2012. The figure includes receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure includes changes in rent that was renewed and signed until December 31, 2012 as well as the influence of the CPI as of December 31, 2012 which was not included in the actual NOI for 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, 2012 and which have not yet been fully populated, estimate of electricity profits which will be added when the Company starts purchasing electricity following an agreement for purchase of electricity from OPC and also, the NOI in respect of 50% of the office building at the Science Park in Petah Tikva which were purchased during the Quarter, was weighted for a whole year.

This figure does not constitute a forecast of the Company for the NOI of 2013 and all of its purpose is to reflect the NOI under the assumption of full population for a whole year of all of the income-producing property.

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

For the sensitivity test to changes in the interests of cap rates for investment property – see Annex A to this chapter.

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

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

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

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

		For the year ended	
NIS Millions	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec.31, 2010**
Net profit for the period attributed to shareholders	939	596	1,224
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	(83)	(5)	(19)
Adjustments to profit (1):			
Increase of investment property value	(313)	(838)	(888)
Depreciation and amortizations	3	4	3
Net non-cash flow financing expenses	35	92	90
Current taxes revenues for non-cash flow financing expenses (2)	(9)	(22)	(23)
Deferred tax expenses	131	745	200
Adjustments for associated companies	-	2	1
Interest and dividend from financial assets held for trade, net of tax (3)	(27)	(49)	(21)
Impairment (appreciation) of financial assets available for sale and held for trade, net	(17)	99	(36)
Plus benefit recorded for employee option plan	3	4	10
Net of dividend received from financial assets available for sale	(8)	(44)	(26)
Total adjustments to profit	(202)	(7)	(690)
Plus interest paid for real investments - (4)	62	62	58
Total FFO attributed to the income-producing property segment (5)	**716**	**646**	**573**
FFO for income-producing property in proximity to the Report Release Date (March 14, 2013)			
Company's value on the TASE	11,948		
Net of the value of cash and marketable securities (according to book value as of December 31, 2012)	(533)		
Net of the value of the Company's holdings in Granite Hacarmel (according to book value as of December 31, 2012 - the Company is not traded	(1,174)		
Net of the value of the Company's holdings in Bank Leumi (according to stock exchange	(932)		

value as of March 14, 2013)			
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, 2012 - the Company is not traded)	(514)		
Market value attributed to real estate alone	8,795		
Net of value of non-income producing [properties and land – according to book value as of December 31, 2012	(1,185)		
Total market value of income-producing property	7,610		
Total real estate FFO	**716**		
Annual income-producing property FFO (6)	**9.4%**		

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite Hacarmel since its profits were discounted in full.
2. In order to adjust the FFO to the NARIET interpretation according to which the tax for items discounted from the FFO must be discounted, the Company discounted for the first time in Q2/2012 and in the comparison numbers the tax deriving from the non-cash-flow financing expenses. Had the Company implemented the FFO calculation method which it used in previous years, the FFO for the year ended on December 31, 2011 would have been approx. NIS 688 million, and for the year ended on December 31, 2010, approx. NIS 596 million.
3. Net of interests and dividends in respect of transactions and actions in securities which were written off from the real estate business.
4. Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments costs.
5. Which is attributed to shareholders only.
6. The result obtained from dividing the FFO which is attributed to the income-producing property segment only with the market value which is attributed to the income-producing property segment only.

1.1.8 The EPRA indexes: Net Asset Value (EPRA NAV and EPRA NNNAV)

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

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

taxes deriving from revaluation of investment property.

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

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

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

EPRA NAV (NIS millions)	For the year ended	
	Dec. 31, 2012	**Dec. 31, 2011**
Equity attributed to the Company's shareholders in the financial statements	11,875	11,034
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,375	2,209
EPRA NAV	**14,250**	**13,243**
EPRA NAV per share (NIS)	**118**	**109**

EPRA NNNAV (NIS millions)	For the year ended	
	Dec. 31, 2012	**Dec. 31, 2011**
EPRA NAV	14,250	13,243
Adjustment of asset value to fair value (with no minority)	106	17
Adjustment of value of financial liabilities to fair value (with no minority)	(433)	(316)
Net of a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,375	(2,209)
EPRA NNNAV	**11,548**	**10,735**
EPRA NNNAV per share (NIS)	**95**	**89**

1.1.9 Main market trends regarding income-producing property segment

For details regarding the effect of main market trends on the Group's business, see Sections 6.1, 8.1 and 9.1 of Chapter A of this Report.

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

1.2.1 Summary of the Group's operating segments

☒ **The Retail Centers and Malls in Israel Segment** – The Company has 13 malls and retail centers in Israel, at a comprehensive leasable area of approx. 257 thousand sqm (consolidated) and 256

thousand sqm (the Company's share) 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, at a comprehensive leasable area of approx. 293 thousand sqm (consolidated) and 291 thousand sqm (the Company's share) leased to approx. 480 tenants;

- **Income-Producing Property Segment in the USA** – The Company has 6 income-producing properties in this segment at a comprehensive leasable area of approx. 179 thousand sqm (consolidated) and approx. 168 thousand sqm (the Company's share) leased to approx. 260 tenants;

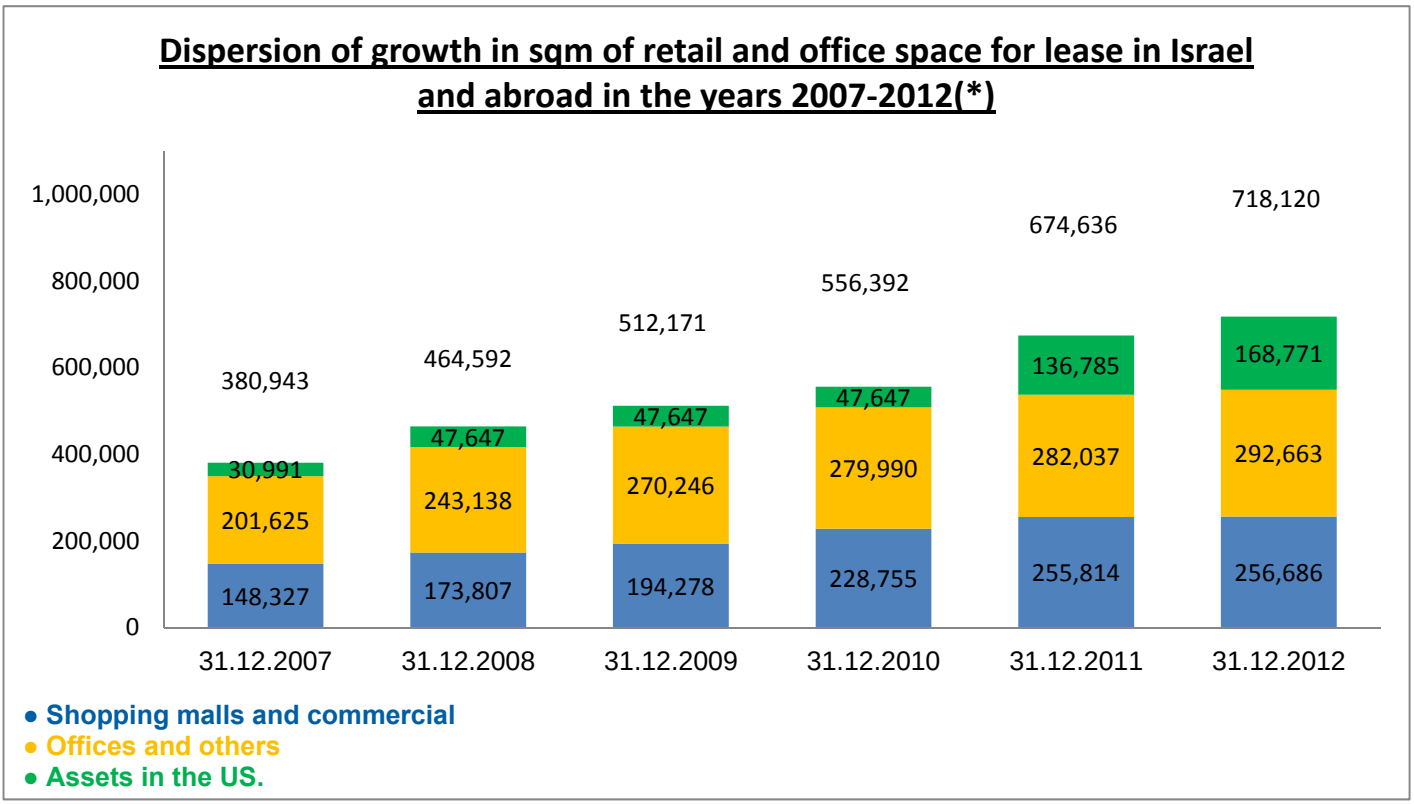
- **Granite Hacarmel Segment** – management of sub-segments of energy, paint, water and environment;

1.2.2 The income-producing property segments

The Company's business condition, results of operations, capital and cash flows are affected mainly by the state of the property for lease industry. In the Board of Directors' Report, explanations will be presented regarding these effects on the Company for 2012.

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

In this Report, the Company specifies the causes which contributed to the consistent improvement in its business activity, mainly in the income-producing property segment which constitutes its main business. In addition, as of the Report Date, the estimated investment scope of the Group, in future growth engines, through the development and construction of new income-producing properties which are expected to add to the Group approx. 400 thousand sqm income-producing properties in Israel, is at approx. NIS 3-3.3 billion. For specification regarding the projects under construction see Section 1.1.3 above and Section 7.8 of Chapter A of this Report.



(*) The areas constituting the Company's share in the area of the property (apart from deduction of the negligible share of Mr. David Azrieli in the properties)

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is close to 100% in the retail centers and malls segment and in the office and other space for lease segment. The average occupancy rate in the income-producing property in the USA is approx. 90%.

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

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

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

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

1.2.3 Granite Hacarmel segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Granit Hacarmel. Granit Hacarmel continued, during the Report Period, to present improvement in the results as specified in Section 1.11.4 of this Report below.

1.2.4 Additional Businesses

The Group has additional businesses, which include, *inter alia*, passive financial investments in corporations in the banking and financing segment, investments in start-up companies and investment funds as specified in Chapter A of the Periodic Report.

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 year ended on Dec. 31, 2012	Total investment as of Dec. 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 Dec. 31, 2012	Change in the fair value during the Report Period	Dividend that was received in 2012
Investment in Bank Leumi le-Israel Ltd. (*)	**771**	--	**771**	**895**	**124**	**-**
Investment in Leumi Card Ltd. (**)	**483**	--	**483**	**514**	**31**	**8**
Total	**1,254**	--	**1,254**	**1,409**	**155**	**8**

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

** The fair value of the investment in Leumi Card was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2012.

1.3 The Business Results and the Total Assets

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

	Segment profit for the year ended:		Rate of the segment's profit from the total consolidated net profit in the year ended:	
	Dec. 31, 2012	**Dec.31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
Retail centers and malls in Israel	702	662	71%	106%
Office and other space for lease in Israel	282	272	29%	44%
Income-producing property in the USA	103	48	10%	8%
Granite Hacarmel	291	200	29%	32%
Total attributed profit	**1,378**	**1,182**	**139%**	**190%**
Changes in fair value	329	849	33%	136%
Net financing expenses	(375)	(489)	(38%)	(78%)
Tax expenses	(272)	(876)	(27%)	(141%)
G&A expenses, net	(74)	(43)	(7%)	(7%)
Net profit per period	**986**	**623**	**100%**	**100%**

The Group's revenues for the Report Period amounted to approx. NIS 9,055 million, compared with approx. NIS 7,547 million in the same period last year, an increase of approx. NIS 1,508 million, deriving mainly from an increase in the income-producing property for retail centers and malls in Israel segment in the sum of approx. NIS 61 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 in Israel segment in the sum of approx. NIS 15 million (mainly from the increase in revenues from existing properties and the purchase of additional 50% in the office building in Petah Tikva in October 2012), from growth in the income-producing property in the USA segment in the sum of approx. NIS 79 million (mainly due to the purchase of additional office buildings in January 2012 and February 2011) and an increase in the Granite Hacarmel segment in the sum of approx. NIS 1,354 million due to an increase in all of the operating segments of Granite Hacarmel (mainly due to the increase in the amount of fuels sold, the increase in oil distillates prices and increase in the amount of water desalinated in the desalination facility).

The Group's revenues for the three months ended on December 31, 2012 amounted to the sum of approx. NIS 2,227 million, compared with the sum of approx. NIS 2,004 million in the same period last year, a rise of approx. NIS 223 million, which derives mainly from an increase in the income-producing property segment in the sum of approx. NIS 20 million (mainly due to the purchase of an office building in Texas, USA in January 2012) and from increase in the Granite Hacarmel segment in the sum of approx. NIS 204 million due to an increase in all of Granite Hacarmel's operating segments (mainly due to the increase in the amount of fuels sold, the increase in oil distillates prices and increase in the amount of water desalinated in the desalination facility).

As of December 31, 2012, the total assets on the balance sheet were approx. NIS 24 billion, compared with approx. NIS 23.2 billion as of December 31, 2011.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	Dec.31, 2012	**Dec. 31, 2011**	**Dec.31, 2012**	**Dec. 31, 2011**
Retail centers and malls in Israel	9,601	9,424	40%	41%
Office and other space for lease in Israel	4,751	4,280	20%	18%
Income-producing property in the USA	1,570	1,092	6%	5%
Granite Hacarmel	5,979	5,497	25%	24%
Others	2,129	2,887	9%	12%
Total	**24,030**	**23,180**	**100%**	**100%**

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

	As of Dec. 31, 2012	As of Dec. 31, 2011
Current assets	3,242	4,072
Non-current assets	20,789	19,108
Current liabilities	4,868	3,863
Non-current liabilities	7,205	7,852
Capital attributed to the Company's shareholders	**11,875**	**11,034**
Capital attributed to the Company's shareholders from the total balance sheet (in percents)	**49%**	**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. For further details, see Section 17 of Chapter A of this Report and Section 1.5 below.

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of December 31, 2012, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to approx. NIS 744 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 10.2 billion in addition to approx. NIS 744 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods[1]. Regarding additional possible liquid sources, the Company estimates that the Group is able to raise financing under favorable terms, even under the currently prevailing financial conditions.

[1] The Company specified in Section 17 of the Description of the Corporation's Business Chapter, in Chapter A of this Report, further issues related to the financing activities in the Group.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit[2]:

Assets	Value of assets as of Dec. 31, 2012 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	5,538
Properties in the office and other space for lease in Israel segment	1,993
Income-Producing Properties in the USA and in England	82
Company's holdings in Leumi Card	514
Company's holdings in Granite Hacarmel	1,174
Company's holdings in Bank Leumi	895
Total	10,196

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, 2012 (Without the square tower which was included in the non-pledged assets) at approx. NIS 3.7 billion, whereas the loans therefor, as of December 31, 2012, amounted to only approx. NIS 932 million).

(b) Dividends:

The Company:

On March 19, 2013, the Company's board of directors approved, , a cash distribution in a total sum of NIS 265 million (approx.NIS 2.185 per share) which constitutes approx. 36% of the net profit to the shareholders in 2012 net of real estate revaluation profits and linkage differentials on unpaid loans and net of the tax effect thereon and approx. 37% of the FFO for the properties business as specified in Section 1.1.7 above.

The Company's board of directors approved that the dividend distribution fulfills the profit test which is set forth in Section 302 of the Companies Law, 5759-1999 (the "**Companies Law**"), and that there is no reasonable concern that the distribution of the aforesaid dividend will deny the Company the ability to meet its existing and projected liabilities, as they become due. For purposes of adoption of the resolution on the dividend distribution, the board of directors examined figures which were provided by the Company's management, including the Company's cash balances, the Company's total liabilities for payment in the next two years, a surplus of current assets over liabilities in the next two years (in view of the management's intention to refinance long-term loans whose expiration

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

date is during 2013). In addition, in view of the Company's main business at this stage being in income-producing property, while considering its goals and the business strategy declared thereby, the Company's board of directors examined the profit appropriate for distribution, while also considering the profit which is based on the FFO index[3] which better expresses the permanent cash flow deriving from the real estate business. For further details see immediate report dated March 20, 2013 which is released concurrently with this Report.

According to the Company's financial statements as of December 31, 2012, the Company has surplus of approx. NIS 9.4 billion (including revaluation fund of financial assets available for sale).

On March 21, 2012, the board of directors of the Company approved, after accepting the recommendation of the finance committee, a cash distribution at a total sum of NIS 240 million (NIS 1.979 per share). For details see immediate report dated March 22, 2012, ref. 2012-01-075501 incorporated by reference. Granite Hacarmel: A dividend distribution policy was set forth for Granite Hacarmel, according to which Granite Hacarmel shall distribute every year cash dividend in such sum that shall constitute 40% to 50% of the net annual profit after tax of Granite Hacarmel, except for one-time profits not resulting from current operations, subject to the provisions of any law. In the Report Period, the Company received no dividend from Granite Hacarmel.

Leumi Card: To the best of the Company’s knowledge, on May 24, 2010, the Leumi Card's board of directors adopted annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed, subject to the instructions of the Supervisor on the Banks, regulatory provisions and the requirements of the Companies Law. This policy was updated on May 22, 2011 so as to allow the dividend distribution subject to limitations of a “risk appetite” and the requirements of the Office of the Supervisor of Banks.

On February 23, 2012, Leumi Card decided on the distribution of a dividend in the sum 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 received no dividend from Bank Leumi.

[3] It shall be clarified that the FFO index does not represent a cash flow from current operations according to GAAP, and does not reflect cash which is held by the Company and its ability to distribute the same and does not replace the reported net profit). It is further clarified that this index is not a figure which is audited by the Company's auditors. For details regarding the Company’s FFO, see Section 1.1.7 below.

Cash flows

Net cash flows generated for the Group from current operations for the year ended on December 31, 2012, amounted to the sum of approx. NIS 1,864 million, compared with the sum of approx. NIS 1,687 million which derived from current operations in the same period last year (an increase of approx. NIS 177 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property (approx. NIS 1,087 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 943 million.

The main increase in cash flows from current operations in the year ended on December 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 943 million in the Report Period, compared with the sale of financial assets held for trade in the sum of approx. NIS 809 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 105 million), compared with the same period last year. In addition, in the Granite Hacarmel segment an increase of approx. NIS 61 was recorded, deriving mainly from changes in working capital as follows:

(1) Increase in trade account receivables and inventory, mainly due to the increases in the prices of oil distillates and expansion of the operation volumes in all of the operating segments of Granite Hacarmel.

(2) Increase in receivables due to the franchise arrangement for the water desalination both due to the expansion of the desalination facility and due to the franchise for building the foundation for the solar devices.

On the other hand, there was a decrease in the interest and dividend received from financial assets available for sale and held for trade in the sum of approx. NIS 64 million.

The cash flow derived by the Group from current operations (net of investment in financial assets held for trade) in the year ended on December 31, 2012 were used by the Group mainly for financing investments required for projects under construction and purchase of income-producing properties and land.

The net cash flows derived by the Group from current operations in the three months ended on December 31, 2012, amounted to a sum of approx. NIS 415 million, compared with a sum of approx. NIS 364 million, which derived from current operations in the same period last year (increase of approx. NIS 51 million).

The increase in the flow from current operations in the three months ended on December 31, 2012, compared with the same period last year, derived mainly from the sale of financial assets held for trade in a sum of approx. NIS 29 million in the Quarter compared with the purchase of financial assets held for trade in the sum of approx. NIS 60 million in the same period last year. On the other hand, a decrease of approx. NIS 28 million was recorded in the Granite Hacarmel segment.

Net cash flows used by the Group for investment activity in the year ended on December 31, 2012, amounted to approx. NIS 1,062 million, compared with approx. NIS 1,831 million in the same period last year.

The decrease in the sum of NIS 769 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 856 million, compared with approx. NIS 1,708 million in the same period last year, and changes in short-term deposits in the sum of approx. NIS 30 million, compared with the same period last year.

The net cash flows used by the Group for investment activity in the three months ended on December 31, 2012, amounted to a sum of approx. NIS 318 million, compared with a sum of approx. NIS 104 million, which were used by the Group for investment activity during the same period last year (increase of approx. NIS 214 million).

The increase in the sum of approx. NIS 136 million in the Quarter derived mainly from the purchase and investment of investment properties and investment properties under construction in a sum of approx. NIS 234 million, compared with approx. NIS 81 million in the same period last year.

Net cash flows used by the Group for financing activity in the year ended on December 31, 2012, amounted to approx. NIS 844 million, compared with net cash flows deriving from financing activity in the sum of approx. NIS 191 million in the same period last year. The increase in the sum of approx. NIS 1,035 million resulted mainly from the purchase of non-controlling interests during the Report Period, in a sum of approx. NIS 380 million compared with approx. NIS 65 million in the same period last year, a decrease in short- and long-term loans/bonds received (net of loans repaid) consolidated in the sum of approx. NIS 676 million compared with the same period last year. The decrease derives mainly from lower credit which the Company had taken for the purchase of the office building in Texas during the Report Period compared with the level of a loan taken for the purchase of office buildings in Texas during the same period last year and from an increase in the payment of short-term loans.

The net cash flows which were used by the Group for financing activity in the three months ended on December 31, 2012, amounted to a sum of approx. NIS 100 million, compared with a sum of approx.

NIS 175 million used for financing activity in the same period last year (decrease of approx. NIS 75 million).

The decrease derived mainly from the decrease in short- and long-term loans/bonds which were received (net of loans repaid) consolidated in the sum of approx. NIS 62 million in the Quarter, compared with the same period last year.

Following is the composition of the Group's financing sources

	December 31, 2012		**December 31, 2011**	
	NIS in millions	**% of total balance sheet**	**NIS in millions**	**% of total balance sheet**
Short-term credit from banks and other credit providers	3,451	14.4%	2,445	10.5%
Long-term credit from banks and other credit providers	3,134	13.0%	3,758	16.2%
Bonds	1,553	6.5%	1,707	7.4%
Total	**8,138**	**33.9%**	**7,910**	**34.1%**

Increase in the sum of approx. NIS 228 million in the Report Period results mainly from an increase in credit from banks and other credit providers in the Granite Hacarmel segment in the sum of approx. NIS 415 million, which resulted mainly from the additional working capital required for financing the increase in trade receivables and inventory in light of the expansion of the business in all of the operating segments of Granite Hacarmel. On the other hand, in the income-producing properties, the Group's main operating segment, loans were repaid during the Report Period at an amount higher than the amount of the loan taken for financing the purchase of the office building in Texas.

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1.6 billion, resulting mainly from long-term loans whose maturity is shorter than a year (due to the Azrieli Center) and from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits.

The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so and therefore, the said deficit in the working capital may not affect its ability to repay its liabilities on time.

The Company intends to act for the refinancing of the loans due to the Azrieli Center in Tel Aviv in the sum of approx. NIS 932 million, maturing in August 2013 and presented under the current liabilities, such that after the refinancing they will be presented as long-term loans.

Bonds and commercial paper and the rating thereof

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

The Security	The Rating Company	The Rating	The Rating Date
Series A Bonds of the Company	Midroog	Aa2 with a stable outlook	June 28, 2012
	Maalot	AA stable	December 3, 2012
Commercial paper	Midroog	P-1	June 28, 2012

For further details, see Note 20 to the financial statements as of December 31, 2012. To review Midroog's annual monitoring report, see the Company's immediate report of June 28, 2012, ref. 2012-01-170247. To review Maalot's annual follow-up report, see the Company's immediate reports of December 3, 2012 (ref. 2012-01-299292 and 2012-01-170271).

Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of December 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	496	-	521	521
Long Term Loans	3,332	922	25	-	-	4,278	-	4,279
Total	**3,332**	**922**	**25**	**25**	**496**	**4,278**	**521**	**4,800**

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 CPI, while using the fact that most of the Company's revenues are index-linked.

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

As of December 31, 2012, short-term loans accounted for approx. 11% of the Group's total financial liabilities (except for Granite Hacarmel). In the Company's estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

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

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

- The Group has a positive cash flow from current operations for many years (excluding consideration or investment in financial assets that are listed for trade). This cash flow amounted to the sum of approx. NIS 905 million in the year ended December 31, 2012, compared with the sum of approx. NIS 878 million in the same period last year (an increase in the sum of approx. NIS 61 million is attributed to Granite Hacarmel – see explanation regarding the cash flows, above, while an increase in the sum of approx. NIS 37 million is attributed mainly to the real estate business. On the other hand, there is a decrease in the flow from dividend and interest received from financial assets available for sale and held for trade in the sum of NIS 64 million).

- The liquid means and the non-pledged assets as specified in Section 1.5(a) above.

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

<u>Analysis of sensitivity tests and effects on fair value of protection transactions, exchange rates, interest and financial instruments</u>

In accordance with the main market risks specified above and in accordance with the provisions of the Second Schedule to the Regulations, the Group is performing sensitivity tests regarding changes in market risks affecting the fair value of "sensitive

instruments". For details see, attached hereto, Annex A to this Board of Directors' Report and also Note 36 to the financial statements.

Set forth below are the bottom lines of the sensitivity test tables as of December 31, 2012:

	Profit (Loss) from Changes in Parameters in respect of which the Sensitivity Test was Performed (NIS in thousands)						
		Rise in Parameter		Decline in Parameter		Absolute increase	Absolute decrease
	Fair Value	10%	5%	10%	5%	2%	2%
Sensitivity to changes in the NIS interest rates	(393,594)	4,843	1,882	(3,858)	(1,911)	11,400	(12,831)
Sensitivity to changes in the U.S. dollar interest rates	(1,001,974)	19,739	9,949	(20,382)	(10,110)	92,195	(107,125)
Sensitivity to changes in the real interest rates	(3,930,749)	2,170	1,031	(1,734)	(923)	126,680	(130,924)
Sensitivity to changes in the CPI	239	13,400	6,700	(13,300)	(6,650)		
Sensitivity to changes in dollar exchange rates	(1,251,407)	(63,786)	(31,893)	63,786	31,893		
Sensitivity to changes in other currencies exchange rates	74,681	10,949	5,475	(10,949)	(5,475)		
Sensitivity to changes in CAD interest rates	59,867	(351)	(175)	351	175	(2,102)	2,102
Oil distillates inventory	170,208	16,474	8,237	(16,474)	(8,237)		
Sensitivity to changes in securities rates	470,757	47,078	23,539	(47,078)	(23,539)		
Sensitivity to changes in the cap rate of investment property	14,670,566	(1,343,165)	(703,110)	1,641,951	778,303	(3,103,928)	5,369,593

Set forth below are the bottom lines of the sensitivity test tables as of December 31, 2011:

	Profit (Loss) from Changes in Parameters in respect of which the Sensitivity Test was Performed (NIS in thousands)						
		Rise in Parameter		Decline in Parameter		Absolute increase	Absolute decrease
	Fair Value	10%	5%	10%	5%	2%	2%
Sensitivity to changes in the NIS interest rates	56,135	(2,399)	(1,190)	2,332	1,169	(14,118)	11,781
Sensitivity to changes in the U.S. dollar interest rates	(736,998)	24,930	12,623	(26,236)	(12,950)	80,004	(95,032)
Sensitivity to changes in the real interest rates	(4,062,169)	26,351	13,221	(26,698)	(13,305)	210,078	(236,036)
Sensitivity to changes in the CPI	(5,832)	49,300	24,650	(49,300)	(24,650)		
Sensitivity to changes in dollar exchange rates	(1,052,492)	(37,298)	(18,650)	37,298	18,650		
Sensitivity to changes in other currencies exchange rates	48,618	11,408	5,685	(11,408)	(5,685)		
Sensitivity to changes in CAD interest rates	55,525	(854)	(427)	854	427		
Oil distillates inventory	111,115	11,112	5,556	(11,112)	(5,556)		
Sensitivity to changes in securities rates	1,401,787	140,178	70,089	(140,178)	(70,089)		
Sensitivity to changes in the cap rate of investment property	13,834,354	(1,267,891)	(663,965)	1,550,234	734,563	(2,886,881)	4,934,879

The Company's linkage balance sheet as of December 31, 2012 and 2011

For details regarding the Company's consolidated linkage balance sheet as of December 31, 2012 and 2011, see Note 37 to the financial statements.

1.6 Quality of Profit

The Company's net profit mainly includes and is affected by the following components:

- Profit from the income-producing property segment – the retail centers and malls in Israel segment, the office and other space for lease in Israel segment and the Income-producing property in the USA segment;
- Changes in the fair value of the Group's investment property;
- The Company's share in the profits of Granite Hacarmel's sector;
- The Company's HQ activity which includes net financing expenses, G&A expenses and marketing;
- Deferred and current tax expenses.

The profit from the real estate business is affected almost entirely by the rental income in the various properties, which is mainly affected by the supply and demand for rental space.

There may be high volatility in the Company's profits between different report periods, mainly due to changes in the value of the income-producing property as aforesaid, which is affected, *inter alia*, by changes in the cap rates and changes in the scope of the income, which is mainly affected by a rise in the CPI. In addition, the financing expenses at the Company are affected by changes in variable interest and changes in the CPI.

At least once every six months, the Company examines the fair value of the investment property and whenever there are indications for material changes in the value. The fair value is determined, mainly, based on valuations that were performed by appraisers independent of the Company. The fair value is measured based on the discounting of projected cash flows, reliable estimates of future cash flows which are supported by the terms and conditions of the existing lease contracts and by external evidence such as current rent for real estate in similar locations and condition, as well as usage of cap rates which reflect the market assessments of the uncertainty with respect to the amount and the timing of the cash flows. The Company examines, each quarter, the need for updating the value of the investment properties by an examination of macro-economic changes, changes in the surroundings of the property and revenues deriving therefrom, and speaks with an independent real estate assessor to examine changes in the capitalization rates. In addition, with regard to investment properties under construction, the costs which were actually

invested during the period, the updated forecast of costs for completion and the lease contracts that were executed during the period, are taken into account. In the event that the management estimates that there were material changes in the value of the properties, updated valuations are performed for the relevant properties, by the Company or an independent assessor. A valuation is performed by an independent appraiser for each investment property at least once a year.

Changes in the assumptions that are being used by outside experts and/or changes in the estimates of the Company's management which relies on its aggregate experience may lead to changes in the fair value that was carried to the income statement, and thus affect the Company's financial condition and results of operations. For further details see Note 3(C) of the financial statements.

For details regarding the fair value of the investment property according to operating segments, see Section 1.11 of the Report, and also see Note 13 to the attached financial statements.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) amounted to approx. 87 million in 2012, compared with approx. NIS 73 million in 2011. The increase in the sum of approx. NIS 14 million derives mainly from an increase in the marketing expenses of approx. NIS 9 million, increase in doubtful debts expenses in the sum of approx. NIS 2 million, an increase in management fees to the chairman of the board in the sum of approx. NIS 2 million, and an increase in contributions in the sum of NIS 1 million.

The total consolidated sum of contributions of the Company (without Granite Hacarmel) in 2012 amounted to approx. NIS 8.6 (out of which approx. NIS 2.6 million in Q4/2012)[4].

The Company's consolidated marketing and administrative expenses (without Granite Hacarmel) amounted to approx. NIS 29 million in Q4/2012, compared with approx. NIS 23 million in the same period last year. The increase results mainly from expenses due to share based payment.

For changes resulting from Granite Hacarmel, see Section 1.11.4.

[4] For details regarding correction of *lapsus calami* in the Company prospectus regarding the rate of the total contributions of the Company to the Azrieli Foundation (Israel) (registered association) out of the net profit of the Company, see the immediate report of the Company dated February 20, 2012 (reference 2012-01-046971).

1.8 Net Financing Expenses

The Group's net financing expenses as of the year ended on December 31, 2012, amounted to the sum of approx. NIS 375 million, compared with approx. NIS 489 million in the same period last year (a decrease of approx. NIS 114 million). The decrease in the financing expenses results mainly from profits from marketable securities (plus interest and dividend therefrom) in the sum of approx. approx. NIS 58 million during the Report Period, compared with a loss of approx. NIS 33 million in the same period last year, as well as from an increase in the rate of the known index during the Report Period at only approx. 1.4%, compared with an increase of approx. 2.55% in the same period last year.

The net financing expenses in the Quarter amounted to approx. NIS 59 million, compared with approx. NIS 61 million in the same period last year. The decrease, in the sum of approx. NIS 2 million results mainly from decrease in the rate of the known index in the Quarter of approx. 0.7%, compared with a decrease in the same period last year of approx. 0.2% only, and on the other hand from profit from marketable securities (plus interest and dividend therefrom) in the sum of approx. NIS 12 million in the Quarter, compared with a profit in the sum of approx. NIS 20 million in the same period last year.

1.9 Taxes on Income

The Group's income tax expenses for the year ended December 31, 2012, amounted to the sum of approx. NIS 272 million, compared with tax expenses in the sum of approx. NIS 876 million in the same period last year. The decrease in the expenses in the sum of approx. NIS 604 million resulted mainly from an exceptional one-time expense (consolidated) recorded in 2011 in the sum of approx. NIS 601 million due to the cancellation of the reduction in the corporate tax rate.

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

	For the year ended		
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2010**
Net profit for the period attributed to the shareholders	**939**	**596**	**1,224**
Net profit attributed to the shareholders and non-controlling interests	**986**	**623**	**1,255**
Basic profit per share (NIS)	**7.74**	**4.91**	**11.33**
Comprehensive income for shareholders and non-controlling interests	**1,111**	**204**	**1,317**

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

	For the three months period ended		For the year ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Consolidated Net Profit (loss)	**378**	**(135)**	**986**	**623**	**1,255**
Profit from real estate revaluation net of tax	**(173)**	**(317)**	**(247)**	**(696)**	**(730)**
Effect of change of the tax rate	**-**	**601**	**-**	**601**	**-**
Loss (Profit) from marketable securities net of tax	**(7)**	**(7)**	**(16)**	**75**	**(35)**
Interest and dividend revenues from marketable securities net of tax	**(3)**	**(14)**	**(29)**	**(56)**	**(19)**
Dividend from assets available for sale	**-**	**(2)**	**(8)**	**(45)**	**(31)**
Total change factors	**(183)**	**261**	**(300)**	**(121)**	**(815)**
Comprehensive income net of the change factors	**195**	**126**	**686**	**502**	**440**
Rate of increase in profit net of change factors	**55%**		**37%**	**14%**	

The Comprehensive Income

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

The comprehensive income for the year ended December 31, 2012 amounted to the sum of approx. NIS 1,111 million, compared with a net profit (including non-controlling interests) in the sum of approx. NIS 986 million in the same period. The aforesaid difference results mainly from a profit in the sum of approx. NIS 139 million due to a positive change in the fair value of financial assets available for sale (mainly change in the fair value of the investment in Bank Leumi le-Israel and Leumi Card) and net of tax.

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

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

1.11.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three months period ended		For the year ended	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
	NIS in millions			
Revenues	**220**	**219**	**874**	**814**
% change	**0.5%**		**7%**	
NOI	**177**	**175**	**702**	**662**
% change	**1%**		**6%**	

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 retail centers and malls and from the revenues of retail centers and malls that were added to the Group due to the completion of construction and population thereof in 2011 (Azrieli Akko Mall and Azrieli Kiryat Atta Mall).

In the Quarter that ended December 31, 2012, the NOI increased compared with the same quarter last year, resulting from the increase in revenues from existing properties.

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

	For the three months period ended		**For the year ended**	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
For the segment's assets owned by the Company as of the beginning of the period[5]	**177**	**175**	**667**	**645**
For assets that were purchased or whose construction was completed in 2011	**-**	**-**	**35**	**17**
For assets that were purchased or whose construction was completed in 2012	**-**	**-**	**-**	**-**
Total	**177**	**175**	**702**	**662**

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

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

- Most lease contracts are linked to the CPI that rose in the Report Period by 1.4% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).
- Operational streamlining in the management companies.

The balance of the assets of retail centers and malls in Israel segment – amounted as of December 31, 2012, to the sum of approx. NIS 9.6 billion, compared with approx. NIS 9.4 billion on December 31, 2011. The increase results mainly from the adjustment of the value of the assets to their fair value according to valuations of an independent appraiser as well as from investments.

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted in the Report Period to the sum of approx. NIS 84 million, compared with a profit of approx. NIS 555 million in the same period last year.

The change derives mainly from an update of the cap rate and developer profit of Azrieli Akko Mall and Azrieli Kiryat Ata Mall that commenced operation in 2011, and from changes deriving from the increase of the CPI (the highest in the period) that rose in 2012 by approx. 1.9%, compared to approx. 2.75%.

1.11.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three months ended		For the year ended	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
	NIS in millions			
Revenues	**86**	**84**	**340**	**325**
% change	**2%**		**5%**	
NOI	**73**	**71**	**282**	**272**
% change	**3%**		**4%**	

The increase in revenues and in the NOI derives mainly from revenues from office and other space for lease which was added to the Group pursuant to the purchase thereof during the Report Period (50% of an office building in Petah Tikva) , an improvement in revenues from existing office space for lease, and the lease of vacant space.

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

	For the three months period ended		For the year ended	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[6]	72	71	281	272
Due to assets whose construction was completed in 2011	-	-	-	-
Due to assets which were purchased or whose construction was completed in 2012	1	-	1	-
Total	**73**	**71**	**282**	**272**

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 in Israel segment was favorably affected primarily by:

- Most lease contracts are linked to the CPI (which rose in the Report Period by 1.4% (known index)).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).
- Continuation of population of Tower E in the Herzliya Business Park.
- Operational streamlining of the management companies.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on December 31, 2012 to the sum of approx. NIS 4.8 billion, compared with approx. NIS 4.3 billion on December 31, 2011. The increase derives mainly from continued investment in offices under construction, the purchase of offices and land for offices during the Report year and the adjustment of the properties' value to the fair value thereof according to valuations of an independent appraiser.

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 142 million, compared with a profit of approx. NIS 218 million in the same period last year.

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

For details regarding transactions pertaining to real estate properties during the Report Period, see Section 1.3.3 of Chapter A of the Report.

1.11.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For a period of three months ended on		For the year ended on	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	NIS millions			
Revenues	**45**	**29**	**181**	**102**
Percentage of change	**55%**		**77%**	
NOI	**25**	**12**	**103**	**48**
Percentage of change	**108%**		**115%**	

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 the office building in Houston, Texas, USA, 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 months period ended on		For the year ended on	
	Dec. 31, 2012	**Dec. 31, 2011**	**Dec. 31, 2012**	**Dec. 31, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[7]	17	12	24	19
Due to assets that were purchased in 2011	-	-	49	29
Due to assets that were purchased in 2012	8	-	30	-
Total	**25**	**12**	**103**	**48**

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

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

[7] 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 in the USA segment was adversely affected mainly from:

- The US Dollar exchange rate decreased in 2012 by 2.3% compared with an increase of approx. 7.7% in 2011. The exchange rate of the US Dollar decreased in the Quarter by 4.6%, compared with an increase of approx. 2.9% in the same quarter last year.

The investment properties balance of the Group in the segment – totaled on December 31, 2012 in the sum of approx. NIS 1.6 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 and from the adjustment of the value of the properties to their fair value according to valuations of an independent appraiser.

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

Profit from the adjustment of fair value of investment properties of the segment totaled during the Report Period to the sum of approx. NIS 88 million, compared with a profit of approx. NIS 76 million, in the same period last year.

For details regarding transactions pertaining to real estate properties in the USA during the Report Period, see Section 1.3.3 of Chapter A of the Report.

1.11.4 Granite Hacarmel segment

For details regarding the full tender offer, see Section 1.3.1 of Chapter A of this Report.

The Company's share (without non-controlling interests) in the Granite Hacarmel segment results amounted, in the year ended on December 31, 2012, to a profit of approx. NIS 83 million, compared with a profit of approx. NIS 5 million in the same period last year.

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

	For the three months ended		Increase/ Decrease	For the year ended		Increase/ Decrease
	Dec. 31, 2012	Dec. 31, 2011		Dec. 31, 2012	Dec. 31, 2011	
	NIS in millions		%	NIS in millions		%
Revenues	**1,876**	**1,672**	**12%**	**7,659**	**6,305**	**21%**
Operating Profit	**90**	**25**	**260%**	**320**	**208**	**54%**
Net Profit (Loss)	**42**	**(19)**	**-**	**124**	**39**	**218%**

Summary of Granite Hacarmel's business results:

The main rise in Granite Hacarmel's revenues during the Report Period compared with the same period last year derived from an increase in revenues in all operating segments of Granite Hacarmel and especially in Sonol due to the increase in the amount of fuels and the increase in oil distillates prices and in GES, mainly due to the work of expanding the desalination facility and due to an increase in the amounts of water desalinated in the facility.

Gross profit

Granite Hacarmel's gross profit amounted in the year ended on December 31, 2012 to a sum of approx. NIS 1,202 million, compared with approx. NIS 1,101 million in the same period last year. An increase at a rate of approx. 9% during the Report Period which was influenced mainly by an increase in the gross profit of Sonol, G.E.S. and Supergas.

The gross profit of Granite Hacarmel amounted in the Quarter to approx. NIS 299 million, compared with approx. NIS 255 million in the same period last year. An increase at a rate of approx. 18% in the Quarter resulting from all of Granite Hacarmel's operating segments.

The operating profit

The operating profit in 2012 amounted to approx. NIS 320 million, compared with the sum of approx. NIS 208 million in the same period last year, an increase of approx. 54%. The increase in the operating profit derives from all of the operating segments of Granite Hacarmel and mainly from G.E.S. and Sonol. The operating profit includes an income from revaluation of investment property in the sum of approx. NIS 14 million, as well as profit from an increase in the value of investment as a result of loss of material effect in an associated company in the sum of approx. NIS 15 million.

The operating profit in the Quarter amounted to approx. NIS 91 million, compared with the sum of approx. NIS 26 million in the same period last year, an increase of approx. 252%.

The increase in the operating profit in the Quarter derives from all of the operating segments of Granite Hacarmel and mainly from Sonol. The operating profit includes an income from revaluation of investment property in the sum of approx. NIS 8 million, as well as profit from an increase in the value of investment as a result of loss of material effect in an associated company in the sum of approx. NIS 15 million.

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, rate of progress of the projects under construction, effects of the economic condition on the Company's operating segments, scope of funds received from OPC (if any) in connection with the purchase of electricity 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 Report Date, the Company's estimates in respect of market developments, levels of inflation and the anticipated cash flows, and on the conditions of and possibilities for raising credit on the Report Date. Such estimates may not be realized, in whole or in part, or may be realized in a materially different manner than such which the Company estimated. The main factors which may affect the same are: changes in the capital market which will affect the conditions of and possibilities for raising credit, changes in the Company's plans, including use of liquid balances which will exist, for purposes of taking advantage of business opportunities, changes in the merit of holding various investment channels or in the merit of using various financing channels, the worsening of the economic condition in Israel or in the USA and the entering into a severe recession, and the Company or any of the Group's members encountering financing or other difficulties, in the manner which will have an effect on the Company's cash flow.

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

2.1 General

The following specification pertains to the Company and subsidiaries wholly owned thereby, as well as to material investee companies of the Company whose exposure to market risks may materially affect the Company.

2.2 The Person Responsible for Market Risk Management

Risk management at the Company and the investee companies in the Group is determined and performed directly by their managements.

The person responsible for market risk management at Azrieli Group Ltd. is the Company's CFO, Mr. Yuval Bronstein. For details on his education, qualifications and business experience, see Chapter D – Additional Details on the Corporation - of this Report.

2.3 Description of Market Risks

For details regarding the Company's market risks, see Note 36 to the financial statements as of December 31, 2012.

2.4 The Company's Market Risk Management Policy

For details regarding the Company's market risk management policy, see Note 36 to the financial statements as of December 31, 2012.

During 2012 Granite Hacarmel used derivative financial instruments for protection of its surplus exposure. See Annex B of this Report.

2.5 Means of Supervision and Implementation of the Policy

The finance committee and the board of directors deliberate, at least once every quarter, the Company's exposures to market risks and the actions which the Company's management has taken, and insofar as required determines quantitative criteria and limitations. The Company's management examines the control procedures on a current basis and updates the same in accordance with the scope of the business and the risk deriving from the business.

2.6 Positions in derivatives

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

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

In accordance with the main market risks specified above and in accordance with the provisions of the Second Schedule to the Regulations, the Group is performing sensitivity tests regarding changes in market risks affecting the fair value of "financial instruments". For details see, Annex A attached hereto.

2.8 **Linkage bases table**

For details, see Note 37 to the financial statements.

3. Corporate Governance Aspects

For details regarding the aspects of the corporate governance in the Company, including a corporate governance questionnaire, details regarding the directors and approval of the reports, remuneration for senior officers, the Internal Auditor and the Auditor, see corporate governance chapter attached as Chapter E of this Report.

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

4.1 Critical accounting estimates

Preparation of the financial statements according to accepted accounting principles in Israel, which are the International Financial Reporting Standards – IFRS, requires the Company's management to perform assessments and estimates which affect the reported values of the assets, liabilities, revenues and expenses, as well as disclosure in connection with contingent assets and liabilities.

For a review of the main principles of the Company's accounting policy, see Note 2 to the financial statements. The Company examined the disclosure provisions set forth in FAQ14 and in Section 10(b)(8) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and no significant disparities were found in the estimates specified in Note 3 to the financial statements.

4.2 Disclosure pertaining to Very Material Valuations

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

The Israeli Securities Authority further determined that where the valuation fulfills the quantitative tests but qualitative considerations led to a different decision of the corporation and it was decided not to attach the same, the corporation will examine the effect of the valuation on the net or comprehensive income of the current year, as the case may be, in respect of the equity which is attributed to the owners of the corporation (effect on equity without non-controlling interests) or on any other accepted criterion in the industry (the "**Additional Test**"). Insofar as after the application of the Additional Test the corporation adopts a resolution whereby a valuation is not very material, it shall disclose its resolution, while specifying the results of the quantitative tests, including the Additional Test and the reasons and considerations which constituted the basis for this resolution.

As of the Report Date, the Company's board of directors determined that there is an obligation to attach a valuation of an asset whose value is at least 10% of the Company's total consolidated assets, or that the change in its fair value

constitutes, in the absolute value thereof, at least 10% of the consolidated profit/loss of the Company (of the Company's profit or loss before financing, tax and excluding profit or loss from revaluation of investment properties in the current reported period), provided that the change in the fair value constitutes, in its absolute value, at least 4% of the Company's capital, as the same is presented in the Company's consolidated balance sheet.

As of the Report Date and after the above determination was examined, attached is the very material valuation only in respect to 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) - attached as Annex C of this Report.

As of December 31, 2012, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2012) was in the sum of approx. NIS 4.5 billion (which is attributed both to Azrieli Center's towers and Azrieli mall,), out of a fair value of investment properties in the sum of approx. NIS 16 billion (approx. 28% of the Company's total investment properties).

4.3 Events after the Date of the Financial Statements

See Note 41 to the financial statements.

4.4 Financial figures attributed to the Company as a parent company

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

4.5 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 34 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 year ended December 31, 2012.

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

Date: March 19, 2013

Annex A

Sensitivity Tests

December 31, 2012

Annex A – Sensitivity Tests

The following tables should be read in view of the following remarks:

1. The recorded instruments are not necessarily presented in the financial statements at fair value.
2. For details on the interest rates that were used in the determination of the fair value, see also Note39F(2) to the financial statements.
3. Sensitivity to 2% absolute change in the interest constitutes an extreme scenario in the Company's estimation, after reviewing severe but conceivable scenarios.

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in the NIS interest rate

	Profit (loss) from the changes in the market factor			**Fair value of asset (liability)**	**Profit (loss) from the changes in the market factor**			**Value determination method**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Marketable securities	(7,384)	(1,217)	(609)	100,474	609	1,217	7,384	market value
Interest Swap Transaction	1,286	1,236	62	258	(62)	(123)	(1,256)	Forward formula
Long-term loans that were received	15,726	4,409	2,219	(472,918)	(2,244)	(4,517)	(17,046)	DCF model
Financing leases	819	335	170	(10,368)	(174)	(354)	(943)	DCF model
Forward transactions	953	80	40	(11,040)	(40)	(81)	(970)	Forward formula
Total	11,400	4,843	1,882	(393,594)	(1,911)	(3,858)	(12,831)	

Annex A – Sensitivity Tests
(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in the US dollar interest rate

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from the changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Forward Transactions purchase Dollar/NIS	(963)	(15)	(7)	(10,987)	7	15	985	Forward formula
Loans granted	(76)	(20)	(10)	5,056	10	21	86	DCF model
Loans received	93,757	19,743	9,947	(1,002,263)	(10,102)	(20,362)	(108,569)	DCF model
Financing leases	349	154	80	(2,125)	(86)	(179)	(506)	DCF model
Marketable securities	(872)	(123)	(61)	8,345	61	123	872	DCF model
Total	92,195	19,739	9,949	(1,001,974)	(10,110)	(20,382)	(107,125)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in the real interest rate

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from the changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Marketable securities	(14,759)	(1,576)	(788)	174,392	788	1,576	14,474	market value
Limited Investments	(4,693)	(265)	(133)	21,573	134	269	6,133	DCF model
Long-term loans granted	(5,912)	(2,186)	(1,109)	86,173	1,136	2,299	6,834	DCF model
Long-term loans received	144,779	16,047	8,075	(2,896,539)	(8,180)	(16,467)	(163,885)	DCF model
Bonds	129,604	14,818	7,451	(1,927,271)	(7,533)	(15,149)	(146,148)	DCF model
Receivables in respect of a franchise arrangement	(121,587)	(24,889)	(12,579)	618,514	12,855	25,995	151,065	DCF model
Financing Leases	505	208	108	(7,849)	(117)	(244)	(738)	DCF model
Interest Swap Transaction	(1,257)	13	6	258	(6)	(13)	1,341	Forward Formula
Total	126,680	2,170	1,031	(3,930,749)	(923)	(1,734)	(130,924)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in exchange rates NIS/dollar

	Profit (loss) for the changes in the market factor		Fair value of asset (liability)	Profit (loss) from the changes in the market factor		Value determination method
	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	
Exposure on the balance sheet linkage	(26,181)	(13,090)	(261,811)	13,090	26,181	Book Value
Loans granted	506	253	5,056	(253)	(506)	Book Value
Financing leases	(213)	(106)	(2,125)	106	213	Book Value
Receivables in respect of a franchise arrangement	5,457	2,728	54,567	(2,728)	(5,457)	Book Value
Long-term loans received	(103,577)	(51,789)	(1,035,776)	51,789	103,577	Book Value
Forward purchase transactions Dollar/Shekel	58,963	29,482	(10,987)	(29,482)	(58,963)	Market Value
Embedded financial derivative	1,259	629	(331)	(629)	(1,259)	Yield curve discount
Total	(63,786)	(31,893)	(1,251,407)	31,893	63,786	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in consumer price index

	Profit from changes in market factor		Fair value of liability	Loss from changes in market factor		Value determination method
	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	
Future index transactions	10,000	5,000	(497)	(5,000)	10,000	Market value
Interest swap transactions	3,400	1,700	258	(1,650)	(3,300)	Market value
Total	13,400	6,700	239	(6,650)	(13,300)	

Sensitivity to changes of interest rates in the CAD

	Profit from the changes in the market factor			Fair value of asset	Loss from the changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	2% increase	10% increase	5% increase		5% decrease	10% decrease	2% decrease	
Marketable Securities	(2,102)	(351)	(175)	59,867	175	351	2,102	Market value
Total	(2,102)	(351)	(175)	59,867	175	351	2,102	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in exchange rates of other currencies

	Profit from changes in the market factor		Fair value of asset	Loss from changes in the market factor		Value determination method
	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	
Exposure on the balance sheet linkage	4,197	2,099	41,972	(2,099)	(4,197)	Book Value
Receivables in respect of a franchise arrangement	12,512	6,256	125,122	(6,256)	(12,512)	DCF model
Long-term loans received	(9,232)	(4,616)	(92,321)	4,616	9,232	Book value
Embedded financial derivative	1,995	998	(39)	(998)	(1,995)	Yield Curve Discount
Forward purchase transactions Euro/NIS	1,477	738	(53)	(738)	(1,477)	Forward formula
Total	10,949	5,475	74,681	(5,475)	(10,949)	

Sensitivity to changes in the prices of oil distillates on the inventory (NIS in thousands) (before tax)

	Profit (loss) from the changes		Fair value	Profit (loss) from the changes	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Rate of change	**10%**	**5%**		**(5%)**	**(10%)**
Oil distillates inventory	16,474	8,237	170,208	(8,237)	(16,474)
	16,474	8,237	170,208	(8,237)	(16,474)

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to security rates

	Profit from the changes in the market factor		Fair value of asset	Loss from the changes in the market factor		Value determination method
	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	9,454	4,727	94,532	(4,727)	(9,454)	Market value
Governmental bonds	14,162	7,081	141,620	(7,081)	(14,162)	Market value
Corporate bonds	21,336	10,668	213,352	(10,668)	(21,336)	Market value
Participation certificates in trust fund	1,614	807	16,136	(807)	(1,614)	Market value
Others	512	256	5,117	(256)	(512)	
Total	47,078	23,539	470,757	(23,539)	(47,078)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2012 in accordance with changes in market factors:

Sensitivity to changes in the interests of investment property cap rates

	Loss from changes in the market factor			Fair value of asset	Loss from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Weighted cap rate								
6%-7%	(349,921)	(138,880)	(72,746)	1,484,334	80,404	169,742	647,240	DCF model
7% - 7.5%	(1,300,093)	(551,940)	(289,053)	6,026,205	319,446	674,221	2,272,805	DCF model
7.51% - 8%	(888,630)	(387,990)	(202,891)	4,215,605	225,586	475,416	1,526,698	DCF model
8.01% - 8.5%	(342,394)	(157,921)	(82,699)	1,744,467	91,353	192,794	563,643	DCF model
8.51% - 9%	(214,731)	(102,217)	(53,529)	1,120,950	59,128	124,785	347,477	DCF model
9.0% - 10%	(8,159)	(4,217)	(2,192)	79,005	2,386	4,993	11,730	
Investment properties and investment properties under construction	(3,103,928)	(1,343,165)	(703,110)	14,670,566	778,303	1,641,951	5,369,593	

Annex A – Sensitivity Tests
(Continued)

Sensitivity to index linked security rates as of December 31, 2012

	Profit from changes in market factor		Fair value of asset	Loss from changes in market factor		Value determination method
	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	3,460	1,730	172,965	(1,730)	(3,460)	Market value
Total	3,460	1,730	172,965	(1,730)	(3,460)	

Sensitivity to nominal security rates as of December 31, 2012

	Profit from changes in the market factor		Fair value of asset	Loss from changes in market factor		Value determination method
	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	2,216	1,108	110,833	(1,108)	(2,216)	Market value
Shares	1,890	945	94,530	(945)	(1,890)	Market value
Trust funds	74	37	3,670	(37)	(74)	Market value
Others	46	23	2,311	(23)	(46)	Market value
Total	4,226	2,113	211,344	(2,113)	(4,226)	

Annex A – Sensitivity Tests
(Continued)

The following tables should be read in view of the following remarks:

1. The recorded instruments are not necessarily presented in the financial statements at fair value.
2. For details on the interest rates that were used in the determination of the fair value, see also Note 39F(2) to the financial statements.
3. Sensitivity to 2% absolute change in the interest constitutes an extreme scenario in the Company's estimation, after reviewing severe but conceivable scenarios.

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in the NIS interest rate

	Profit (loss) from the changes in the market factor			**Fair value of asset (liability)**	**Profit (loss) from the changes in the market factor**			**Value determination method**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Marketable securities	(28,207)	(5,746)	(2,873)	390,328	2,873	5,746	28,207	market value
Interest Swap Transaction	1,704	287	143	(182)	(148)	(285)	(1,992)	market value
Long-term loans that were received	11,588	2,727	1,371	(323,411)	(1,382)	(2,775)	(12,442)	DCF model
Financing leases	797	333	169	(10,600)	(174)	(354)	(1,992)	DCF model
Total	(14,118)	(2,399)	(1,190)	56,135	1,169	2,332	11,781	

Annex A – Sensitivity Tests
(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in the US dollar interest rate

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from the changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Forward Transactions purchase Dollar/NIS	(916)	(14)	(7)	5,136	7	14	936	market value
Loans granted	(102)	(28)	(14)	1,934	14	29	115	DCF model
Loans that were received	76,401	23,028	11,654	(700,754)	(11,942)	(24,180)	(90,461)	DCF model
Financing leases	4,621	1,944	990	(43,314)	(1,029)	(2,099)	(5,622)	DCF model
Total	80,004	24,930	12,623	(736,998)	(12,950)	(26,236)	(95,032)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in the real interest rate

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from the changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Marketable securities	(37,963)	(6,024)	(3,012)	500,702	3,012	6,024	37,963	market value
Limited Investments	(5,129)	(293)	(147)	22,037	148	297	6,838	DCF model
Long-term loans that were granted	(4,813)	(1,900)	(963)	59,912	990	2,008	5,561	DCF model
Long-term loans that were received	184,510	28,373	14,275	(3,111,661)	(14,455)	(29,096)	(209,972)	DCF model
Bonds	150,321	24,649	12,409	(2,046,020)	(12,580)	(25,336)	(172,032)	DCF model
Receivables in respect of a franchise arrangement	(75,874)	(18,690)	(9,465)	517,610	9,713	19,681	95,322	DCF model
Financing Leases	731	251	130	(4,278)	(139)	(287)	(1,138)	DCF model
Embedded financial derivative	291	68	35	(289)	(36)	(72)	(364)	Yield curve discount
Interest Swap Transaction	(1,996)	(83)	(41)	(182)	42	83	1,786	Forward Formula
Total	210,078	26,351	13,221	(4,062,169)	(13,305)	(26,698)	(236,036)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in exchange rates NIS/dollar

	Profit (loss) from the changes in the market factor		Fair value of asset (liability)	Profit (loss) from the changes in the market factor		Value determination method
	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	
Exposure on the balance sheet linkage	(105,739)	(52,870)	(1,057,390)	52,870	105,739	Book Value
Forward purchase transactions Dollar/Shekel	61,748	38,874	5,136	(38,874)	(61,748)	Market Value
Embedded financial derivative	6,693	3,346	(238)	(3,346)	(6,693)	Yield curve discount
Total	(37,298)	(18,650)	(1,052,492)	18,650	37,298	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011in accordance with changes in market factors:

Sensitivity to changes in consumer price index

	Profit from changes in market factor		Fair value of liability	Loss from changes in market factor		Value determination method
	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	
Interest swap transaction	3,320	1,660	(182)	(1,660)	(3,320)	Market value
Future index transactions	45,980	22,990	(5,650)	(22,990)	(45,980)	Market value
Total	49,300	24,650	(5,832)	(24,650)	(49,300)	

Sensitivity changes of interest rates in the CAD

	Profit from the changes in the market factor		Fair value of asset	Loss from the changes in the market factor		Value determination method
	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	
Marketable Securities	(854)	(427)	55,525	427	854	Market value
Total	(854)	(427)	55,525	427	854	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in exchange rates of other currencies

	Profit from changes in the market factor		Fair value of asset	Loss from changes in the market factor		Value determination method
	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	
Exposure on the balance sheet linkage	4,919	2,460	49,188	(2,150)	(4,252)	Book Value
Embedded financial derivative	6,031	3,015	(544)	(3,015)	(6,031)	Yield Curve Discount
Forward purchase transactions Euro/NIS	495	247	11	(247)	(495)	Market Value
Sale of put options Euro/NIS	(37)	(37)	(37)	(273)	(630)	Market Value
Total	11,408	5,685	48,618	(5,685)	(11,408)	

Sensitivity to changes in the prices of oil distillates on the inventory (NIS in thousands) (before tax)

	Profit (loss) from the changes		Fair value	Profit (loss) from the changes	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Rate of change	**10%**	**5%**		**(5%)**	**(10%)**
Oil distillates inventory	11,112	5,556	111,115	(5,556)	(11,112)
	11,112	5,556	111,115	(5,556)	(11,112)

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to security rates

	Profit from the changes in the market factor		Fair value of asset	Loss from the changes in the market factor		Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	10% increase	5% increase		5% decrease	10% decrease	
Shares	24,898	12,449	248,985	(12,449)	(24,898)	Market value
Governmental bonds	51,586	25,793	515,859	(25,793)	(51,586)	Market value
Corporate bonds	51,884	25,942	518,844	(25,942)	(51,884)	Market value
Convertible bonds	10	5	105	(5)	(10)	Market value
Participation certificates in trust fund	10,630	5,315	106,305	(5,315)	(10,630)	Market value
Others	1,170	585	11,689	(585)	(1,170)	Market value
Total	140,178	70,089	1,401,787	(70,089)	(140,178)	

Annex A – Sensitivity Tests

(Continued)

Table on sensitivity for financial instruments as of December 31, 2011 in accordance with changes in market factors:

Sensitivity to changes in the interests of investment property cap rates

	Loss from changes in the market factor			Fair value of asset	Loss from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Weighted cap rate								
7% - 7.5%	(1,430,656)	(609,713)	(319,373)	6,699,132	352,992	745,204	2,495,265	DCF model
7.51% - 8%	(810,232)	(355,372)	(185,995)	3,836,572	206,246	435,053	1,384,521	DCF model
8.01% - 8.5%	(468,915)	(216,887)	(113,607)	2,344,178	125,637	265,121	772,687	DCF model
8.51% - 9%	(157,895)	(76,190)	(39,909)	817,620	44,110	93,121	253,401	DCF model
9.51% - 10%	(19,183)	(9,729)	(5,081)	136,852	5,578	11,735	29,005	DCF model
Investment properties and investment properties under construction	(2,886,881)	(1,267,891)	(663,965)	13,834,354	734,563	1,550,234	4,934,879	

Annex A – Sensitivity Tests
(Continued)

Sensitivity to index linked security rates as of December 31, 2011

	Profit from changes in market factor		Fair value of asset	Loss from changes in market factor		Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	2% increase	1% increase		1% decrease	2% decrease	
Index linked bonds	10,026	5,013	501,306	(5,013)	(10,026)	Market value
Index linked convertible bonds	2	1	105	(1)	(2)	Market value
Total	10,028	5,014	501,411	(5,014)	(10,028)	

Sensitivity to nominal security rates as of December 31, 2011

	Profit from changes in the market factor		Fair value of asset	Loss from changes in market factor		Value determination method
	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	9,072	4,536	453,578	(4,536)	(9,072)	Market value
Shares	4,938	2,469	246,912	(2,469)	(4,938)	Market value
Trust funds	276	138	13,760	(138)	(276)	Market value
Others	1,666	833	83,255	(833)	(1,666)	Market value
Total	15,952	7,976	797,505	(7,976)	(15,952)	

Annex B

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

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

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

Granite HaCarmel and consolidated companies perform, as aforesaid, financial protection of 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 December 31, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
100,000	NIS	July to October 2013	(497)

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

It shall be noted that most of Granite's transactions ended in the third quarter.

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 December 31, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
31,300	NIS	2014 - 2016	258

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

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

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
158,000	Dollar	NIS	Jan to March 2013	(10,987)

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$198,250thousand, 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

Azrieli Center Valuation

December 31, 2012

March 18, 2013

Our reference: 3415-08

CANIT HASHALOM INVESTMENTS LTD.

1 Azrieli Center, Tel Aviv

Expert Professional Opinion

Comprehensive Land Valuation - "Azrieli Center"

1 Azrieli Center, Tel Aviv

At your request, which was received by our firm on December 31, 2012, by Yuval Bronstein, CFO of the Azrieli Group Ltd., submitted hereby is a Professional Opinion for estimation of the value of the rights of Canit Hashalom Investments Ltd. (the "Company") in Azrieli Center and its components (parking lot, mall and offices) (the "Property").

We agree that our Opinion will be released in the framework of the financial statements of the Company and/or the Azrieli Group Ltd., which shall be released to the public.

Over the years we have performed valuations for the Azrieli Group Ltd. and companies controlled thereby.

The income from these assignments is not material to our firm and therefore no dependency was thereby created of our firm on the Company and/or Azrieli Group Ltd.

We received a letter of indemnity from Azrieli Ltd. that was signed by Menachem Einan and Yuval Bronstein on March 23, 2010. According to the letter of indemnity the Company undertakes to indemnify the appraisers if they are charged with a financial liability in connection with an appraisal as a result of incorrect documents or information provided by the Company or other companies on its behalf and/or as a result of non-transfer of documents or other information required for the valuation (except for documents held by the authorities and/or the public). The indemnification duty shall not apply if the appraisers shall have acted negligently or maliciously in connection with the Opinion.

This valuation was made according to Standard No. 17.1 of the Real Estate Appraisers Council and according to the International Valuation Standards (IVS), Edition 2007 and especially IVA1 Standard (INTERNATIONAL VALUATION APPLICATION 1).

Expert name:	**Adina Greenberg**
Address:	**65 Yigal Alon, St., Toyota Tower, Tel Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 237, since 1990.**

Education:

1985-1987	Tel Aviv University - Real Estate Appraisal and Property Management studies.
1975-1979	Technion – Civil Engineering studies in the framework of the academic reserve.
December 2001	Mediation course of the Israel Center for Negotiation & Mediation (ICNM).

Professional Experience:

Since October 1994	Partner at Real Estate Appraisals firm Greenberg Olpiner & co.

Expert name:	**Ronen Katz**
Address:	**65 Yigal Alon St., Toyota Tower, Tel - Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 616, since 1997.**

Education:

1993-1995	Tel Aviv University - Real Estate Appraisal and Property Management studies.
1990-1993	Faculty of Agriculture of the Hebrew University of Jerusalem, B.A. in Agricultural Economics and Management.

Professional Experience:

2001 -	Partner at Greenberg Olpiner & co.
1995-2001	Greenberg Olpiner & Co. A Trainee until 1997 and thereafter as a Real Estate Appraiser.

And this is the question:

The market value estimate of the Company's rights in Azrieli Center and its components (parking lot, mall and offices), in the free market, in the criterion of a willing buyer from a willing seller.

We were informed by the Company, the owner of the Property, that the Property contemplated in the Opinion is defined as an investment property according to International Financial Reporting Standards (IFRS), International Standard IAS 40.

Market value is defined according to IVS1 International Standard as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion".

The effective date for the valuation – December 31, 2012.

Documents and representations received from the Company:

- Underlying agreement between the City of Tel Aviv-Jaffa and the Company.
- Compromise agreement between the City of Tel Aviv-Jaffa and the Company.
- Lease agreements between the City of Tel Aviv-Jaffa and the Company regarding the parking lot, the mall, the Round Tower, the Triangular Tower and the Square Tower.
- Report of the Company's figures for the rent actually received for the years 2010-2012.
- Report of the management companies' figures for the years 2010-2012.
- Forecast for leased areas and forecast for income from rent and management fees for 2013, based on signed contracts (see clarification in Section 4.1 below).
- Data on the business activity of the parking lot for the years 2010-2012 and income forecast for 2013, based on signed contracts (see clarification in Section 4.2.6).
- Document of undertaking to populate the Square Tower dated February 28, 2008.
- The Company's document regarding the cost of building the tunnel and the bridge.
- Disclosure document1.

[1] See separate chapter in the Valuation.

And hereby is our professional Opinion:

1. Property information

Block:	7106,	7102
Parcel:	59,	49
Parcel area:	31,992 sqm,	903 sqm.
Total built-up area:	326,233 sqm (according to building permit application plans)	
Rights:	Lease from the City of Tel Aviv-Jaffa	

2. Description of the Property and the surroundings

Site visit performed by the undersigned on February 5, 2013.

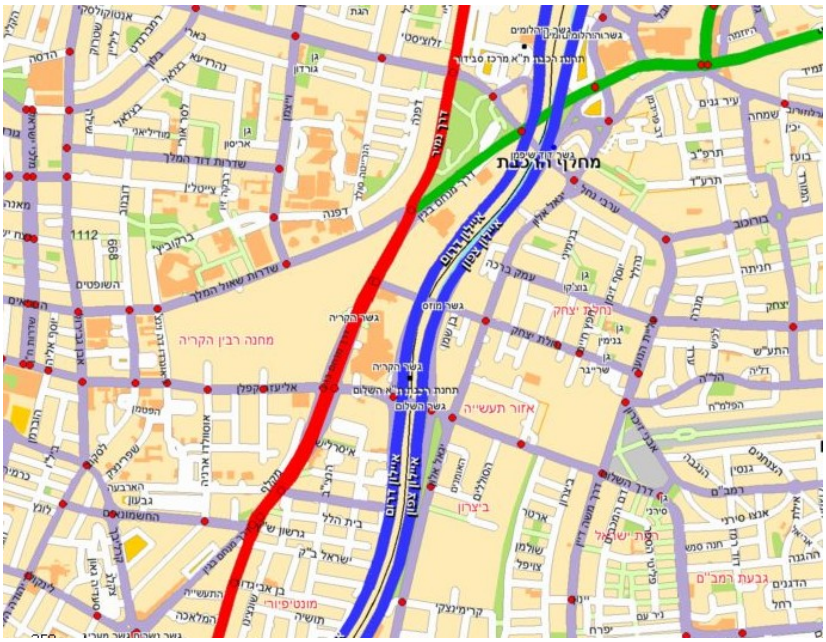
2.1 Description of the surroundings

The surroundings are known as the Northern Tel Aviv CBD . Bounded on the west by Menachem Begin Rd., Parashat Derachim St. on the north, the Ayalon Highway on the east and Ha'Shalom Rd. on the south. The accessibility is excellent due to its proximity to main traffic roads (Ayalon Highway, Ha'Shalom Rd. and Haifa Rd.). Ha'Shalom railway station, located in Ha'Shalom interchange is adjacent to Azrieli Center, which is the subject matter of the Opinion.

At the south-west corner of Petach Tikva Rd. and Ha'Shalom Rd. junction is located the Government Compound Tower, which includes areas used by the governmental offices and areas leased to private entities.

In the last few years new plans where approved allowing, whereby in the surroundings are planned some projects for offices, high-tech industries, employment and trade, combined with residential upper floors up to building rate of about 450%. The projects that are planned in the surroundings (some of which, in initial stages of construction) are the "Echtman Bldg." (in initial stages of construction, located north of the subject matter of the Opinion), "Kardan House", Gazit Paz House (existing building, a building addition is planned on the building’s roof), the “Yedioth Ahronoth”, "Egged", "Kupat Holim", "Tnuva" complexes and "Hatzeerim Tower" which designated for commerce and residence, located north of the subject matter Property.

Area plan



2.2 The business area

In the last two decades several office towers were built in the area that include, *inter alia*: the Government Compound Tower, the office towers in Ha'Arbaa St. (Platinum, Ha'Tichon and Millennium), 2 office towers planned on the intersection of Ha'Arbaa St. and Ernie (are under initial construction stages by Hagag Group), office tower is designed in Max Payne School's complex (south of the subject matter of the Opinion), an office tower adjacent from the south to the Government Campus (is under initial construction stages by the Company).

Another focus of employment areas in the vicinity under formation is along Yigal Alon St. (the southern part of the street, south of Ha'Shalom Rd.). The Toyota office tower and the Elco Tower are in the area, HaArgaz complex (the purchase of the complex by B.S.R Group and Harel and Migdal was recently closed for construction of 2 office towers) are in preliminary stages of population. There are also in the immediate area several large land complexes designated for office towers, such as: "Shmei bar" complex, "Machshirei Tnua" complex, the "Cinerama", the "ACE" complex, etc.

Town plan TA/3000 (South Kirya complex) declares the Sharona colony, which is located southwest of the subject matter of the valuation, as a conservation park in an area of approx. 40 thousand sqm that includes 37 Templar stone houses. The area was marketed approximately three years ago to several companies and there is currently on site under stages of construction a project for commercial and public uses.

6 residential towers which will include about 650 residential units (as well as retail areas and offices on the lower floors) on a total main area of approx. 90,000 sqm are planned to be built to the west and south of the park, in immediate proximity thereto. 3 residential towers have been marketed to Gindi Holdings, and are currently under construction.

In the second row, 9 towers for office, commercial and hotel uses are planned (the lot, designated for a hotel was marketed over a year ago to Nitsba) on a total main area of approx. 400,000 sqm are planned in the second line (some of which have already been built - the Kirya Tower, Platinum, Millennium, Hatichon Tower).

2.3 Description of the parcels

The subject matter of the Opinion is the "Azrieli Center" project, which is built on parcel 59 in block 7106 and parcel 49 on block 7102, which constitute a plot of land on a total area of 32,894 sqm, with a regular rectangular shaped plot, with three fronts, on a level surface.

Borders:

South- Front facing the Givat Ha'Tachmoshet St. (which connects Kaplan St. on the west to Ha'Shalom Rd. on the east), constitute a major traffic artery connecting the Tel Ha'Shomer junction (on Route No. 4) on the east with Tel Aviv City Center on the west. The Max Payne School is located across the street.

West - Front facing Menachem Begin Rd., a major traffic artery connecting the Tel Aviv City Center with Jabotinsky Rd. in Ramat Gan until Petach Tikva. The "Camp Rabin" army base is across the street.

East - Southbound Ayalon highway - Road no. 20 (in the mentioned segment between Rakevet Tzafon interchange and Ha'Shalom interchange in the south) constitute a national highway connecting the city of Tel Aviv With the cities of Jerusalem, Rishon LeZion, Holon, Bat Yam, Haifa, etc.

North- The "Yedioth Ahronoth" House.

2.4 Description of "Azrieli Center"

2.4.1 General

"Azrieli Center" is the largest business center in Israel. The center was designed as an independent urban unit capable of providing its users and visitors a full range of services that are required for the management of their businesses, the welfare of the employees, and the convenience of the customers.

The center includes an underground parking lot for 3,200 vehicles, a mall and three towers: the "Round" and "Triangular" towers are offices area and the "Square" tower partially occupied by a hotel and the other part as office space. In addition, the center provides complementary services and areas, such as a conference hall, “Holmes Place” fitness center, taxicab stand, etc.

On the roof floor of the Round tower there is an observatory overlooking the Dan metropolitan and the surrounding cities. The visit to the observatory is accompanied with vocal guidance, telescopes, etc.

The construction of the project began in 1995. The underground parking lot and the mall are operating since April 1998, the Triangular tower is populated since 1999, the Round tower was populated in 2000 and the Square tower was populated in 2008 and 2009.

The project is located at a major transportation crossroads and therefore the accessibility is very good. There are entrances and exits for vehicles from the Northbound and Southbound Ayalon Highway, from Menachem Begin Rd., from Givat

Ha'Tachmoshet St. and from Noah Mozes St. There is a pedestrian bridge that links the Ha'Shalom railway station with the first floor of the mall, and another pedestrian bridge across Menachem Begin Rd. to the first floor of the mall. In addition there is a heliport on top of the Round tower.

Following are details of the project's construction areas, as transpires from approved building permit plans[2]:

Designation	**Main Area in sqm**	**Service area in sqm**	**Total in sqm**
Underground parking lot, storerooms, open floor and IEC control station	2,564	119,691	122,255
Bridges (above Petach Tikva Rd., Hashalom railway station)		1,365	1,365
Mall and public areas	29,992	28,657	58,649
Round tower	45,436	10,274	55,710
Triangular tower	39,631	8,049	47,680
Square tower	28,787	11,787	40,574
Total	**146,410**	**179,823**	**326,233**

The construction and finishing standard includes, *inter alia*:

- Mall and the office towers - reinforced concrete structure, a combined marble-covered façade with screen walls.

- The public areas and passages in the mall are spacious, covered with marble flooring, centrally air conditioned, ceilings combined with decorative elements, there are 8 skylights, PA system, fire detection system, etc.

- In the mall's areas and the public floor a fully finishing level, including marble/ ceramic/ parquet/ wood tiled floor, decorative ceiling, immersed lighting, glass display cases, interior plaster/ paint/ decorative wall cover, central air conditioning system, etc.

- The mall's public level includes a terrace paved with precast paving stones, landscape lighting, public benches and transparent environmental sculptures that are used in addition to bring daylight to the mall's space.

- In the offices area a fully finishing level, including marble/ parquet/ wall-to-wall carpets, internal division using plaster partitions, decorative ceiling, immersed fluorescent lighting, central air conditioning system, communication systems and computers.

[2] For details on as made permit plans that have been submitted in full to the engineering administration at the City of Tel Aviv, which include changes to these areas, see Section 2.6 below.

- At the Hotel areas – in lodging rooms parquet flooring, air conditioning system, fire detection system, work area including a PC. In bathrooms a table sink, a bathtub and shower.
  In public areas - wall-to-wall carpet/ marble flooring/ parquet, air conditioning system, fire detection system, etc.

- In the parking lot, smooth concrete floor - one half of the parking lot is epoxy color coated, forced ventilation system, fire detection system, PA system, CCTV.

2.4.2 The mall and the public areas

A national mall which serves large populations coming from all over Israel. The occupancy rate nowadays and throughout all of the operating years is 100%.

The mall includes 3 commercial floors and one public floor.

The parking lot levels are linked to the retail center's levels via 11 passenger elevators and 2 escalator systems.

The mall was ranked third in the Globes newspaper's annual rating of the leading and strongest malls for the year 2012.

About 192 businesses operate in the mall in a wide range of stores in the fields of fashion, footwear, jewelry, gifts, communications, electronics and computers, optics etc. .

8 businesses lease relatively large areas: Shufersal, Mango, Hamashbir Lazarchan, Superpharm, GAP, H&M, Zara and Forever 21.

The Public floor (the third mall's floor above ground) includes "Holmes Place", the Wall Street and Kidum schools, a driving center and the conference center. The mall's roof area is being used for activities for children and adults.

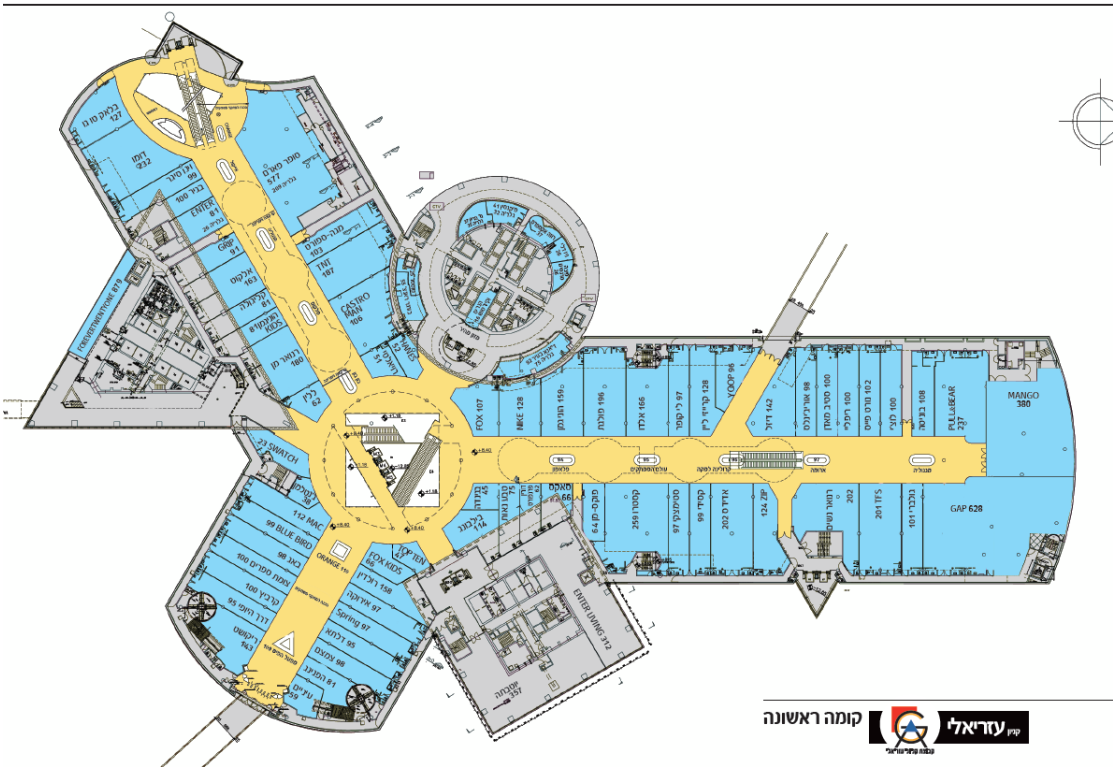
A summary of the commercial areas by marketing mix segmentation:

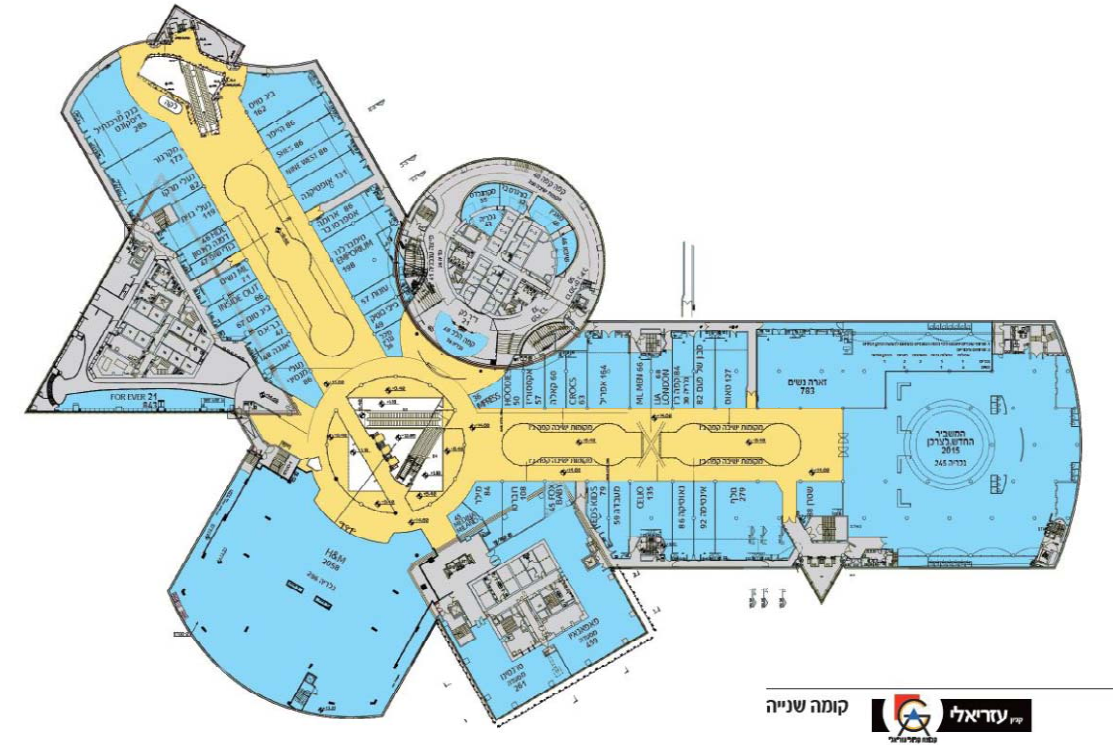
Item	**Area for lease in sqm**	**%**
Shufersal, H&M, Hamashbir, Superpharm, Mango, GAP, Zara and Forever 21	12,933	39.5%
Shops and other businesses	16,077	49.1%
Public floor	3,748	11.4%
Total	**32,758**	**100.0%**

According to the data provided to us, the leasable areas are the store area, plus loading of public areas at a variable rate ranging between of 10%-15%.

Representative pictures:

Floor Plan:





2.4.3 The Round tower

Includes 39 office floors and a roof which is used as a tourist attraction - public-access observatory and restaurant.

The gross total area of the tower is approx. 55,709 sqm.

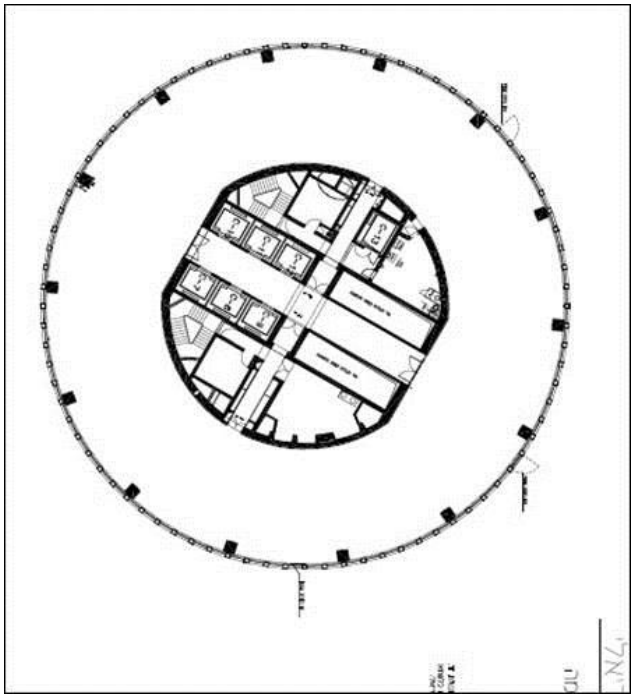
The top office floor on a leasable area of approx. 1,520 sqm is self used by the Azrieli Group Ltd. **The Opinion does not include this floor**.

According to the marketing plans, the average area of a floor is approx. 1,520 sqm. The total area for lease is approx. 58,085 sqm (excluding an area for Azrieli Group's own use).

Main lessees in the tower are law firms, accounting firms and other liberal professionals.

There are 12 passenger elevators in the tower.

As of the effective date the building is leased in its entirety.



2.4.4 The Triangular tower

Includes 35 office floors and 2 service floors. The gross total area of the tower is approx. 47,672 sqm.

According to the marketing plans, the average area of a floor for marketing is approx. 1,430 sqm.

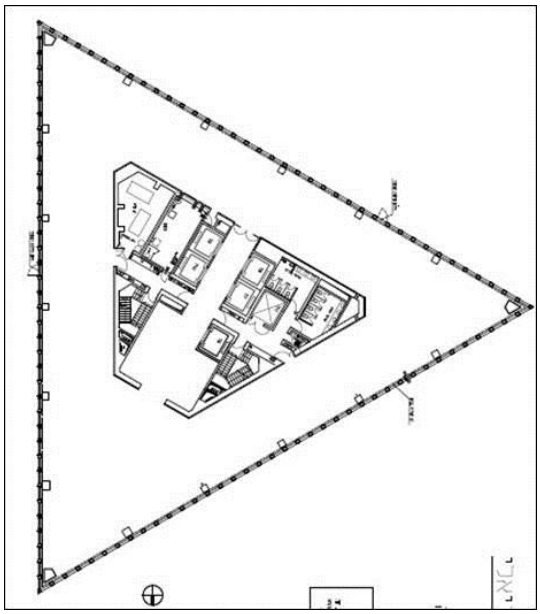
The total area for marketing is approx. 48,160 sqm.

The main lessees in the building are Bezeq that leases an area of approx. 22,300 sqm (about half of the building), the IDB Group, law firms, accounting firms and other liberal professionals.

The finishing standard in the areas leased to Bezeq is average. In the framework of an addendum to the lease agreement with Bezeq which was signed on October 20, 2010, the lessor is forwarding to Bezeq a budget for renovation works in the Property in the sum of approx. NIS 660 per sqm to be spread over 5 years for area renovation.

There are 10 passenger elevators in the tower.

As of the effective date, the building is leased in its entirety.



2.4.5 The Square tower

Includes 13 floors leased for use as the "Crown Plaza City Center" hotel and 18 office floors above the hotel's floors. The gross total licensed area of the tower is approx. 40,867 sqm.

The hotel:

The hotel's lobby is located in the ground floor of the building and in 13 floors, total 273 rooms and public areas. The internal division – public floor which includes a dining hall, bar, 3 conference rooms, central kitchen and operational areas. above such floor there are 8 typical floors that include 24 rooms each, total of 192 rooms. Above them a floor that includes 17 rooms and a business lounge, on top of them 3 floors for rooms - total of 64 rooms.

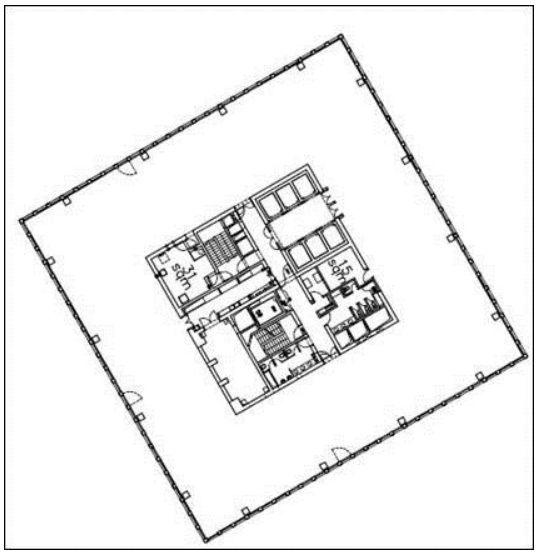
The total leasable area – approx. 18,000 sqm.

The offices:

18 typical floors – the area of a typical floor for lease is approx. 1,384 sqm and the total leasable area is approx. 25,176 sqm.

The offices are leased to liberal professionals, lawyers, bank managements, IBM offices, etc.

There are 12 passenger elevators in the tower – 6 elevators to the hotel and 6 elevators to the office floors.



2.4.6 The parking lot that serves the Property and its components

According to data provided by the client commissioning the Opinion, the parking lot includes 3,200 parking spaces, with the following breakdown:

Floor	No. parking spaces
Ground	200
-1	650
-2	750
-3	800
-4	800
Total	**3,200**

The operation of the parking lot:

From the Company's data there are currently about 3,100 active subscribers, average monthly subscription fee - NIS 800 + VAT.

There are approx. 11,000 vehicle entrances to the parking lot on average per day, divided to approx. 8,000 casual parker entrances and approx. 3000 subscriber entrances.

Approx. 62% of the causal parker entrances are for a period of up to two hours. 21% of the causal parker entrances are for a period of 3 hours. The rest are for a period of over 3 hours.

The parking fee for casual parkers:

First hour NIS 15, each additional quarter of an hour NIS 3, up to a maximum of NIS 80 for all-day parking. Evening's, weekends' and holidays' rate is NIS 12 with no time limit. The rates include VAT.

Storerooms:

Total storeroom areas according to building permit plans are approx. 2,500 sqm, of which areas for marketing are approx. 2,076 sqm. The remaining of the area is used for operation.

Additional revenues:

In accordance with the Company's figures, there are revenues due to management fees from the subscribers, advertising on the parking lot's pillars, the taxicab stand and the car wash facility.

2.5 Licensing

The built-up areas were built in several construction phases, and according to many building permits.

Following are the main building permits:

Building	Permit No.	Date	Substance
Parking Lot	4-980345	April 6, 1998	Changes in 4 parking levels, versus permit no. 4/950764 dated August 28, 1995 and permit no. 4/970405 dated May 26, 1997.
Mall	4-980991	October 20, 1998	Changes versus permit no. 4/960594 dated July 4, 1996 (the base, commercial and public floors) and permit no. 4/980184 dated June 10,1998 (health club).
Round	4-980606	June 25,1998	Office floors – Round tower - changes during construction –variance application. Changes versus permit no. 4/960595 dated July 7, 1996.
	3-220843	November 4, 2002	Changes in the visitors' level.
Triangular	4-980476	May 21, 1998	Floors 5-27 - changes during construction. Changes versus permit no. 4/961072 dated December 4, 1996.
	4-970717	August 20, 1997	Triangular tower, floors 28-40. Floors 28-40 for offices. Floors 39-40 continuation of core only.
	4-980603	June 25, 1998	Changes on all floor levels. Floor 39 – new office floor, changes technical areas on floor 40.
Square	20060074	January 30,2006	Construction changes and additions on the ground floor of the Square tower which include – changes and addition of main areas on the ground floor, construction of a gallery, kitchen storeroom and a kitchen service elevator from the parking lot level to the gallery level. Re-designation from offices to hotel entrance lobby, synagogue and a kitchen storeroom on the ground floor.
	20060075	January 30, 2006	13 hotel floors, 18 office floors and 2 technical floors in the Square tower at the Ha'Shalom center, above 4 existing floors and basement floors.
	20060076	January 30, 2006	Changes and building additions in the basement and ground floors.

Forms 4 and construction completion certificate:

Building	Form 4	Construction completion certificate
Parking Lot	Issued on March 31, 1998	Issued on November 21, 2002
Mall	Issued on March 30, 1998	See reference in the Square tower
Round	Issued on December 27, 1999 for floors 29, 36, 37, 38, 39, 42, 43	Issued on November 26, 2002 for a total area of 33,890 sqm.
	Issued on August 29, 2001 for floors 5-12, 19-22, 27-28, 30-31, 33-34, 40-41, and parts of floors 13-14, 16-18, 32, and in any case no more than 25,155 sqm.	
Triangular	Issued on January 17, 1999 whereby it is possible to populate 21,975 sqm.	Issued on May2, 2002 for Phase A in the Triangular tower (23,152 sqm) without floors 26-27. Issued on May 2, 2002 for Phase B in the Triangular tower (area of 12,946 sqm) without floor 34.
	Issued on August 29, 2001 to the upper part of the Triangular tower for floors 29-33, 35-39 and parts of floor 28, and in any case no more than 12,574 sqm.	
Square	Issued on March 20, 2008 for Phase A which includes floors 18-35 for offices and technical areas only, and does not include the hotel floors.	As informed, the Company is working nowadays to receive a construction completion certificate for the mall and the Square tower.
	Issued for the hotel on May 1, 2008.	

Business License

For the parking lot, the mall and the amphitheatre have a business license that expires on December 31, 2013.

The hotel has a temporary business license that expires on December 31, 2013.

2.6 Plans for application for a permit for interior changes to areas of Azrieli Center

As we were informed by the Company, in the context of the proceedings for receipt of a construction completion certificate for the mall areas and the Square tower, the Company was required to perform as-made permit plans that shall include also renewed applications for changes made in accordance with applications submitted in the past, including in respect of the parking lot and the mall.

The zoning subcommittee number 2-12-0010 from May 16, 2012 resolved to approve an application for re-designation from cinemas to retail, subject to the developer's undertaking to perform the transportation requirements and to the bank guarantee given on

February 28, 2008 and subject to the fulfillment of several terms specified in the body of the decision.

The main changes:

Item	**Change**
Level -1 of the Square tower (parking lot)	Addition of main area of approx. 143 sqm and changes to the service areas on level -1 for the purpose of adjustment thereof to the hotel's usage.
Mall	Interior changes from cinemas to commerce – preparation of H&M store, addition and/or replacement of galleries in Zara, H&M and Superpharm stores.

Summary of the areas in accordance with the permit plans and as-made plans (insofar as shall be approved):

Designation	**Main Area in sqm**	**Service Area in sqm**	**Total in sqm**	**Comments**
Underground parking lot, storerooms, open floor and IEC control station	2,708	119,550	122,258	According to as-made plan
Bridges (above Petach Tikva Rd., Hashalom railway station)		1,365	1,365	According to building permit plans
Mall and public areas	31,182	28,043	59,225	According to as-made plan
Round tower	40,899	14,924	55,823	According to building permit plans
Triangular tower	35,017	12,331	47,348	
Square tower	40,899	14,924	55,823	
Total	**150,705**	**191,137**	**341,842**	

To the best of our understanding, no betterment levy is expected in respect of approval of the permit application plan since the limit of areas of a public nature set forth in the zoning plan (4,000 sqm) is kept in the framework of the application (see further details regarding areas of a public nature in Section 5.1 below) on the one hand, and on the other hand there is no deviation in the main building area designated for commerce, compared with the commercial area approved for construction in the zoning plan.

2.7 The Management Companies

The mall and the office towers are managed by two separate management companies. The lessees in the mall are paying to the management company management fees based on actual costs + 10%-15%. The lessees in the offices are paying (except for Bezeq) management fees based on actual costs + 15%.

We reviewed the 2013 expense budget.

The main items in the management costs of the mall are:

Item	Total Budgeted Expenses (in thousands)	Rate out of total expenses
Security, cleaning and maintenance	NIS 11,159	44%
Salaries, bookkeeping, legal	NIS 3,515	14%
Advertising and marketing	NIS 1,056	4%
Miscellaneous	NIS 1,240	5%
Public electricity	NIS 5,124	20%
Total	**NIS 22,093**	86%
Revenues to owners	NIS 3,548	14%
Total	**NIS 25,641**	**100%**

These costs reflect approx. NIS 65 on average per sqm for lease per month.

These costs were found compatible with the standard in similar commercial centers.

The main items in the management costs of the offices are:

Item	Total Budgeted Expenses	Rate of total expenses
Security, cleaning and maintenance	NIS 14,687,332	37%
Salaries, bookkeeping, legal	NIS 5,729,130	15%
Advertising and marketing	NIS 227,988	1%
Insurance and miscellaneous	NIS 1,417,700	4%
Public electricity	NIS 7,766,825	20%
Total	**NIS 29,828,975**	**76%**
Revenues to owners	NIS 9,606,809	24%
Total	**NIS 39,435,784**	**100%**

These costs reflect approx. NIS 22 on average per sqm for lease per month.

These costs were found compatible with the standard in offices towers at this level.

The accounting firm Brightman Almagor Zohar & Co. audited the profit and loss figures for the management operations of the property in 2011. The responsibility for the information lies with the Company.

We were also presented with the management companies' revenue and expenditure figures for 2012, from the Company's submitted trial balance . These figures have not yet been checked nor audited by the auditors.

2.8 Electric power services to lessees

A step down power transformer is installed in the Property. The Company collects from the lessees electric consumption according to low voltage rate and purchases the electricity according to high voltage rates.

The Company engaged in an agreement for the supply of electricity with OPC private power station and commencing from Q2 2013 (assuming that the station will begin to operate) it expects to purchase the electricity for rates which are lower by approximately 9.5% than the rates of the IEC that are currently paid by the Company. The agreement is valid for 10 years with an option for 5 additional years. According to the company's figures the aforesaid rights may be transferred to a third party. As a result of the new engagement, the Company's annual cash flow surplus is expected to grow. See the specification of the surplus cash flow in Section 4.2.7 below.

3. Description of legal rights

3.1 Information from the Rights Registry

According to information from the Rights Registry dated January 7, 2013, which was produced via the website of the Ministry of Justice, the following details arise:

3.1.1 Block 7106, parcel 59

Land area -	31,992 sqm.
Owner -	the City of Tel Aviv-Jaffa.
Lessees -	Canit Hashalom Investments Ltd. for a period of 200 years. Expiration date February 6, 2195.
Mortgages	There are mortgages registered on the lease of Canit Hashalom Investments Ltd. in favor of an investment company of Bank Leumi, Bank Leumi Le'Israel B.M. and Bank Hapoalim Ltd.
Caveats –	Caveats are recorded in favor of: Bezeq the Israel Telecommunication Corporation Ltd.

Ha'Yarden hotels M.H.Y Ltd.

Israel Electric Corporation Ltd. on an electric sub-station and an easement on the transported and on the tunnel and basements[3].

NTA - Metropolitan Mass Transit System Ltd.

Easement - An easement is registered in favor of the City of Tel Aviv-Jaffa for free public passage through passageways on the ground floor, first floor and second floor.

3.1.2 Block 7102 parcel 49

Land area - 903 sqm.

Owner - The City of Tel Aviv-Jaffa.

Lessees - Canit Hashalom Investments Ltd. for a period of 200 years. Expiration date February 6, 2195.

Caveat - A caveat is registered on an antiquity site.

3.2 Lease agreements

3.2.1 Underlying Agreement

On August 18, 1992, an agreement was signed between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd. (an underlying agreement that defines the undertakings of the parties in connection with the Property of the contemplated project).

It transpires from the provisions of the agreement, *inter alia*, that separate lease agreements will be signed for parts of the project, as follows:

- For the first stage – the parking lot, the commercial center and one tower with minimum floor area of 20,000 sqm.
- Separate lease contract for every additional tower.

On April 24, 2002 a compromise agreement was signed between the parties to the underlying agreement, following which, in accordance with information provided by the Company, a consideration was paid to the City due to the removal of the marketing limitation for 50,000 sqm of offices

[3] An area leased to the IEC which is designated for the building of a sub-station. This area was not taken into account in the calculation of the valuation which is specified below.

designated for vacation that were set forth in detailed Plan No. 2401 which is specified in Section 5.1 below. Detailed Plan 2401C that was approved in 2005 includes the removal of the limitation as aforesaid (See Section 5.2 below).

3.2.2 Lease agreement no. 1 (parking lot, commercial center and Round tower)

The main principles of a lease agreement dated October 23, 1996 between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd. which was presented to us:

- The leased property - The boundaries of the parcel of land and the parcel of the Round tower. Until the completion of the construction of the shopping center, the Developer will be considered a licensee in the area of the other parcel on which the Company shall build parts of the parking lot and the shopping center.

- The lease period – 200 years commencing on February 7, 1995 and expiring on February 6, 2195.

- Lease fees - Lease fees were paid for the leased area for the entire lease period, and no annual lease fees shall apply.

- Consent fees – In any case where the Developer shall transfer or grant to others any rights under this contract, provided that such transfer or grant are permitted according to the provisions of this agreement, the Developer shall not be required to pay the City any consent fees or similar payment.

- Charge and assignment – If the Developer has fulfilled its undertakings under this agreement for construction of the parking lot and the shopping center, the Developer will be entitled to charge them as it deems fit, provided that it shall be assured that whomever acquires the leased area by virtue of exercise of the charge, will meet the criteria that guided the City in choosing the Developer according to the agreement, and the continued construction of the project and the operation, maintenance and management thereof in accordance with the provisions of the agreement are assured. If the Developer has fulfilled its undertakings under this lease agreement and contract for the building of a tower or towers, the Developer will be entitled to charge the tower or towers as it deems fit.

3.2.3 Lease agreement no. 2 (Triangular tower)

Following are the main principles of a lease agreement dated December 28, 1997 between the City of Tel Aviv-Jaffa) and Canit Hashalom Investments Ltd. which was presented to us:

The leased property – The land within the parcel area of the Triangular tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Triangular tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.2.4 Lease agreement no. 3 (Square tower)

The main principles of a lease agreement dated December 28, 2008 between the City of Tel Aviv (and Canit Hashalom Investments Ltd.:

The leased property – The land within the parcel area of the Square tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Square tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.3 Undertaking to populate the Square tower dated February 28, 2008

We were presented with a letter of undertaking dated February 28, 2008 addressed to the Local Committee for Planning and Construction of Tel Aviv, from Canit Hashalom Investments Ltd. with the following main principles:

- In view of the fact that on November 3, 2002 a permit was issued for the vehicle tunnel connecting Menachem Begin Rd. with Azrieli Center in the basement parking level +7.40, but the permit was not realized due to the Company’s estimate that for reasons of transportation and security there is no need for another entrance, it was agreed, after further discussion with the City that the occupancy permit is granted subject to the Company’s statement that a mechanism to exhaust the review of the need for the tunnel will be determined, in accordance with the Municipal Engineer's application to the Ministry of

Transport for receipt of its professional position on the necessity of the tunnel.

- After hearing the arguments of Canit Hashalom on this subject and if it is found that building the tunnel is necessary, the Company shall act in proximity thereto to build the tunnel, whether by itself or by a third party, and in any case no later than two years after receiving the Ministry's position, subject to obtaining the appropriate permits from the competent authorities.

- The Company further undertook to build, at its own expense, the bridge connecting the Azrieli project to the southern side of Ha'Shalom Rd., if it is decided to build a railway station at the site and/or a connection to the Shefa-Tal complex is required, in accordance with the timetables as determined by the Municipal Engineer, and to submit to the City the calculations of the building areas of the construction as actually performed on the basis of measurement plans, within 3 months from the date of signing this undertaking. As notified, it has been agreed between the Company and the City that the planning stage has not matured yet for making a decision.

- Recently the Company has contacted the legal department of the Tel Aviv municipality in order to promote the issuance of a construction completion certificate for the square tower without requiring the Company to submit a building permit application for the building of the tunnel, *inter alia*, since according to a letter on behalf of the Ministry of Transport to the Tel Aviv Municipal Engineer dated February 1, 2012, the Ministry of Transport does not deem the tunnel necessary and the municipality's request to perform the tunnel is not acceptable thereto. However, the Municipal Engineer is insisting that a permit application for the tunnel be filed as a condition to the construction completion certificate.

3.4 Guarantees for Developer's Undertakings

To secure all of the developer's undertakings, the Company deposited unconditional bank guarantees in the (nominal) amount of NIS 16,228,000. As of December 31, 2012 the amount is approx. NIS 31,500,000.

4. The economic activity in the Property

4.1 Actual revenues according to the Company's financial statements:

A table specifying the actual revenues from rent over the years, as transpires from the Company's financial statements and income forecast for 2013 based on signed contracts and subjective estimates of the Company's management based on past experience and indications

received from lessees as of the date of the valuation, with respect to changes in the terms and conditions of the existing contracts or renewals of contracts which expired during 2013.

The mall:

Item/Year	2010	2011	2012	2013 forecast (***)
Income from rent	NIS 101,833,000	NIS 105,453,000	NIS 110,063,000	NIS 113,976,000
Income from additional revenue	NIS 252,000	NIS 205,000	NIS 193,000	NIS 620,000
Income from casual stalls	NIS 0	NIS 361,000	NIS 603,000	NIS 650,000
Total	**NIS 102,085,000**	**NIS 106,021,011**	**NIS 110,859,000**	**NIS 115,246,000**

The towers:

Tower/Year	2010	2011	2012	2012 forecast (***)
Round (*)	NIS 59,456,000	NIS 63,999,000	NIS 66,680,000	NIS 69,000,000
Triangular	NIS 47,659,000	NIS 46,657,000	NIS 48,930,000	NIS 50,430,000
Square	NIS 44,933,000	NIS 47,347,000	NIS 48,220,000	NIS 48,930,000
Total	**NIS 152,048,000**	**NIS 158,003,000**	**NIS 162,830,000**	**NIS 168,360,000**

(*) Doesn't include the area self-used by the Azrieli Group Ltd.

(***) See reference in Chapter 10 below.

4.2 An analysis of the data upon which the valuation is based

4.2.1 Basis of the data

The data in respect of the rent was received from the Company's collection system in respect of each and every lessee in the Property.

The commercial areas are leased to 192 lessees. The occupancy rate is 100%.

The office areas and the hotel, approx. 149,420 sqm (excluding an area used by the Azrieli Group), are leased to 149 lessees. The occupancy rate is approx. 100%.

We checked 20% of the contracts on a random basis and found them to match the data received from the Company, and also

the contract between the Company and Bezeq, as a primary lessee, was checked.

4.2.2 The lease period

Mall – retail areas:

During 2013, 36 contracts (approx. 5,500 sqm) are expected to expire. A considerable part of the lessees have an option to extend the contract, and as was informed based on past experience they will probably exercise it. With respect to some of the lessees, the commercial conditions have been agreed and the contracts extended.

The average rent in areas, the contracts for which are expected to expire during 2013, are similar to the average rent in the mall and it is therefore reasonable that also other lessees would pay this rent.

Towers – the office areas

The lease agreements expire during 2013-2018. During 2013, 34 lease agreements are expected to expire. The lessees have an option to extend the contract, and as was informed based on past experience they will probably exercise it. With respect to some of the lessees, the commercial conditions have been agreed and the contracts extended.

4.2.3 The rent

The mall – It transpires from the data that the rent for the retail areas range widely between NIS 37 per sqm per month (storerooms) and approx. 3,400 per sqm per month (stalls), where the average, including large stores, is approx. NIS 290 per sqm per month.

It transpires from an analysis of the gaps that the difference derives, *inter alia*, from the difference in the location of the stores (proximity to entrances and crowd-attracting stores which provide greater exposure, versus rear and lateral location, location on the public floor versus the first and second mall floors), the size of the store, the type of activity and the date of the commencement of the lease (old contracts versus new contracts).

The office towers - Average rent (not including the area leased to Bezeq) is approx. NIS 102 per sqm per month. This rent was found to be appropriate and in keeping with similar/substitute properties.

We have carried out for the purpose of preparing the Opinion, a distinction between 2 types of lessees and leased properties:

- Long-standing and significant contracts – lessees who hold more than half a floor and have been in the property for over 6 years (there are several lessees who have been in the place since the beginning of occupation thereof, and lease significant areas at rent lower than the average rent at the property).

- Other contracts and lessees at the towers.

Bezeq's areas are leased in consideration for approx. NIS 78 per sqm per month. This rent is lower than the market rent. The lease agreement with Bezeq Israel Telecommunication Corp. Ltd. ("**Bezeq**") is due for termination at the end of 2015. Bezeq has an option of two periods of two years each. In the Company's estimation, Bezeq shall utilize its right and exercise the option granted thereto in the agreement. Alternatively, insofar as Bezeq vacates the property, because the rent paid thereby is significantly lower than the rent paid in the other office areas, the aforesaid areas may be rented for similar or even higher rent, subject to the performance of adjustments and a reduction of time for marketing.

Hotel - The hotel is leased at an average rent of NIS 64 per sqm per month. The lease period expires in October 2020. The hotel was leased as a shell. The lessee performed all of its finishing and adjustment work at its expense. Since the rent is low, there is no impediment for leasing the hotel for a higher rent to a substitute lessee.

4.2.4 Changes that occurred over the last year - 2012

Commerce:

During 2012 approx. 4,330 sqm were leased, at average rent of NIS 375 per sqm per month.

Offices:

Approx. 26,200 sqm of offices was rented at an average rent of approx. NIS 100 per sqm per month.

4.2.5 Forecast for the next year - 2013

No significant changes are expected in the retail and office areas.

4.2.6 Parking lot and storerooms that serve the Property and its components

The parking lot's business activity figures (excluding V.A.T), based on signed contracts and subjective estimates of the Company's management based on past experience and

indications received from lessees as of the date of the valuation, with respect to changes in the conditions of existing contracts or renewals of contracts expiring in 2013.

According to the Company's data it transpires that the segmentation of the revenues from subscribers and casual parkers over the years is similar, and therefore it is possible to assume that this trend will continue also in the future.

Parking lot:

Item/Year	**2010**	**2011**	**2012**	**2013 Forecast (***)**
Income from subscribers	NIS 23,090,000	NIS 23,830,000	NIS 24,326,000	NIS 26,610,000
Income from casual parkers	NIS 21,890,000	NIS 22,463,000	NIS 24,523,000	NIS 25,570,000
Operation costs	NIS -13,545,000	NIS -13,289,000	NIS -14,110,000	NIS -15,040,000
Operating profit	**NIS 31,435,000**	**NIS 33,004,000**	**NIS 34,739,000**	**NIS 37,140,000**

Storerooms:

Item/Year	**2010**	**2011**	**2012**	**2013 Forecast (***)**
Income – from storerooms and others	NIS 1,631,000	NIS 2,454,000	NIS 2,079,000	NIS 2,162,000

(***) See reference in Chapter 10 below.

4.2.7 Surplus from electric services to lessees

As stated above, there is a difference between the cost of the purchase of electricity which is paid by the Company and the sum charged to the lessees.

The annual cash flow surplus:

Year	**2010**	**2011**	**2012**	**2013 forecast**
Annual surplus	NIS 4,253,000	NIS 3,299,000	NIS 3,754,000	NIS 5,425,000

(*) Since the electricity station is due for operation commencement only in the course of the second quarter and the projected cash flow surplus of the Company shall accordingly also increase, we took into account, at this stage, only 50% of the projected cash flow surplus of the Company.

5. Description of planning figures

The sources for the information: information existing in our firm and information from the City of Tel Aviv.

5.1 Detailed Plan No. 2401

The plan was published for validation in Official Gazette No. 4265 dated December 4, 1994.

The purpose of the plan, *inter alia*:

- To redesign the area in order to create a Central Business District along the "Ayalon" highway.
- To build a Central Business District on a building area of approx. 150,000 sqm that includes areas of offices, commerce, recreation and entertainment. The building rights allow the conversation of up to 15,000 sqm office area to residence and hotel area.
- To determine several basements designated mainly for parking, above which up to four above-ground levels will be allowed covering up to 80% of the lot area. Above them, the construction of 3 high-rise buildings will be permitted.

Lot designation: Central Business District.

Uses - Offices, industry (causing no nuisance), commerce, personal services, entertainment, public uses, as well as residences and hotel accommodation. The office areas will be at least 70% of the total construction area. Up to 15,000 sqm of office area may be converted to construction of residential apartments and/or hotels. The conversion of the areas shall be made according to a key of 1 sqm of residences and/or hotels equalling 1 sqm of office space. The residences and/or hotel, if built, will be according to the following conditions: residences will be incorporated only in the top floors of the high-rise buildings, no lower than the 20th floor above the Petach Tikva Rd. level. This limitation shall not apply to the hotel. Residence and hotel areas will have a separate entrance, separate elevators and separate parking. Commercial, entertainment and personal service areas will be up to 25% of the total construction area. Public uses, such as conferences halls, museums, halls for sports and cultural activities and similar uses will be at least 4,000 sqm.

The building rights - The total building area will be 100,000 sqm for main uses above the entrance level. In addition, 50,000 sqm will be permitted for main uses above the entrance level for offices designated for vacation, as defined below. The service areas will include the following areas: shelters and restrooms for maintenance on the floors of up to 20 sqm per floor. Machine rooms, electricity, ventilation shafts and piping, elevators, escalators, parking lots, areas and passageways

for loading/unloading, etc. The service areas will include the public passageways in accordance with the legal regulations, except for passageways wider than 3m, where tables and chairs related to the commercial uses may be placed. In this case, 10% of the said area will be considered as main area. Lobbies, stairways and entrance halls will be considered as service areas in their entirety, provided that no commercial use will be made therein. The total service areas will not exceed 202,500 sqm, 150,000 sqm of which below the entrance level.

Height and land coverage - Construction of up to 5 basement floors for parking will be allowed. Up to 4 levels above ground level will be allowed, each one of which covering no more than 80% of total lot area. A transparent cover above the public space will be allowed on the top floor. Above the aforesaid levels three high-rise buildings will be allowed, covering in total no more than 30% per floor of the total lot area. The building height is as follows: up to 175m from street level (up to 44 floors from street level), up to 158m from street level (up to 40 floors from street level) and up to 140m from street level (up to 36 floors from street level).

Offices for vacation[4] - 50,000 sqm of office space designated for vacation of offices from residential areas. The office towers shall be designed according to such planning and technical specifications enabling 50,000 sqm thereof to be suitable for occupation by occupants to be vacated from offices designated or vacation. In the first stages, building permits will be issued for areas not exceeding 100,000 sqm. The building permits for building the office buildings on an area of 50,000 sqm designated for the offices, which are designated for vacation will be issued gradually, only for the sold or leased to occupants having vacated offices designated for vacation, who shall have vacated in practice.

Transport - Implementation of the plan will be conditioned upon the implementation of transport requirements relating to the peripheral roads outside the area of the plan, as marked in the transport annex and in accordance with the stages of construction. It was determined that: construction of over 100,000 sqm will be carried out through an additional entrance from Petach Tikva Rd. from south to north (the tunnel).

5.2 Detailed Plan No. 2401C

The plan was published for validation in Official Gazette No. 5379 dated March 15, 2005.

The purpose of the plan - Redistribution of construction areas in Plan 2401 and change of requirements for the vacation of offices from residential areas in the city, by changing requirements for populating the office areas and other changes in the building instructions.

[4] See amending plan in Section 5.2.

- Section 8.1.2 in Plan 2401 will be cancelled and replaced by the following language: to build a central business district on construction area of 150,000 sqm, which includes office, recreation and entertainment areas. In the framework of the building rights 16,000 sqm of main area may be converted to residence and/or hotel.

- The maximum main area for construction in the CBD will be 150,000 sqm above-ground.

- The transfer of 17,500 sqm of service areas from the levels below the entrance level to levels above the entrance level will be permitted, provided that there will be no deviation from the total service areas permitted for construction in accordance with Plan 2401.

- It is possible to transfer up to 3,000 sqm from the main areas above-ground to underground for all the purposes permitted by Plan 2401, except for residential use.

- An addition of two partial floors above the Petach Tikva Rd. street level (two closed galleries) will be allowed, without changing the building shell as approved in Plan2401, provided that the total main and service areas permitted for construction will not be changed.

- An addition of one floor in the three high-rise buildings (in addition to the 2 partial floors, as aforesaid). In the buildings named the Triangular and the Round the roof level may be raised by 3m each relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 161m in the Triangular tower and 178m, in the Round tower.

- In the Square tower, the roof level may be raised by 6m relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 146 meters.

- In the framework of the service areas that are permitted by virtue of this plan, the Municipal Engineer may permit the inclusion of storerooms in the tower cores and on the technical floor.

6. Principles of the valuation

There are 3 main valuation approaches that are customary for the valuation of real estate properties.

6.1 The income capitalization approach

In the income capitalization approach, expression is given to the value of the property according to the cash flow generated by the property during its economic lifetime. The cap rate used to discount the cash

flow is determined according to the type of property, the risk level and the uncertainty regarding the receipt of the projected cash flow, the size of the property, etc.

This approach is customary in the valuation of income-producing properties.

The mall and office towers are by definition a property producing a current income.

6.2 The comparison approach

The comparison approach is the best and preferred approach for assessing the value of property.

According to this approach, the value of a property is estimated based on comparison data for similar properties in the vicinity while making the necessary adjustments (for location, size, standard, etc.).

Nevertheless, commercial centers, malls and office towers are unique properties. There are purchase transactions of malls but in light of the complexity of the property and the many adjustments required, the use of this approach could cause a distortion of the results.

6.3 The cost approach

In the cost approach, expression is given to the value of the property as the sum of the value of its components. Property value using this approach includes the value of the land with the added cost of constructing the property, while taking into account physical, planning depreciation with the addition of developer's profit which is set according to the type of property, its physical state, the state of the market, etc.

In the case subject matter of the Opinion, the cost approach is irrelevant and constitutes an indication to the total investments in the Property.

7. Principles, factors and considerations in the valuation

The main principle in the valuation of real estate property is the principle of the highest and best use (HBU) of the property. We have examined the Property contemplated in the valuation according to this principle and have formed the general opinion that the present use is the highest and best use.

In the valuation of malls, commercial centers and office towers the following general factors and considerations are taken into account:

Location

One of the most important factors/elements in the valuation of commercial properties is the location. Transport accessibility and convenient access to public transport, within residential neighbourhoods, adjacent to/within areas of employment, on main traffic arteries (arterial roads), and others.

Supply & demand and occupancy rates

It is of great importance to assess the market's characteristics, whether the real estate market is on a downwards trend in demand or whether the market is seeing an upswing.

In assessing value using the income capitalization approach, the relevant factors and considerations are:

The leased area

The characteristics of the leased area include the following factors which affect rent value: the size of the leased area; the gross/net ratio; the relative location - floor (especially when this involves a multi-storey structure); the standard of finishing and construction; the property's goodwill; the management.

The Rent

In light of the fact that malls/ commercial centers/ office towers are income-producing properties, their valuation derives from the future flow of receivables. Therefore, it is required to undertake a comprehensive examination of the rent levels in the past and in the present, which shows whether the rent being obtained from the Property is appropriate. Should the rent be higher than those customary in the vicinity, without good justifications, then there is the possibility that the rent in the future years will get in line with the customary rent in the vicinity. This possibility must be expressed in the income flows for future years, and, as may be required, apply a discount to the rent.

On the other hand, there is a possibility that the present rent are low, in which case one may assume that in future it will be possible to lease the Property at a higher rent that matches the market.

In this context, it is required to mention the importance of the mechanism used to update rent.

Identity of the lessees and the mix

As stated above, as the value of the property is set mainly on the basis of the flow of income paid by the lessee, it is required to carefully examine the financial strength of the lessees.

It is possible to separate the mix of stores in the commercial centers into several categories, such as: store size and type of activity; chain stores compared to local stores, an individual store.

The lease period

A long-term lease reduces the level of uncertainty regarding the ability of the investor to lease the Property in the coming years. The investor is assured, with a high degree of probability, a fixed cash flow for a long period of time. In most commercial centers and office towers, the lease period ranges in the vicinity of 5 years with options to the lessee, especially in light of the large investment that the lessees invest in their store/office.

The cap rate

The cap rate reflects the yield required in order to be attractive for capital investment. Therefore, the choice of the suitable rate constitutes a decisive factor.

The customary cap rate in the market is set at a particular point in time, for a particular type of property, and in the context of the interest rates in the economy at that time.

The cap rate may be both empirically inferred from known market data (the value of properties and rent in respect thereof in the free market)[5] and assessed using theoretical methods.

The cap rate components

Risk-free market interest, illiquidity, transaction costs, management and collection, depreciation, inflation and real change, risk and entrepreneurship, land taxation.

These principles apply, with relevant adjustments, also to the valuation of office space and adjacent parking areas, being income-producing properties.

[5] The basic cap rate used in the value calculation specified below originates from the market, from an analysis of comparison transactions made.

Factors and considerations

In assessing the value of the Property, we have taken into account *inter alia*, the following factors and considerations:

- The location of the Property in the Tel Aviv City Center, in vicinity to central traffic arteries and near the Ha'Shalom railway station.

- The project's areas, the finishing standard, segmentation and mix of the lessees and uses.

- The Property's rights are capitalized lease rights from the City of Tel Aviv for a lease period of 200 years.

- Company's undertaking to build the tunnel and the bridge – insofar as shall be decided on its necessity, in accordance with the Company's estimate, the construction cost is estimated in the range of the sum of approx. NIS 4,000,000. As of the date of the Opinion, the position of the Ministry of Transportation has been received in a letter to the City Engineer, according to which there is no transportational necessity for a tunnel. In light of the above, for reasons of conservatism and in reference to the Company's estimate of the low probability of building the tunnel and/or the unknown future construction date, we have deducted one half of the said amount, i.e., NIS 2,000,000, from the value of the Property specified below.

  - The actual revenues for previous years and 2013 revenue forecast, based on signed contracts and subjective estimates of the Company's management based on past experience and indications received from lessees as of the date of the valuation, with respect to changes in existing contracts and/or renewals of contracts expiring in 2013.

- Parking and storage areas in the basement:

  - As aforesaid, parking at Azrieli Center is for pay. In addition, storage areas, advertising areas and an area for a car wash facility are leased.

  - The operating profit from the operation of the parking lot, as specified above.

- The Mall:

  - By definition, the mall is a property producing current income ("**Income Property**"), both from rent from the various areas in the mall and from management fees.

  - The commercial center has started operating during April 1998 and is fully occupied.

  - The total areas for marketing are as specified above.

- The Round, Triangular and Square towers:
  - As of the effective date, all of the areas in the office buildings are leased.
  - A self-used area by Azrieli Group of approx. 1,520 sqm on the top office floor of the round tower is not included in this Opinion.
- Investments in the Property:
  - We depreciated future investments in the Property.
  - In addition, according to the lease agreement with Bezeq, the Company has undertaken to provide a fund for the renovation of the Bezeq areas. The current value of the instalments balance (3 years) was depreciated.
- Other revenues:

  As aforesaid, the Company has revenues from the management company and from the sale of electricity.

  - Revenues from management and investments in the property – the property is, as aforesaid, part of the Azrieli Group. Over the years, there are management revenues from this property and from all of the Group's properties. We have taken into account the management company's profits in this property, with a higher cap rate to reflect the greater risk of changes in profits. We have deducted projected investments in the property since they are not budgeted within the management company.
  - Revenues from sale of electricity – We discounted the revenues from the sale of electricity at a cap rate of 12%, which reflects the risks involved in operating such systems and the depreciation.

8. Comparison data

8.1 Malls and retail centers

Most of the major income-producing property companies in Israel, are veteran companies with properties at a large scope, with high occupancy rates and with high-quality management. Alongside such, insurance companies, mainly Clal, Migdal and Harel and investment funds such as Reit 1, Sela Capital and others are also active in the market.

Some of the purchases are done aiming to better and improve the performance of the commercial center/mall, and some are done based on a consideration of secured return.

Comparison figures for the purpose of determination of the **cap rate for commerce** based on transactions carried out and published by the public companies on the market in the past year:

- On January 1, 2013 the REIT1 investment trust reported the purchase of the entire rights in the Lev Talpiyot retail center in Jerusalem, in consideration for NIS 130,000,000. The center with a space for marketing of approx. 15,000 sqm is leased at full occupancy. In view of information we gathered, the analysis of the transaction indicates a cap rate of approx. 8.5%.

- According to a review of rates of return for income-producing properties for the first half of 2012, released by the Chief Government Assessor on December 15, 2012, the average rate of return (total cap rate) for the first half of 2012 in commercial properties is 8.3% (unchanged compared to the second half of 2011).

- On November 15, 2012, Nitsba Holdings released a notice according to which the company would purchase from its partner, Big Retail Centers its rights (half) in the Big Poleg retail center in Netanya, in consideration for NIS 246,065,000. An amount of NIS 12,035,000 will be paid for the rights in the management company as well as the remaining balance of office building rights for additional consideration of approx. NIS 5,900,000. From analysis of the transaction it appears that the cap rate for the commercial areas in the transaction is approx. 7.7%.

- On August 19, 2012, Isralom released a notice according to which the full rights in the IKEA complex in Netanya were sold in consideration for NIS 289,000,000. The building at a gross area of 25,153 sqm, is leased in its entirety for a long term for the operation of the IKEA store, and includes unused building rights. In view of the information that we have gathered, and after depreciating the value of the remaining balance of building rights, transaction analysis indicates a cap rate of approx. 7.3%.

- On August 16, 2012, Amot purchased from a third party 50% of the rights in the retail center "HaKirya Center" in Ashdod (following the purchase, Amot holds the full rights), in consideration for an amount of NIS 68,500,000. The property is a power center which includes approx. 12,000 sqm of retail and office space, an underground and above ground parking lot which includes approx. 300 parking spaces, and there are also future building rights. the expected NOI is NIS 5,800,000. In view of information we gathered, and after depreciating the value of the remaining balance of building rights, transaction analysis indicates a cap rate of approx. 9%.

- On August 5, 2012, it was published in the press that the Phoenix had purchased the "Mega Complex" in the Ramat HaChayal industrial zone in Tel Aviv, in consideration for an amount of NIS 125,000,000. A 4,500 sqm building is built on the 12.5 thousand sqm land, which is leased to Mega. The buyers intend to build an additional area of 1,000 sqm which will be leased to other entities. The total rent after completion of the building is expected to be NIS 9,000,000 per year. From an analysis we carried out, while completing relevant information, it appears that the cap rate for the income-producing property was calculated according to 7.25% for a period of approx. 10 years (the remaining lease period). The property has potential for supplementation of building rights and preparation of a plan for the addition of building rights as was carried out for large blocks of land in the near vicinity.

- According to a periodic report for Q2 2012 of Ashtrom, on August 1, 2012 the company sold its rights (50%) in the Wolfson retail center in Tel Aviv, in consideration for NIS 40,000,000. The center comprises 3 floors in an area of approx. 6,800 sqm and 160 parking spaces. From analysis of the transaction, through completion of information from the financial statements of the company regarding the property, it appears that the cap rate in the transaction is approx. 10.5%.

- On July 24, 2012, Azrieli reported the execution of a contingent sale agreement for the purchase of the entire rights of Mashar Shopping Centers Recreation and Leisure Ltd., in the power center known as One Plaza in Be'er Sheva. The property is leased to approx. 70 lessees (the current occupancy rate is 98%), for average rent of approx. NIS 96 per sqm per month. The cap rate in the transaction is 8%. The transaction was not approved by the Antitrust Commissioner. As has been notified, the Company has filed an appeal to the Antitrust Court.

- According to a report on the MAYA site, on June 19, 2011, British Israel Ltd. purchased 50% of the rights in the Lev Hadera Mall, in Hadera, in consideration for NIS 260,000,000 (reflects a value of NIS 520,000,000 for the mall in its entirety). The annual NOI as of December 31, 2010 stands at approx. NIS 38,500,000. The calculated cap rate is approx. 7.4%.

- According to a report on the MAYA site, on April 5, 2011, Sela Capital Real Estate Ltd. Purchased 2 commercial centers at Rosh Ha’ayin, known as the Afek Center and Tal Center, at an overall commercial area of 6,100 sqm, for NIS 93,750,000. The properties are leased at an occupancy rate of 89% for 40 lessees, for annual rent of NIS 6,700,000. The seller undertook to ensure for the company minimal annual rent in the amount of NIS 7,360,000 in the first year. The calculated cap rate, considering the seller’s undertaking, 7.85%.

8.2 Offices

- According to the financial statements of Meshulam Levinstein Properties as of December 31, 2011, the areas of Levinstein company in the Discount Tower – floors 19-23 and 28-30, at a total of 8,419 sqm, 97 parking spaces, 198 sqm storerooms and 101 sqm of technical areas used for the storerooms, are leased to 20 lessees in consideration for NIS 1,161,424 per month. The average gross rent per sqm per month is NIS 120.

- According to the financial statements of Meshulam Levinstein Properties as of December 31, 2011 in the Levinstein Tower on Menachem Begin St. In Tel Aviv, the average rent for office space ranges around NIS 110 per sqm per month.

- Azrieli towers – based on data released in the Company's financial statements – the average rent for office space (lease contracts signed after 2005) are approx. NIS 105 per sqm per month.

- According to various releases, the following areas were leased in the Electra Tower on 86 Yigal Alon St. in Tel Aviv:

  - In September 2012, the 12th floor at an area of approx. 1,450 sqm, was leased as a shell to Check Point, for rent of NIS 90 per sqm per month.

  - In September 2012, the 14th floor at an area of approx. 1,450 sqm, was leased as a shell to Broadcom for rent of NIS 90 per sqm per month.

  - In December 2011, an area of approx. 1,750 sqm on the 20th - 21st floors and 30 parking spaces were leased to Forex, at a rent of NIS 95 per sqm per month and NIS 750 per month per parking space.

- According to the financial statements of Electra Real Estate for 2011, it appears that the value of an average sqm for offices at the Electra Tower, is within the boundaries of NIS16,330. We shall state that the average price reflects that approx. 35% of the areas were leased as a shell and approx. 65% of the areas were leased at a full finishing level.

- The following transactions were carried out in "Migdalei HaArba'a" which are under construction stages (according to reports on the Maya System and publications in the press):

  - In October 2012, floors 5-7 of the Northern Tower, at an area of approx. 3,696 sqm were sold in consideration for an amount of approx. NIS 45,300,000. Reflecting approx. NIS 12,300 per sqm.

- In September 2012, the 19th floor of the Northern Tower, at an area of approx. 1,235 was sold in consideration for an amount of approx. NIS 15,850,000. Reflecting approx. NIS 12,800 per sqm.

- In September 2012, the 22nd floor in the Northern Tower, at an area of approx. 1,208 sqm was sold in consideration for an amount of approx. NIS 16,850,000. Reflecting approx. NIS 13,900 per sqm.

- Parking spaces on the project are sold in consideration for 150,000 to 200,000 per perking space.

- At the Discount Tower on Yehuda HaLevy St. in Tel Aviv, the 27th floor was sold on March 13, 2012, at an area of approx. 1,052 sqm and 8 parking spaces, in consideration for NIS 18,000,000. Reflecting approx. NIS 16,000 per sqm gross, and NIS 140,000 per parking space.

8.3 Data for capitalization and office areas

Comparison data for purposes of determining the cap rates for the office areas based on transactions made and announced by the public companies in Israel during the past two years:

- On November 19, 2012, Eshdar reported the sale of its rights (45%) in the Eshdar 2000 building in Tel Aviv, comprising 18,768 sqm for office and retail and 343 parking spaces, in consideration for NIS 84,150,000. Eshdar's share in the rent is approx. NIS 6,651 thousand. The transaction reflects a cap rate of 7.9%.

- On October 28, 2012, Sela Capital reported the purchase of the entire ownership rights in the building of Elisha Hospital on 12 Yair Katz St. in Haifa, in consideration for NIS 85,000,000. The seller will remain the operator of the Hospital through a lease agreement for a period of 15 years, plus options for up to 10 more years, in consideration for net rent in the amount of NIS 7,440,000 per year. Every 5 years the rent will be increased by 3%. The rent is linked to the index and reflects a return of 8.75% for the property.

- On October 9, 2012, a private company purchased the entire rights in an office building named the "Beit Hakeren" in Be'er Sheva in consideration for approx. NIS 18,200,000. The building is leased in its entirety for retail and office use. The rate of return in the transaction as calculated by us is 8.9%.

- On September 13, 2012, Tzarfati sold its rights in 3 office floors (approx. 1,500 sqm) and 51 parking spaces, leased to the State of Israel for a period of 15 years commencing from September 2010, at 29 Rothschild St., corner of Bar Shaul in Bat Yam (Block 7147

parcel 164), in consideration for NIS 20,413,025 plus VAT. According to information from the company's financial statements as of December 31, 2011, the rent paid for the property is approx. NIS 1,361,000. According to an analysis we have carried out it appears that the cap rate in the transaction is 7%. The value of a sqm of offices is approx. NIS 11,000 and the value of a parking space is approx. NIS 72,000.

- According to a periodic report for Q2/2012 of Ashtrom, on August 5, 2012, the company sold its rights in an industrial park in Migdal Ha'Emek, in consideration for NIS 21,100,000. According to the financial statements of the company for the property, it held approx. 7,030 sqm leased at an occupancy rate of 87%, in consideration for an average rent of approx. NIS 18 per sqm per month. The cap rate in the transaction is approx. 8.1%.

- From information included in the financial statements of Reit1 it appears that in April 2012, the company engaged together with Psagot Investment House in an agreement for the purchase of the 9 top floors in the Millennium Tower on Ha'arba'a St. in Tel Aviv. The transaction includes the purchase of 6,075 sqm of office space, 342 sqm of retail space, 180 parking spaces and 49% ownership in common [*musha*] of space located in the basement level in consideration for NIS 137,000,000. The property is leased to 15 lessees and at full occupancy. The total annual income projected from rent is approx. NIS 11,400,000. The transaction reflects an office sqm value of approx. NIS 17,000 with a capitalization coefficient of 8.3%.

- According to publication in the press, from December 27, 2011, Migdal purchased 50% in two office buildings in Ra’anana, leased in their entirety to Nice, in consideration for NIS 106,400,000. According to the publication, the transaction was carried out on the basis of an approx. 7.3% cap rate.

- According to a report on the MAYA site, on September 27, 2011, Isralom Assets Ltd. sold all of its rights at the “Vered House” in Givata’im, approx. 1,500sqm of offices, approx. 300 parking spaces and storerooms, in consideration for NIS 45,400,000. According to information held in our office, the transaction reflects a cap rate for the property, of approx. 8.6%.

- In April 2011 Electra Real Estate sold its share at “Beit Reinhold” at 26 HaBarzel St. in Tel Aviv. From information we have collected it appears that the rent paid are at the range of approx. NIS 85 per sqm per month for a very high finishing level, and that the transaction was carried out according to an 7.75% cap rate.

- According to a report on the MAYA site, on March 1, 2011, Sela Capital Real Estate purchased in a Lease Back transaction an office building which is used by the Bezeq management in the Romema

neighbourhood in Jerusalem (Block 30075 Parcel 136), at an area of approx. 12,500sqm and approx. 400 parking spaces in consideration for approx. NIS 115,000,000. The Company shall lease the building to the seller for a period of 10 years, in consideration for annual rent of approx. NIS 10,650,000 the calculated cap rate is approx. 9.26%.

- According to a report on the MAYA site, on February 16, 2011, Kamur Ltd. Sold all of its rights (40% unspecific) in an office and commerce building, at a built area of approx. 16,300sqm, on 16 HaMasger St. in Tel Aviv, in consideration for NIS43,000,000. The 6 office floors are leased to the State of Israel and the ground floor, including two levels thereof, is leased to the car importer "Kamur Motors". The rent from the property for 2010 totaled at NIS 2,976,000. The calculated cap rate is approx. 6.92%.

- According to a publication in the press, on February 13, 2011, Migdal Insurance purchased the 3 office floors, at an area of approx. 2,370sqm and 39 parking spaces constituting the office foundation beneath the exclusive residential tower 1 Rothschild in Tel Aviv, in consideration for approx. NIS 40,000,000. According to publications, the entire area was leased in August 2010 to Bank Leumi, in consideration for rent ranging between approx. NIS 70 to 100 per sqm per month. The bank carried out finishing work at a very high level. According to an analysis we carried out, it appears that the average rate of return in the transaction is lower than 7%.

8.4 **Hotels**

The following comparison data have been taken into account:

- According to information held in our office, a lease agreement was signed between Isrotel and Electra, for the lease of 230 rooms, a spa and related areas, at a hotel in the Sea One project (Royal Beach Tel Aviv) in consideration for NIS 15,400,000 per year (the rent are minimal rent, the agreement includes an addition of revenues as a function of the business activity). The property will be handed over to Isrotel at a full finishing level, including fixtures and furnishing of the rooms and of the related public areas. The transaction reflects approx. NIS 5,580 per month per room (grosses up the spa and the related areas). The aforesaid rent, discounted at 8%, reflect a minimal value of approx. NIS 840,000 per room (grosses the related areas including a spa, a business lounge, dining hall etc.). The hotel is offered for sale in consideration for approx. NIS 1,300,000 per room.

- Holiday Inn leased (In November 2008) from Azrieli, an area of approx. 18,000 sqm in the square building in Azrieli Center in Tel Aviv, in consideration for approx. NIS 62 per sqm as a finished shell (the finishing and fit-out work was carried out by and at the expense of Holiday Inn), for a period of 12 years. A hotel including

273 rooms had been completed there. The agreement reflects rent of approx. NIS 4,100 per room per month as a shell.

- In the valuation prepared for the financial statements of the Company, the rent for the hotel was discounted at a rate of 7.5%. The low cap rate reflects the fact that the hotel was leased as a shell, the finishing and fit-out work was carried out by the lessee, and there is no impediment (if need be) against leasing the hotel for higher rent to a substitute lessee in view of the investment carried out. The value per room – NIS 656,000.

- Fattal leased (in 2008) a building on 17 HaBarzel St. in Tel Aviv, at an area of approx. 8,700 sqm – the Tel Aviv Leonardo Boutique Hotel, including 167 rooms, in consideration for $1,100,000 per year (approx. NIS 2,200 per room). The company leased the building as a finished shell, and carried out at its expense all of the finishing costs, estimated at approx. NIS 40,000,000 (approx. NIS 240,000 per room). According to information in the financial statements of Vitania, the cap rate for the property is 7.9%.

- On 9 Mapo St. in Tel Aviv, the City Hotel is offered for sale, the transaction price being formulated is approx. NIS 76,000,000. The hotel includes 96 rooms and the asking price reflects a value of approx. NIS 792,000 per room.

  In view of the scarcity of data, data known to us throughout the country had been presented, while performing the required modifications.

- According to information held at our office, Rimonim Optima Hotel, on 1 Krinitizy St, in Ramat Gan, is leased to the Rimonim Chain in consideration for NIS 3,600,000 per year. The hotel comprises 15 floors, at an overall built area of 12,179 sqm (including parking lots) and contains 100 rooms. Reflecting rent of approx. NIS 3,000 per month per room (value of approx. NIS 450,000 per room, discounted at a rate of 8%).

- According to information held at our office, in the last quarter of 2011, a lease agreement for approx. 162 hotel units had been signed in a project which is destined to be built at the Herzliya Marina, according to a key of approx NIS 4,900 per month for a finished and ready to be occupied hotel room (including furniture).

- According to information published in the financial statements of Ogen Real Estate, on December 31, 2010, Fatal Hotels rented at the Weizmann Business Center located in the heart of T.M.R Park in Rehovot (adjacent to the Weitzman Institute and the Weitzman Employment Park at Ness Ziona) an area of approx. 6,654 sqm + 20 underground parking spaces, for a period of 15 years + an option for 10 more years, for the purpose of operating a hotel, at a rent of NIS 42 per sqm per month (the parking spaces included) +

management fees in the amount of NIS 8 per sqm per month. The property was leased in a shell condition, all of the adjustment work will be borne by the lessee alone. According to information held at our office, a hotel including 116 rooms had been completed at the location, at an investment cost of approx. NIS28,000,000. The agreement reflects rent of approx. NIS 2,400 per room per month, at the shell level. According to information in the financial statements, the cap rate for the property is 9%.

- According to information released in the financial statements of Elrov as of December 31, 2011, the David Citadel Hotel in Jerusalem had been evaluated at NIS 892,300,000. The hotel includes 384 rooms (keys) at an average area of 93sqm gross per room. The value reflects approx. NIS 2,385,000 per room, and approx. NIS 25,600 per sqm gross.

- The value of the property was determined using the income capitalization approach (going concern). The projected operational profit for 2011 was discounted at a rate of 8%.

- According to information released in the financial statements of Guy Beach Ltd. as of December 31, 2010, the hotel (without the adjacent water park) was valuated using the income capitalization approach at approx. NIS 142,360,000. The hotel includes 200 rooms, at an average area of 62 sqm gross per room. The value reflects approx. NIS 715,000 per room, and approx. NIS 11,500 per sqm gross. The cap rate for the operating income of the hotel is approx. 9.0%.

- In February 2010 it was published that Fattal purchased 16.6% of the Ramat Gan Sheraton City Tower Hotel, in consideration for NIS 19,000,000, Tshuva's Elad purchased a similar share for the same price. The transactions reflect a value of approx. NIS 114,000,000 for the hotel. The hotel includes approx. 167 rooms and suits. Reflecting a value of approx. NIS 683,000 per room.

8.5 Parking Lots

- According to publications in the press, dated December 7, 2011 it appears that Emed who held 50% of the parking lot on Hayetzira St. in Ramat Gan, purchased approx. one month ago additional 50% in the parking lot, in consideration for NIS 42,000,000 and completed its full ownership over the parking lot which includes 610 parking spaces. The transaction reflects approx. NIS 137,000 per parking space.

- According to a report on the MAYA site on September 27, 2011, Isralom Properties Ltd. Sold all of its rights at the “Beit Havered” in Givataim, approx. 1,500sqm of offices, approx. 300 parking

spaces and storerooms for NIS 45,400,000. According to information held at our office, the value of a parking space was determined within the framework of the transaction at approx. NIS 90,000.

- According to the financial statements of Electra Real Estate for Q4/2011, it appears that the value of a parking space at the Electra Building parking lot on Yigal Alon St. is within the range of NIS 147,000.

- According to the financial statements of Africa Israel Properties as of December 31, 2010, it appears that the value of a parking space at the Government Campus parking lot at the range of NIS105,000.

- On June 21, 2011, Edri-El reported the purchase of 2 commercial floors as well as part of a parking lot space (173 parking spaces) at the Opera Tower in Tel Aviv, in consideration for NIS70.7 million. According to information held at our offices, the value of a parking space in the transaction was determined according to NIS 90,000.

9. The calculation of the valuation

We estimated the Property's value using the income capitalization approach.

The cap rate used in the calculation of the value originates from the market from an analysis of comparison transactions that were made. The information we have before us while analysing the transactions includes the rent that are paid in the current year and the price of the property as set in the transaction.

Therefore, when we analyse an income-producing property sale transaction, the multiplier (the total cap rate) which is calculated by dividing the reported annual rent by the transaction value, actually reflects all of the relevant components in the market by investors, buyers and sellers, and *inter alia*, future changes in the rent deriving from changes in the lease contracts and Index rise, projected macroeconomic changes in the market (inflation, interest rate, etc.) as well as the lease periods characteristic of the type of properties.

I.e, in order to use the multiplier / total cap rate in a property valuation with the same characteristics, it is necessary to use the rent known on the effective date (without any changes and future forecasts).

The rent:

The information base is the rent as of the effective date, based on actual lease agreements and market rent for vacant space.

The calculation of the total rent was provided to us by the Company. No modifications were made by us to the figures.

The Cap Rate:

The cap rate – we have not find indications for changes in the cap rate that may change the cap rate used in the last opinion, i.e. a cap rate of 7.25% for the commercial areas.

The cap rate due to income from revenues and casuals in the commercial areas was taken in the rate reflecting the risk, an addition of 1% to the basic cap rate.

The cap rate for the office areas was set at weighted 7.5% – reflecting a cap rate of 7% for the long-standing and significant contracts (in light of a lower risk component) and a cap rate of 7.75% for the other contracts. This cap rate matches the office and employment areas in office buildings.

Cap rate for Bezeq areas and the hotel areas was set at a cap rate lower by approx. 0.25% than the weighted cap rate for offices, in light of the lower risk.

The cap rate for the parking lot was set according to 7.75%.

For the income from revenues and sale of electricity we set a cap rate which reflects risk and uncertainty.

We deducted a cost which is attributed to the transportation task.

Item	**Space for marketing in sqm**	**Annual Income**	**Cap Rate**	**Value**
Mall-commercial areas	32,758	NIS 113,976,000	7.25%	NIS 1,572,000,000
Mall- Additional income from revenue and casual		NIS 1,270,000	8.25%	NIS 15,390,000
Leased offices – excluding Bezeq	109,121	NIS 133,670,000	7.50%	NIS 1,782,200,000
Bezeq offices		NIS 20,750,000	7.25%	NIS 286,200,000
The hotel	18,000	NIS 13,930,000	7.25%	NIS 192,100,000
Storerooms		NIS 2,162,000	7.75%	NIS 27,800,000
Parking lot		NIS 37,140,000	7.75%	NIS 479,200,000
Total		**NIS 322,898,000**	**7.4%**	**NIS 4,354,890,000**
Profit from electricity		NIS 5,425,000	12%	NIS 45,200,000
Profit from management		NIS 13,120,000	9.4%	NIS 139,300,000
Future investments in the Property				- NIS 64,100,000
Deduction of transportation task				- NIS 2,000,000
Total, rounded off				**NIS 4,473,300,000**

The total value indicates average commercial area value of approx. NIS 48,000 per sqm, average office value of NIS 16,000 per sqm and parking space value of NIS 150,000. These figures match the market figures.

Sensitivity analysis

The results of a sensitivity analysis for changes in the cap rate:

	7.00%	**7.50%**	**8.00%**
Value of the Property	NIS 4,793,100, 000	NIS 4,473,300,000	NIS 4,193,700,000

10. The valuation

In light of the aforesaid, our assessment of market value of the Company's rights in the Property (excluding the area self-used by Azrieli Group) in the free market, in the criterion of a willing buyer from a willing seller, free of any debt, charge, mortgage, including third-party rights, is in the range of **NIS 4,473,300,000**.

11. General

- The value does not include V.A.T.
- We have not related to taxation that may apply, insofar as shall apply, at the time of selling the Property.
- In our Opinion we referred to such forward-looking information that was provided to us by the Company's management, with respect to the 2013 forecast and income forecast, and is based on information available as of the date of the valuation and subjective estimates of the management, materialization of which is uncertain due to reasons beyond the Company's management control.
- The value of the property in the Company's books –. NIS 4,319,497,000.
- We have valuated the Property in the past for purposes of their inclusion into the Company's financial statements:

Effective date	**Value of the Company's Rights**
December 31, 2009	NIS 3,725,100,000
December 31, 2010	NIS 4,014,000,000
June 30, 2011	NIS 4,133,100,000
December 31, 2011	NIS 4,306,400,000
June 30, 2012	NIS 4,373,300,000

12. Disclosure Document

According to Standard 17.1 we requested from the Company a disclosure document pertaining to several issues.

On January 6, 2013 our firm received a disclosure document for the purpose of valuation of Azrieli Center, 1 Azrieli Center, Tel Aviv, for December 31, 2012, from the Company. A summary of the document:

- There are no protected tenants in the property pursuant to the Tenant Protection Law, 5732-1972.
- There are no tenants in the property without a valid lease agreement.
- There are no tenants in the property who are interested parties of the corporation, such as: a subsidiary[6], affiliates[7], etc, excluding the So-Good store at an area of approx. 103 sqm on the ground floor of the triangular tower and the company Rinar Games - an area at the mall for the purpose of placing game appliances.
- There is an undertaking which was made to the City of Tel Aviv regarding the construction of a tunnel under Begin Rd. and the construction of a bridge above Ha'Shalom Rd (see details in Section 3.3 above).
- There is no liability for compensation in respect of damage caused by the Property to third party land.
- There is no other material liability related to the land which affects the value of the Property and is not specified in the sections above.

13. Declarations

- We declare that to the best of our knowledge, the facts upon which this Opinion has been based are correct.
- The analysis and the conclusions are limited to the assumptions and conditions specified above.
- We declare that the legal information presented in this document is the legal information on which the valuation is based.
- We declare that we have no personal interest in the Property contemplated in the valuation, in the right owners therein or in the client commissioning the Opinion.
- The fees for this valuation not conditioned upon the results of the valuation have no material influence on our firm's income.

[6] A company in which another company holds 50% or more of its issued share capital or the voting rights.

[7] A company which is owned or controlled, indirectly, by the owner of the Property.

- The report was prepared according to the Real Estate Appraiser Regulations (Professional Ethics), 5726-1966 and according to the professional standards of the Appraisal Standards Committee.

- We declare that we have the necessary knowledge for making this valuation.

- The valuation was performed by the undersigned, without assistance.

Annex D

Extended Standalone Financial Statements
December 31, 2012

Azrieli Group Ltd.

Extended Standalone Financial Statements

December 31, 2012

Annex D

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex D

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 December 31	
	2012	**2011**
	NIS in thousands	**NIS in thousands**
Assets		
Current Assets		
Cash and cash equivalents	111,040	145,072
Financial assets held for trade	421,847	1,322,083
Trade account receivable	36,304	30,101
Other receivables	69,600	62,139
Current tax Assets	11,381	6,599
Total Current Assets	650,172	1,565,994
Non-Current Assets		
Investments in investee companies	1,195,712	767,112
Loans and receivables	58,405	30,579
Financial assets available for sale	1,413,701	1,256,346
Financial assets designated at fair value through profit and loss	20,088	16,737
Investment property and investment property under construction	15,864,794	14,766,056
Fixed assets	42,706	44,909
Deferred tax assets	2,015	1,723
Total Non-Current Assets	18,597,421	16,883,462
Total Assets	19,247,593	18,449,456

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex D

Balance Sheet: Contd.

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Liabilities and Equity		
Current Liabilities		
Credit from banks and other credit providers	1,820,873	1,004,671
Trade payables	58,510	76,900
Payables and other current liabilities	75,998	81,013
Current tax liabilities	34,141	35,019
Total Current Liabilities	1,989,522	1,197,603
Non-Current Liabilities		
Loans from banks and other credit providers	1,983,477	2,912,228
Bonds	995,172	1,074,461
Other liabilities	39,953	38,229
Employee benefits	25,014	22,155
Deferred tax liabilities	2,268,759	2,111,119
Total Non-Current Liabilities	5,312,375	6,158,192
Equity		
Ordinary share capital	18,223	18,223
Share premium	2,518,015	2,518,015
Capital reserves	245,454	102,678
Retained earnings	9,093,148	8,394,872
Equity attributed to shareholders of the parent company	11,874,840	11,033,788
Non-controlling interests	70,856	59,873
Total equity	11,945,696	11,093,661
Total Liabilities and Equity	19,247,593	18,449,456

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex D

Income Statement:

	For the year ended December 31	
	2012	2011
	NIS in Thousands	NIS in thousands
Revenues		
From rent and management and maintenance fees	1,399,333	1,245,546
Net profit from adjustment to fair value of investment property and investment property under construction	314,936	848,638
Financing income	56,699	4,222
Share in results of associated companies, net of tax	119,462	24,228
Other	7,797	44,855
Total Revenues	1,898,227	2,167,489
Costs and Expenses		
Cost of revenues from rent and management and maintenance fees	309,394	259,833
Sales and marketing	11,336	2,480
General and administrative	75,840	70,705
Financing expenses	275,788	369,460
Other	-	34
Total Costs and Expenses	672,358	702,512
Income before Taxes on Income	1,225,869	1,464,977
Expenses for Taxes on Income	(239,612)	(841,965)
Net Profit for the Period, including the Minority	986,257	623,012

Part C

Audited Consolidated Financial Statements As of Dec. 31, 2012

Azrieli Group

Azrieli Group Ltd.

Consolidated Financial Statements
For the Year 2012

Azrieli Group Ltd.

Consolidated Financial Statements

For the Year 2012

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Deloitte.
Brightman Almagor Zohar

Independent Auditors' Report to the Shareholders of

Azrieli Group Ltd.

Regarding Audit of Components of Internal Control over Financial Reporting pursuant to
Section 9B(c) of the Securities Regulations (Periodic and Immediate Statements), 5730-1970

We have audited components of internal control over financial reporting of **Azrieli Group Ltd. and subsidiaries** (jointly, "the Company") as of December 31, 2012. These components of control were determined as explained in the paragraph below. The board of directors and management of the Company are responsible for performance of effective internal control over financial reporting and for evaluating the effectiveness of the components of internal control over the financial report attached to the periodic statement as of the above date. Our responsibility is to express an opinion on the components of internal control over financial report of the Company, based on our audit.

The components of the internal control over financial reporting that were audited were determined pursuant to Audit Regulation 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", including the amendments thereto ("Audit Regulation 104"). These Components are: (1) Organization level control, including control over the financial closing and reporting process and ITGC control; (2) control over investment property; (3) control over revenues from rent from investment property; (4) control over the revenues from sales and trade accounts receivable of Sonol Israel Ltd.; (5) control over the revenues from sales and trade accounts receivable of Tambour Ltd. ("Tambour"); (6) control over inventory and procurement at Tambour; (7) control over long-term receivables in respect of a franchise arrangement at Via Maris Desalination (Holdings) Ltd.; (all of these jointly are referred to below as the "Audited Components of Control").

We conducted our audit pursuant to Audit Regulation 104. Pursuant to this Regulation, we were required to plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance as to whether these components of control were performed effectively in all material respects. Our audit included obtaining an understanding regarding internal control over financial reports, identification of the Audited Components of Control, evaluation of the risk that a material weakness exists in the Audited Components of Control, and examination and evaluation of the effectiveness of the planning and operation of such components of control, based on the estimated risk. Our audit regarding such components of control also included performance of other such procedures that we thought were necessary under the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not refer to the mutual influences between the Audited Components of Control and those that are not audited, and therefore, our opinion does not take into consideration such possible influences. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to obvious limitations, internal control over financial reporting in general, and components thereof in particular, may fail to prevent or disclose a material misstatement. In addition, future conclusions based on any current effectiveness evaluation is exposed to the risk that the control will become unsuitable due to changes in circumstances, or that the degree of performance of the policies or the procedures will change for the worse.

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Brightman Almagor Zohar

In our opinion, the Company effectively performed the Audited Components of Control in all material respects, as of December 31, 2012.

Pursuant to the accepted Audit Regulations in Israel, we also audited the consolidated financial statements of the Company as of December 31, 2012 and 2011, and for each of the three years in the period ending on December 31, 2012, and our report as of March 19, 2013, includes an unqualified opinion on those financial statements based on our audit and on other auditors reports as well as the drawing attention to the provisions of Note 34 to the financial statements regarding legal claims in material amounts, in the aggregate, against consolidated companies in respect of which a motion for class certification has been filed and regarding various claims and suits in material financial scopes, in the aggregate, against a consolidated company whose agreements with its customers have been argued to constitute a restrictive arrangement.

Brightman Almagor Zohar & Co
Certified Public Accountants

Tel Aviv, March 19, 2013

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Deloitte.
Brightman Almagor Zohar

Auditors' Report to the Shareholders of
Azrieli Group Ltd.

We have audited the attached consolidated statements of financial position of the **Azrieli Group Ltd.** (the " Company") as at December 31, 2012 and 2011 and the consolidated statements of comprehensive income, the changes in capital and the cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of consolidated subsidiaries, whose assets that are included in the consolidation constitute approx. 23% and approx. 22% of the total consolidated assets as of December 31, 2012 and 2011, respectively, and whose revenues that are included in the consolidation constitute approx. 81%, approx. 75% and approx. 72% of the total consolidated revenues for the years ended December 31, 2012, 2011 and 2010, respectively. Moreover, we did not audit the financial statements of the associates under the equity method, the investment in which amounted to approx. NIS 43 million and approx. NIS 46 million as of December 31, 2012 and 2011, respectively and the share of whose losses amounted to approx. NIS 12 million, approx. NIS 18 million and approx. NIS 21 million for the years ended December 31, 2012, 2011 and 2010, respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us, and our report, in so far as it relates to the amounts that have been included in respect of those companies, is based upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards that were set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the other auditors, the abovementioned financial statements present fairly, in all material respects, the financial position of the Company and of the Company and its subsidiaries as of December 31, 2012 and 2011 and the results of their operations, the changes in their capital and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

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Deloitte.
Brightman Almagor Zohar

We have also audited, in accordance with Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", including amendments thereto, components of the internal control over the Company's financial reporting as of December 31, 2012 and our report as of March 19, 2013 included an unqualified opinion on the effective existence of such components.

Without qualifying our opinion, we draw attention to the contents of Note 34 to the financial statements, on the subject of legal claims in material amounts, cumulatively, against consolidated companies, in respect of which an application for recognition as a class action has been presented and on the subject of various claims in material amounts, cumulatively, against a consolidated company, in which it is alleged that its agreements with its customers fall within the bounds of a restrictive arrangement.

Brightman Almagor Zohar & Co
Certified Public Accountants

Tel Aviv, March 19, 2013

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Azrieli Group Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31 2012 NIS in Thousands	As of December 31 2011 NIS in Thousands
ASSETS			
Current assets			
Cash and cash equivalents	4	182,818	224,430
Financial assets held for trade	5	470,757	1,401,786
Short-term deposits and investments		90,331	84,271
Trade receivables	6	1,757,697	1,719,764
Other receivables	7	173,020	144,684
Receivables for work in progress		41,164	32,649
Inventories	8	498,002	439,933
Current tax assets	31	27,826	24,626
Total current assets		3,241,615	4,072,143
Non-current assets			
Investments in associates	9	7,626	13,140
Loans to associates	9	35,051	33,080
Investments, loans and other receivables	10	186,895	122,126
Restricted investments	10d	70,223	50,930
Financial assets available for sale	11a	1,509,531	1,305,184
Financial assets designated at fair value through profit and loss	11b	20,088	16,737
Long-term receivables in respect of a franchise arrangement	12	858,710	534,596
The Fuel Administration		129,130	132,720
Investment property and investment property under construction	13	15,954,699	14,839,570
Fixed assets	14	1,390,194	1,427,028
Intangible assets	15	533,394	540,406
Lease fees paid in advance	16	40,921	36,603
Deferred tax assets	31	52,432	55,450
Total non-current assets		20,788,894	19,107,570
Total assets		24,030,509	23,179,713

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

Azrieli Group Ltd.

Consolidated Statements of Financial Position

(Continued)

	Note	As of December 31 2012 NIS in Thousands	As of December 31 2011 NIS in Thousands
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	20	3,451,483	2,445,422
Accounts payable	17	804,455	854,724
Other payables	18	429,964	385,849
Deposits from customers	19	107,633	105,995
Provisions		30,295	29,288
Current tax liabilities	31	44,380	42,107
Total current liabilities		4,868,210	3,863,385
Non-current liabilities			
Loans from banks and other credit providers	20	3,134,320	3,757,837
Bonds	20	1,552,518	1,706,726
Employee benefit	21	58,244	59,312
Other liabilities	20	62,274	100,122
Deferred tax liabilities	31	2,397,607	2,228,273
Total non-current liabilities		7,204,963	7,852,270
Capital	22		
Ordinary share capital		18,223	18,223
Share premium		2,518,015	2,518,015
Capital funds		245,454	102,678
Retained earnings		9,093,148	8,394,872
Total capital attributed to the holders of the parent company		11,874,840	11,033,788
Non-controlling interests		82,496	430,270
Total Capital		11,957,336	11,464,058
Total Liabilities and Capital		24,030,509	23,179,713

March 19, 2013			
Date of the approval of the financial statements	**David Azrieli Chairman of the Board of Directors**	**Shlomo Sherf, CEO**	**Yuval Bronstein Chief Financial Officer**

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

Azrieli Group Ltd.

Consolidated Statements of Comprehensive Income

	Note	For the Year ended December 31		
		2012	2011	2010
		NIS in Thousands	NIS in Thousands	NIS in Thousands
Revenues				
From sales, labor and services	24	7,644,162	6,291,304	5,238,630
From rental, management And maintenance fees	24	1,411,192	1,255,966	1,105,292
Net profit from the adjustment of the fair value of Investment property and investment property under construction	13	328,896	848,859	890,696
Financing income	30	122,000	101,661	151,635
Other	28	27,391	54,608	56,285
Total revenues		9,533,641	8,552,398	7,442,538
Costs and Expenses				
Costs of revenues from sales labor and services	25	6,449,437	5,205,350	4,171,617
Costs of revenues from rental, management and maintenance fees	25	316,813	266,842	216,684
Sales and marketing	26	779,961	764,650	742,087
Administrative and general	27	218,202	200,288	225,030
Share of results of associates, net of tax	9	12,033	17,512	21,378
Financing expenses	30	496,983	591,159	514,437
Other	29	1,795	7,504	4,042
Total costs and expenses		8,275,224	7,053,305	5,895,275
Profit before taxes on income		1,258,417	1,499,093	1,547,263
Taxes on income expense	31	(272,159)	(876,081)	(292,159)
Net profit for the year		986,258	623,012	1,255,104
Other comprehensive income (loss), net of tax				
Change in fair value of financial assets available for sale, net of tax		138,504	(431,783)	81,515
Realization of financial assets available for sale, net of tax		-	-	(16,387)
Actuarial profit (loss) in respect of defined benefit plan, net of tax		(252)	(2,769)	1,292
The effective share of the change in fair value of the hedging of cash flows, net of tax		(1,316)	(143)	-
Net change, in fair value of the hedging of cash flows, net tax		466	88	-
Translation differentials due to overseas operations		(12,333)	15,917	(4,540)
Other comprehensive income (loss) for the year, net of tax		125,069	(418,690)	61,880
Total other comprehensive income for the year		1,111,327	204,322	1,316,984

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

Azrieli Group Ltd.

Consolidated Statements of Comprehensive income

(Continued)

	For the Year ended December 31		
	2012	**2011**	**2010**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**
Net income for the year attributed to:			
Holders of the parent company	938,526	595,854	1,224,180
Non-controlling interests	47,732	27,158	30,924
	986,258	623,012	1,255,104
Total comprehensive income for the year attributed to:			
Holders of the parent company	1,060,234	173,098	1,293,069
Non-controlling interests	51,093	31,224	23,915
	1,111,327	204,322	1,316,984
	NIS	**NIS**	**NIS**
Base and Diluted Profit per ordinary share (in NIS) of par value NIS 0.1 attributed to the holders of the parent company	7.74	4.91	11.33
The weighted average of the number of shares used for the purpose of calculation of the base income per share	121,272,760	121,272,760	108,074,258

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

Azrieli Group Ltd.

Consolidated Statements of Changes in Shareholders' Capital

	For the year ended December 31, 2012										
	Share Capital	Share premium	Revaluation reserve on available for sale financial assets	Capital reserve on translation differences on foreign operations	Capital reserve on transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Surpluses	Total attributed to holders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
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 year	-	-	-	-	-	-	-	938,526	938,526	47,732	986,258
Change in fair value of financial assets available for sale, net of tax	-	-	135,035	-	-	-	-	-	135,035	3,469	138,504
Actuarial loss in respect of defined benefit plan, net of tax	-	-	-	-	-	-	-	(250)	(250)	(2)	(252)
Translation differentials due to overseas operations	-	-	-	(12,417)	-	-	-	-	(12,417)	84	(12,333)
The effective share of the change in fair value of the hedge of cash flows, net of tax	-	-	-	-	-	-	(1,161)	-	(1,161)	(155)	(1,316)
Net change in fair value of the hedge of cash flows transferred to profit and loss, net of tax	-	-	-	-	-	-	501	-	501	(35)	466
Total comprehensive income for the year	-	-	135,035	(12,417)	-	-	(660)	938,276	1,060,234	51,093	1,111,327
Dividend to shareholders of the company	-	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Warrants exercised for shares in a consolidated company	-	-	-	-	-	-	(58)	-	(58)	286	228
Acquisition of non-controlling interests in consolidated companies (*)	-	-	-	-	-	21,375	-	-	21,375	(401,441)	(380,066)
Sale of shares in a consolidated company	-	-	-	-	-	-	(508)	-	(508)	917	409
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	2,850	2,850
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,470)	(1,470)
Capital reserve on transactions with related parties	-	-	-	-	9	-	-	-	9	(9)	-
Total transactions with the Company's shareholders	-	-	-	-	9	21,375	(566)	(240,000)	(219,182)	(398,867)	(618,049)
Balance as of December 31, 2012	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336

(*) See Notes 40.b and 40.c.

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

Azrieli Group Ltd.

Consolidated Statements of Changes in Shareholders' Capital

(Continued)

	For the year ended December 31, 2011									
	Share Capital	Share premium	Revaluation reserve on available for sale financial assets	Capital reserve on translation differences on foreign operations	Capital reserve on transactions with related parties	Other capital reserves	Surpluses	Total attributed to holders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
Balance as of January 1, 2011	18,223	2,518,015	573,325	(16,850)	(31,000)	(1,432)	8,040,660	11,100,941	423,896	11,524,837
Net profit for year	-	-	-	-	-	-	595,854	595,854	27,158	623,012
Change in fair value of financial assets available for sale, net of tax	-	-	(434,717)	-	-	-	-	(434,717)	2,934	(431,783)
Actuarial loss in respect of defined benefit plan, net of tax	-	-	-	-	-	-	(1,642)	(1,642)	(1,127)	(2,769)
Translation differentials due to overseas operations	-	-	-	13,630	-	-	-	13,630	2,287	15,917
The effective share of the change in fair value of the hedge of cash flows	-	-	-	-	-	(72)	-	(72)	(71)	(143)
Net change in fair value of the hedge of cash flows transferred 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 on transactions with affiliated parties	-	-	-	-	79	-	-	79	(79)	-
Total transactions with the Company's shareholders	-	-	-	-	79	(330)	(240,000)	(240,251)	(24,850)	(265,101)
Balance as of December 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 financial statements form an integral part thereof.

Azrieli Group Ltd.

Consolidated Statements of Changes in Shareholders' Capital

(Continued)

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

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

Azrieli Group Ltd.

Consolidated Statements of Cash Flows

	Year ended December 31		
	2012	2011	2010
	(in NIS thousand)		
Cash flows - operating activities			
Net profit for the year	986,258	623,012	1,255,104
Depreciation and amortization	126,486	134,680	145,643
Impairment of fixed assets and intangible assets	-	1,620	579
Impairment of investments and loans to associates	-	73	-
Loss from sale of investments in associates	-	-	202
Net profit from adjusting fair value of Investment property and investment property under construction	(328,896)	(848,859)	(890,696)
Financing and other expenses, net	380,408	314,290	387,457
Impairment of available for sale financial assets	1,450	1,496	-
Dividend received from available for sale financial assets	8,461	44,564	31,032
Interest and dividend received from financial assets held for trading	36,911	68,642	26,763
Loss (profit) from the sale of fixed assets, investment property and intangible assets	(2,194)	1,610	1,505
Share in the losses of associates treated under the equity method	12,033	17,512	21,378
Change in imputed benefit in respect of share based payment	1,646	(449)	14,606
Expenses taxes that were recognized in the income statement	272,159	876,081	292,159
Change in financial assets held for trading	921,684	908,637	(2,239,890)
Profit from acquisition of shares in investee companies	-	-	(2,884)
Profit from realization of investments in available for sale financial assets	-	-	(22,265)
Profit from loss of material effect in an equity-investee	(14,822)	-	-
Income tax (paid) received, net	(130,065)	(103,092)	16,272
Revaluation of the Fuel Administration's balance	2,959	(9,151)	7,611
Revaluation of financial assets designated at fair value through profit and loss	254	1,443	5,454
Change in inventory	(58,097)	(93,436)	(21,489)
Change in account receivables and other receivables	(85,944)	(415,950)	(32,159)
Change in receivables in respect of a franchise arrangement	(330,806)	(8,529)	(17,143)
Change in account payables and other payables	67,555	179,144	(10,388)
Change in provisions and benefits to employees	(3,054)	(6,435)	(13,012)
Net cash - operating activities	1,864,386	1,686,903	(1,044,161)
Cash flows - investment activities			
Proceeds from fixed assets and intangible assets	3,256	4,234	25,626
Proceeds from investment property	220	-	9,086
Increase in the Fuel Administration balance	631	-	-
Purchase and investment in investment property and investment property under construction	(840,571)	(1,707,785)	(474,468)
Purchase of fixed assets and intangible assets	(181,902)	(148,355)	(188,406)
Investment in and providing loans to associates	(22,809)	(20,123)	(19,094)
Change in short-term deposits	(5,801)	(35,942)	124,342
Change in restricted investments	(8,012)	(8)	(7,502)
Receipt (payment) for the removal of derivative financial instruments, net	(19,948)	18,568	(32,196)
Investment in financial assets available for sale	(3,464)	-	-
Recovery of Investment (Investment) in financial assets designated at fair value through profit and loss, net	(3,605)	(1,674)	185
Long term loans	(25,087)	(8,343)	(14,185)
Collection of long-term loans	12,867	29,836	11,761
Collection of loans from associates	-	-	73,861
Interest received	45,523	38,178	39,232
Acquisition of initially consolidated companies	-	-	(20,536)
Proceeds from financial assets available for sale	3,684	-	35,616
Proceeds from realization of financial assets designated at fair value through profit and loss	-	-	211
Institutions in respect of the purchase of real estate	(16,546)	-	-
Income tax paid pertaining to disposal of assets and investments	-	-	(10,736)
Net cash - investment activities	(1,061,564)	(1,831,414)	(447,203)

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

Azrieli Group Ltd.

Consolidated Statements of Cash Flows

(Continued)

	Year ended December 31		
	2012	2011	2010
	(in NIS thousand)		
Cash flows from financing activities			
Distribution of dividend to shareholders	(240,000)	(240,000)	-
Repayment of bonds	(182,102)	(197,313)	(152,540)
Receipt of long-term loans from banks	870,695	873,198	563,838
Repayment of long-term loans from banks	(498,051)	(594,883)	(848,943)
Short-term credit from banks and others, net	(12,606)	773,333	(121,650)
Proceeds from issuance of shares (less issue expenses in the sum of approx. NIS 44 million)	-	-	2,480,697
Proceeds from the exercise of options for shares by employees in consolidated company	228	-	1,575
Repayment of deposits from customers	(1,982)	(2,970)	(2,021)
Receipt of deposits from customers	2,936	5,388	3,800
Payment for settlement of derivatives used for cash flow hedging	(689)	-	-
Acquisition of non-controlling interests (including loans)	(380,168)	(65,093)	(1,306)
Dividend to holders of non-controlling interests	-	(5,898)	(10,248)
Proceeds from the issue of shares in a consolidated company to holders of non-controlling interests	2,850	9,337	20
Proceeds from the sale of shares of a consolidated company	402	-	-
Interest paid	(405,441)	(364,085)	(330,145)
Net cash - financing activities	(843,928)	191,014	1,583,077
Increase (decrease) in cash and cash equivalents	(41,106)	46,503	91,713
Cash and cash equivalents at the beginning of the year	224,430	177,858	92,632
Effect of fluctuations in exchange rates on balances of cash and cash equivalents	(506)	69	(6,487)
Cash and cash equivalents at the end of the year	182,818	224,430	177,858

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

Note 1 - General

A. General description of the Company and its operations

Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled in Israel, which was incorporated in Israel and whose registered address is Azrieli Center 1, Tel-Aviv. The Company has been traded on the Tel Aviv Stock Exchange since June 2010, and is included in the "Tel Aviv 25" index. The Group's consolidated financial statements as of December 31, 2012 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associates and in entities under common control.

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 the company Nadav Investments Inc. (the "Parent Company"), a private company incorporated under Canadian law, which is wholly owned and controlled by Azrieli Holdings Inc., a private company that was incorporated under Canadian law, which is wholly owned and controlled by Mr. David Azrieli, the Chairman of the Company's Board of Directors, who holds, directly and indirectly, approx. 39% of the issued share capital, and his four children hold, directly and indirectly, the balance of the share capital.
The Company engages (both directly and through investee companies in which it invests and which it develops) in the following principal operating segments:

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

(2) In 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 US.

(4) Pursuant to a full tender offer dated September 2012, the Company holds 100% of the shares and the voting rights in Granite Hacarmel Investments Ltd. ("Granite"). Granite is a private company domiciled in Israel, which was incorporated in Israel (see Note 40c).

Granite and its consolidated companies engage primarily in the following operating segments:

1. Fuelling, retail and direct marketing complexes.
2. Primarily marketing and supplying LPG.
3. Primarily manufacturing and marketing paint products and complementary products for the construction industry.
4. Primarily water and sewage.
5. Others.

Note 1 - General (Cont.)

B. Definitions

Interested Parties	-	As defined in the Securities Law, 5728-1968, and regulations thereunder.
Controlling Shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.
Canit Hashalom	-	Canit Hashalom Investments Ltd.
Sonol	-	Sonol Israel Ltd.
Tambour	-	Tambour Ltd.
G.E.S.		G.E.S. Global Environmental Solutions Ltd.
Supergas		Supergas - Israeli Gas Distribution Company Ltd.

Note 2 Principal accounting policies

A. Declaration in respect of the application of the International Financial Reporting Standards (IFRS):

The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (the "IFRS Standards") and the interpretations thereto, which have been published by the International Accounting Standards Board (IASB). The principal accounting policies that are detailed further on in this report have been applied in a consistent manner for all of the reporting periods that are presented in these consolidated financial statements, except for changes in the accounting policies, which derived from the application of standards, amendments to standards and interpretation, which have taken effect as of the date of the financial statements, as detailed in Note 2AF.
The consolidated financial statements were approved for publication by the Company's Board of Directors on March 19, 2013.

B. The financial statements include the disclosure requirements in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010 (the "Financial Statements Regulations").

C. The operating cycle period:

The Group's operating cycle does not exceed 12 months.

D. The basis of the preparation of the financial statements:

Until December 31, 2003, Israel was considered to be a country in which hyper-inflationary conditions existed. Accordingly, non-monetary items in the balance sheets were presented on the basis of cost, as adjusted for changes in the Consumer Price Index until December 31, 2003. From that time onwards the adjusted amounts have served as a basis for the reporting for the periods following December 31, 2003 (the "Historical Cost"). The financial statements have been prepared on the historical cost basis, except for:

- The following assets and liabilities, which are presented in accordance with their fair values: available for sale financial assets, derivative financial instruments, financial instruments that are measured at fair value through profit and loss, financial instruments that are classified as available for sale, investment property and investment property under construction.

Note 2 - Principal accounting policies (Cont.)

D. The basis of the preparation of the financial statements: (Cont.)

- Fixed assets and intangible assets, which are presented in accordance with the lower of cost, less accumulated depreciation and their realizable amounts.
- Inventory, which is measured at the lower of cost and net realizable value.
- Assets and liabilities in respect of employee benefits.
- Provisions.
- Investments in associates and in entities under common control treated under the equity method.
- Deferred tax assets and liabilities.

E. The format for the analysis of the expenses that have been recognized in the statement of comprehensive income:

The Company's expenses in the statement of comprehensive income are presented in accordance with a method of classification based on the nature of the activity to which the expense relates.

F. Foreign currency:

(1) The functional currency and the presentation currency

The financial statements of each of the companies in the Group have been prepared in the currency of the main economic environment in which they operate, mainly NIS (the "Functional Currency"). For the purposes of the consolidation of the financial statements, the results and the financial position of each of the companies in the Group are presented in New Israeli Shekels (NIS), which is the Company's functional currency. The Company’s consolidated financial statements are presented in NIS in thousands. See Note 2AE on the subject of exchange rates and the changes therein in the course of the periods that are presented.

(2) The translation of transactions other than in the functional currency

In the preparation of the financial statements of each of the companies in the Group, transactions that were executed in currencies that are different from the Company’s functional currency ("Foreign Currency") have been recorded in accordance with the exchange rates that were in force at the time of the transactions. At the end of each reporting period, monetary items that are stated in foreign currency are translated in accordance with the exchange rates in force as of that time. Non-monetary items that are measured at fair value and stated in foreign currency are translated in accordance with the exchange rate at the time at which the fair value was determined; non-monetary items that are measured in historical cost terms are translated in accordance with the exchange rates that were in force at the time of the execution of the transaction in respect of the non-monetary item.

Note 2 - Principal accounting policies (Cont.)

F. Foreign currency: (Cont.)

(3) The manner in which exchange differences are recorded

Exchange differences are recognized in the income statement in the period in which they arise, except for the following cases:

- Exchange differences in respect of transactions that were designated for the hedging of certain foreign currency risks (see Note 2M in respect of the Group's accounting policy on the subject of hedging transactions).

- Exchange differences in respect of financial items receivable or payable from foreign operations, whose settlement is not planned or expected to occur and accordingly they constitute part of the net investment in foreign operations, are recognized in the statement of other comprehensive income under the item "exchange differences in respect of foreign operations", and are carried to the income statement at the time of the disposal of the net investment in foreign operations and upon loss of joint control of or a material effect on the foreign operations.

(4) The translation of the financial statements of associates whose functional currency is different from the Shekel (the Group's functional currency) and is mainly U.S. dollars

For the purposes of the presentation of the consolidated financial statements, the assets and the liabilities of foreign operations are presented in accordance with the exchange rate in force at the end of the reporting period. Income and expense items are translated in accordance with the average exchange rate for the reporting period unless there shall have been significant fluctuations in the exchange rates in the course of the period. In such a case, the translation of these items is done using the exchange rates at the time of the execution of the transactions and the related exchange differences are recognized in the statement of comprehensive income under "translation differences in respect of foreign operations". The translation differences are classified to the income statement on the disposal of the foreign operations in respect of which they were recorded and upon loss of control or joint control of, or a material effect on the foreign operations.

G. Consolidated financial statements:

The Group's consolidated financial statements include the financial statements of the Company and of entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to control the financial and operating policies of the investee company for the purpose of achieving benefits from its operations. Potential voting rights, which can be exercised or converted immediately into shares in an investee company are taken into account in the testing for the existence of control.
The financial statements of the consolidated companies that were prepared other than in accordance with the Group's accounting policies were adjusted, prior to their consolidation, to the accounting policies that have been implemented by the Group.
For the purposes of the consolidation, all inter-company transactions, balances, income and expenses have been eliminated in full.

Note 2 - Principal accounting policies (Cont.)

H. Non-controlling interests:

Non-controlling interests are the capital in a subsidiary which cannot be attributed, either directly or indirectly, to the parent company.
Transactions with non-controlling interests, while retaining control (see Note 40(b) and (c)) - Transactions with non-controlling interests while retaining control are treated as equity transactions. Any difference between the consideration paid or received and the change in the non-controlling interests is carried to the share of the holders of the Company directly to a capital reserve from the purchase of non-controlling interests in a consolidated company.

I. Business combinations:

The Group applied to a business combination (a transaction for the purchase of shares of Via Maris Desalination Ltd.) the acquisition method whereby the acquisition date is the date on which the acquirer gains control of the acquiree. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The company exercises discretion on the determination of the acquisition date and on whether control has been gained.
The consideration that was remitted includes cash as well as the fair value of the Group's holdings in the acquired entity prior to the business combination.
Costs associated with the acquisition, incurred by the acquirer in respect of a business combination, such as broker fees, consultancy fees, legal fees, valuations and other fees for professional services or consulting services, are recognized as expenses in the period in which the services are received.

J. Associates and entities under common control (that are treated under the equity method):

Associates are entities in which the Group has material effect over the financial and operational policies, but where control has not been achieved. There is an assumption whereby the holding of 20% through 50% in the investee confers a material effect. In reviewing the existence of material effect, potential voting rights that are exercisable or convertible immediately to the shares of the investee company are taken into consideration. Entities under common control are entities where the Group has joint control over their activities, which has been achieved by means of a contractual agreement that requires joint agreement in respect of financial and operational decisions that relate to strategic activity.
Investment in associates and entities under common control is treated under the equity method and is initially recognized at cost. The cost of the investment includes transaction costs.
The consolidated financial statements include the Group's share of the incomes and the expenses, the profit or loss and in other comprehensive income of investee entities that are treated under the equity method, after the adjustments that are required in order to adjust the accounting policies to those of the Group, from the day on which material effect or common control arises and until the day on which material effect or common control no longer exists.

Note 2 - Principal accounting policies (Cont.)

J. Associates and entities under common control (that are treated under the equity method): (Cont.)

Where the Group's share of the losses exceeds the value of the Group's rights in an entity that is treated under the equity method, the carrying value of those rights in the accounting records (including long-term investment that constitutes part of the investment account in the investee) is written down to zero and the Group does not recognize additional losses, unless the Group has a commitment to support the investee entity or if the Group has paid amounts on its behalf.
Profits or losses generated from transactions performed between the Company and/or a consolidated company and associates and entities under common control, are cancelled in accordance with the Group's share in the rights of the relevant associate.
The Group ceases to use the equity method from the same date on which it lost the material effect, and treats the remaining investment as a financial asset, or as a subsidiary, as the case may be.
At this time, the Group measures its remaining investment in the former equity-investee at fair value. The Company recognizes a profit under the other revenues item for any difference between the fair value of the remaining investment and the book value of the investment at such time.

K. Operations under common control (joint ventures):

Operations under common control are joint ventures in which each party uses the assets that it owns for the purposes of the common operations. The consolidated financial statements include the assets of joint operations that are controlled by the Group, the commitments of the joint operations, to which it is exposed, the expenses that it bears in connection with the joint operations and its share of the income from the joint operations.

L. Goodwill:

Goodwill that derives from the acquisition of a consolidated company is measured at the level of the surplus of the cost of the acquisition over the net fair value of the identified assets, liabilities and contingent liabilities of the company, which were recognized at the time of the acquisition. Goodwill is initially recognized as an asset at cost and is measured in following periods as cost less accumulated losses from impairment in value.
For the purposes of the testing for impairment in value, goodwill is allocated to each of the Group's cash generating units, which derive benefits from the synergies from the business combination. Cash generating units to which Goodwill has been allocated are tested for impairment in value each year or more frequently, where signs exist, which evidence a possible impairment in the value of the unit, as aforesaid. Where the recoverable amount of a cash generating unit is lower than the carrying value of that unit, the loss from impairment in value is allocated firstly to the writing down of the carrying value of any goodwill whatsoever in respect of the cash generating unit. Thereafter, the balance of the impairment loss, if any remains, is allocated to the other assets making up the cash generating unit, in proportion to their carrying values. A loss on the impairment in the value of goodwill is not cancelled in following periods.
When a consolidated company is disposed of, the amount of the goodwill that is attributed to it is included in the determination of the profit or loss on the disposal.

Note 2 - Principal accounting policies (Cont.)

M. Financial instruments:

(1) Non-derivative financial instruments

The initial recognition of financial assets
The Group initially recognizes loans, receivables and deposits at the time that they are created. The other financial assets, which are purchased in the regular way (regular way purchases), are initially recognized at the time that the transaction is entered into (the trade date), on which the Group becomes a party to the contractual terms of the instrument, which means the time at which the Group has undertaken to purchase or to sell the asset. Non-derivative financial assets include investments in shares and in debt instruments, loans that have been extended, trade receivables and other receivables, receivables in respect of franchise agreements and cash and cash equivalents.
The Group classifies financial assets into the following groups:

Cash and cash equivalents
Cash and cash equivalents include cash balances that can be used immediately and demand deposits. Cash equivalents include highly liquid, short-term investments (where the time from the original deposit to the repayment date is up to 3 months), which can be easily converted into known amounts of cash and which are exposed to insignificant risks of changes in value.

Loans and receivables
Loans and receivable balances are non-derivative financial assets with fixed payments or payments that can be fixed, which are not traded in an active market. These assets are initially recognized at fair value with the addition of attributable transaction costs. Following the initial recognition, loans and receivable balances are measured at cost, which is amortized using the effective interest method and less losses from impairment in value. Loans and receivables include deposits, trade and other receivables, receivables for work in progress as well as receivables in respect of franchise agreement.

Investments that are presented at fair value through profit and loss
Financial instruments are classified as "financial assets at fair value through profit and loss", where those assets are held for trade or if they are designated as financial assets at fair value through profit and loss.
A financial asset (an investment in a high-tech company in Israel and abroad), which is not a financial asset and which is held for trading purposes, is designated as a financial asset at fair value through profit and loss at the time of initial recognition, if the financial asset forms part of a group of assets or financial liabilities or both of them together, whose management and performance are evaluated on the basis of their fair value, in accordance with the Group's documented policy for the management of the risks or its investment strategy, and information in respect of the group of financial instruments is passed on within the framework of the internal reporting, in accordance with this basis, to the Group's key managerial personnel.

Note 2 - Principal accounting policies (Cont.)

M. Financial instruments: (Cont.)

(1) Non-derivative financial instruments (Cont.)

Investments that are presented at fair value through profit and loss (Cont.)
The Company's management tests the fair value in every reporting period, on the basis of the use of up to date transactions in the market between a willing buyer and a willing seller, who are acting in an educated manner, and who are not influenced by especial relationships between the parties. For investments for which there are not quotes in an active market, the fair value is based on the price of transactions that have been executed close to the reporting period. Where no transactions have been executed in a period that exceeds one year, the fair value for those investments is adjusted using an evaluation technique that makes maximum usage of market data and reported data (such as : data from the financial statements and information for investors of companies).
A financial asset at fair value through profit and loss is presented at fair value. Any gain or loss that derives from changes in the fair value, including those that are sources in changes in exchange rates, is recognized in the income statement in the period in which the change occurs. The net gain or loss that is recognized in the income statement, also includes the dividend or interest that has been generated in respect of the financial asset.

A financial asset (see Note 5) is classified as held for trade purposes if:
- It was purchased primarily for the purpose of sale in the near future; or
- It forms part of the portfolio of identified financial instruments, which are managed together by the Group and which has a proven actual pattern of activity for the purposes of producing gains in the short-term; or
- It is a derivative that is designated and effective as a hedging instrument.

Available for sale financial assets
Investments in marketable and non-marketable capital instruments (see Note 11), which are not derivative financial instruments, which have not been classified as financial assets at fair value through the profit and loss or as loans and receivables, are classified as available for sale financial instruments.
Gains or losses that derive from changes in the fair value are reflected directly in other comprehensive income under the item "profit (loss) in respect of available for sale financial assets", except for losses from impairment in value, which in certain circumstances are carried to the income statement, where the investments in those financial assets are disposed of or where an impairment has occurred in their value. The gains or losses that have accumulated up to the time of the disposal or impairment in value, as the case may be, and which have been reflected under other comprehensive income, are recorded in the income statement in the period in which the disposal was executes or in which the impairment in value occurred.
The fair value of available for sale financial assets, which are stated in foreign currency, is determined in that same currency and translated into the Group's functional currency (NIS) in accordance with the exchange rates that was in force at the end of the reporting period. Gains and losses as the result of a change in the exchange rates are carried to the income statement on the basis of the amortized cost of the financial item. Other gains and losses in respect of changes in the exchange rates are recognized in other comprehensive income.

Note 2 - Principal accounting policies (Cont.)

M. Financial instruments: (Cont.)

(1) Non-derivative financial instruments (Cont.)

Available for sale financial assets (Cont.)
Income from dividends in respect of an investment in available for sale instruments are recognized in the income statement when the Group's entitlement to receive payments in respect of them is created

(2) Non-derivative financial liabilities

The Group initially recognizes debt instruments that have been issued at the time that they are created. Other financial liabilities are initially recognized at the time of the entry into the transactions (the trade date) on which the Group becomes a party to the contractual terms of the instrument. Financial liabilities are removed when the Group's commitment, as detailed in the agreement, expires or when it is cleared or it is cancelled.
Financial liabilities are initially recognized at fair value with the addition of all of the attributable transactions costs. Following the initial recognition, the financial liabilities are measured at amortized cost in accordance with the effective interest method.
Replacement of debt instruments with materially different conditions between existing borrower and lender, is treated as repayment of the original financial liability and recognition of a new financial liability at fair value. Also, significant change in the conditions of an existing financial liability or any part thereof, is treated as the repayment of the original financial liability and recognition of a new financial liability.
The terms are materially different if the current discounted value of the cash flows according to the new terms, including any commissions paid less any commissions received and discounted through the original effective interest rate, is different by at least ten percent from the current discounted value of the remaining cash flows of the original financial liability.
In addition to the aforesaid quantitative criteria, the Group examines, *inter alia*, whether changes had occurred also to various economic and qualitative parameters entailed in the replaced debt instruments.
The non-derivative financial liabilities include: bank overdrafts, loans and credit from banking entities and other providers of credit, liabilities in respect of finance leases, deposits from customers and trade and other payables.
Financial assets and financial liabilities are set off and the amounts are presented net in the statement of financial position, where the group has a current, enforceable legal right to set-off the amounts that have been recognized and it intends to clear the asset and the liability on a net basis or to dispose of the asset and to clear the liability simultaneously.

Note 2 - Principal accounting policies (Cont.)

M. Financial instruments: (Cont.)

(3) Derivative financial instruments including hedge accounting

The Group holds derivative financial instruments for the purpose of hedging foreign currency risks and interest rate risks, as well as derivatives not used for hedging, including separated embedded derivatives.

Hedge accounting
At the time of commencement of the hedge accounting, the Group formally documents the hedge relationship between the hedging instrument and the hedged item, including the risk management purpose and the Group's strategy in performing the hedging, as well as the manner in which the Group will evaluate the effectiveness of the hedge relationship.
At the time the hedge is made and in subsequent periods, the Group evaluates whether the hedge is expected to be highly effective in the achievement of offsetting cash flow changes, which can be attributed to the hedged risk over the period for which the hedge is designated, and whether the actual results of the hedge are within the range of 80-125%.
With respect to cash flow hedging, a forecasted transaction which is a hedged item is required to be highly probable and cause an exposure to cash flows changes which could ultimately affect the profit and loss.

Measurement of derivative financial instruments
Derivatives are initially recognized at fair value. Attributable transaction costs are carried to the income statement when incurred. After the initial recognition, the derivatives are measured at fair value, whilst the changes in the fair value are treated as follows:

Cash flow hedge
Changes in the fair value of derivatives used to hedge cash flows, in respect of the effective hedging portion, are carried through other comprehensive income directly to the hedge fund. In respect of the non-effective portion, the changes in fair value are carried to the income statement. The amount accrued in the hedge fund is reclassified to the income statement in the period in which the cash flows affect the income statement and is presented in the same income statement item in which the hedged item is found. When the hedged item is a non-financial asset, the amount attributed to the hedge fund is carried to the asset's book value at the time of recognition thereof.
In other cases, the amount attributed to the hedge fund is carried to the income statement in the period in which the hedged item affects the profit and loss.

Economic hedge
Hedging accounting is not implemented in respect of derivative instruments that are used for the economic hedging of financial assets and liabilities that are stated in foreign currency. The changes in the fair value of these derivatives are carried to the income statement, as financing income or expenses.

Note 2 - Principal accounting policies (Cont.)

M. Financial instruments: (Cont.)

(3) Derivative financial instruments including hedge accounting

Derivatives that are not used for hedge
Changes in the fair value of derivatives that are not used for hedging are reflected immediately in the income statement, as financing income or expenses.

Embedded derivatives that were separated and are not used for hedge
Embedded derivatives are separated from the host contract and treated separately if: (a) there is no close connection between the financial characteristics and the risks of the host contract and of the embedded derivative, (b) a separate instrument with the same conditions as the embedded derivative would have met the definition of a derivative and (c) the hybrid instrument is not measured according to fair value through profit and loss. Changes in the fair value of imbedded derivatives that can be separated are reflected immediately in the income statement, as financing income or expenses.

(4) Index-linked assets and liabilities that are not measured at fair value
The value of index-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period in accordance with the actual rise / fall in the index.

(5) Financial guarantees

At the time of the initial recognition, a financial guarantee is recognized at its fair value. In following periods, a financial guarantee is measured in accordance with the higher of the amount that is recognized in accordance with the provisions of IAS 37 and the liability that was initially recognized, after it has been amortized in accordance with IAS 18. Any update of the amount of the liability, in accordance with the aforesaid, is carried to the income statement.

(6) Share capital

Additional costs, which relate directly to the issuance of ordinary shares and options for shares, are presented as a deduction from capital.

(7) Deposits from customers

Within the context of its operations, a consolidated company receives deposits from its customers in respect of containers and other equipment that are lent. The deposit will be returned in accordance with the prices of the deposit that the consolidated company collects from its customers, which are linked to the index from the day of the latest update. In accordance with IAS 39, the fair value of financial liabilities with a demand characteristic is not to be lower than the amount that is to be paid on demand, discounted from the first time at which it will be possible to demand the amount. Accordingly, the deposits are presented at their full value. Moreover, since the consolidated company has no irrevocable right to defer the clearance of the liabilities in respect of the deposits for a period of at least 12 months after the reporting date, and since the customers of the consolidated company are entitled to demand repayment of the deposit at any time, the deposits are presented as current liabilities, on the basis of their full value.

Note 2 - Principal accounting policies (Cont.)

N. Fixed assets:

(1) Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and losses from impairment in value. The cost of realty assets and various additional fixed asset items was determined at their fair value as of January 1, 2007, the transition date to IFRS (calculated cost).

The cost includes the expenses that can be directly attributed to the acquisition of the asset. The cost of assets that have been self-built includes the cost of the materials and the direct labor, as well as any additional cost that can be directly related to bringing the asset to the location and the state that are required in order for it to operate in the manner intended by management, as well as the costs of the dismantling and removal of the item and the rehabilitation of the site at which the item is located. The cost of software that has been acquired, which constitutes an integral part of the relevant plant and equipment, is recognized as part of the cost of that equipment.

Where significant components of the fixed assets (including significant periodic checking costs) have a different lifetime, they are treated a separate items (significant components) of the fixed assets.

A profit or loss on the disposal of a fixed asset item is determined in accordance with the comparison of the consideration from the disposal of the asset to the carrying value in the accounting records, and is recognized under other income or other expenses in the income statement, as the case may be.

(2) Further costs

The cost of the replacement of a part of a fixed asset item is recognized as part of the carrying value in the accounting records of that item if it is expected that the future economic benefit that is inherent in the item will flow to the Group and that its cost can be measured in a reliable manner. The carrying value in the accounting records of the part that has been replaced is removed. Routine maintenance costs in respect of fixed asset items are carried to the income statement as incurred.

(3) Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over the length of its useful lifetime. The depreciable amount is the cost of the asset, or some other amount that replaces the cost, net of the residual value of the asset.

Depreciation is carried to the income statement in accordance with the straight line method in accordance with an estimate of the useful lifetime of each of the fixed asset items, since this method reflects the manner of the forecast consumption of the future economic benefits that are inherent in an asset in the best way. Leased assets, including lands, are amortized over the shorter of the lease period and the period in which the assets are used, unless it is reasonably expected that the Group shall acquire ownership over the asset at the end of the lease period. Lands are not amortized.

Note 2 - Principal accounting policies (Cont.)

N. Fixed assets: (Cont.)

(3) Depreciation (Cont.)

The estimated useful lifetimes for the current period and for the comparative periods are as follows:

	Useful lifetime in years	Depreciation rate %
Buildings (including temporary buildings)	10–50	2–10
Plant and equipment	3–30 (primarily 6-10)	3–33 (primarily 10–15)
Office furniture and equipment	3–17	6–33
Motor vehicles	5–6	15–20
Computers	3–5	20-33
Leasehold improvements	Throughout the lease period, which does not exceed the economic lifetime of the asset.	

The depreciation method, the residual value and the useful lifetimes of the assets are reviewed by the Company's management at the end of each financial year. Changes are treated as a change in an estimate by way of "prospective application"

O. Investment property:

Investment property is property (land or a building – or part of them - or both of them), which are held by the Group for the purpose of the production of rental income or for the purposes of a capital gain or both of them, and not for the purposes of use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.
The Group's investment property includes buildings and land that is owned or held under finance leasing, as well as rights in real estate that are held by the Group under operating leasing where otherwise the definition of investment property would be complied with. Investment property is initially measured at cost, which includes transaction costs. In periods following the initial recognition, investment property is measured at fair value. Gains or losses deriving from changes in the fair value of investment property, including those that are sources in changes in exchange rates, are recorded in the income statement in the period in which they were generated, under the item "net gain on the adjustment of the fair value of investment property and investment property under construction".
Investment property, as aforesaid, also includes investment property that is under construction or development. Investment property under construction is measured at fair value when the value thereof can be reliably measured. Costs of credit are capitalized to investment property under construction. When the fair value cannot be reliably measured, investment property under construction is measured according to cost in the construction period until the earlier of the date of completion of the construction and the date on which the fair value can be reliably measured.
The direct costs of the disposal of investment property are carried to the income statement at the time at which the asset is sold and are set-off against the gain on disposal. The difference between the consideration that is received on the disposal of investment property and the fair value, is the capital gain (loss) on disposal, which is carried to the income statement at the time of the completion of the disposal transaction under "net gain on the adjustment of the fair value of investment property and investment property under construction".

Note 2 - Principal accounting policies (Cont.)

P. Costs of credit:

Specific credit costs and non-specific credit costs are capitalized to qualifying assets and investment property under construction in the course of the period that is required for the completion and for the construction up to the time at which they are ready for their designated use. Non-specific credit costs are capitalized in the same manner for the same investment in qualifying assets and investment property under construction or to the part of it that is not financed by specific credit, using a rate which is a weighted average of the rates of the cost in respect of the sources of credit whose cost has not been capitalized in a specific manner.
Income deriving from the temporary investment of specific credit that was received for the purpose of investment in qualifying assets and investment property under construction is deducted from the credit costs that qualify for capitalization.
All other credit costs are carried to the income statement as incurred.

Q. Intangible assets, except for goodwill:

Intangible assets are assets that are not identifiable and which lack a physical presence. Intangible assets having an indefinite useful lifetime are not amortized and are tested for impairment in value once a year, or at any time at which a sign exists, which indicates the possibility that an impairment in value has occurred in accordance with the provisions of IAS 36. The estimate of the useful lifetimes of intangible assets having an indefinite lifetime is tested at the end of each reporting year. A change in the estimated useful lifetime of an intangible asset, which turns from being indefinite to being defined is treated by way of "prospective application".
Intangible assets having a defined useful lifetime are amortized on a straight line over the length of their estimated useful lives, subject to testing for impairment in value. A change in an estimate of the useful lifetime of an intangible asset with a defined lifetime is treated by way of "prospective application".
See Note 2L on the subject of the accounting treatment of goodwill.

The useful lifetimes that have been used in the amortization of intangible assets having a defined lifetime are as follows:

Distribution rights	-	20 years or in accordance with the period of the agreement.
Supply rights	-	20 years or in accordance with the period of the agreement or in the period in which the Company has a lawful right in the supply rights, whichever is shorter.
Software	-	3-6 years
Customer relations	-	7-10 years
Franchise arrangement		Over the period of the franchise.
Others	-	Over the period of the benefit

Following costs
Following costs are recognized as an intangible asset solely and exclusively where they increase the future economic benefit that is inherent in an asset, in respect of which they were expended. All of the other costs, including costs that are connected to goodwill and to brands that have been developed independently, are carried to the income statement as incurred.

Note 2 - Principal accounting policies (Cont.)

Q. Intangible assets, except for goodwill: (Cont.)

Intangible assets that were acquired within the context of business combinations
Intangible assets that were acquired within the framework of business combinations are identified and recognized separately from goodwill, where they meet the definition of an intangible asset and their fair value can be reliably measured. The cost of such intangible assets is their fair value at the time of the business combination.

In the periods following the initial recognition, intangible assets that have been acquired within the framework of business combinations are presented in accordance with their cost, less accumulated amortization and losses from impairment in value. The amortization of intangible assets, having a defined lifetime, is calculated on the straight line basis over the length of their estimated useful lifetimes. The estimate of the useful lifetime and the method of amortization are tested at the end of each reporting year, where the effect of a change in them is treated by way of "prospective application".

R. Leased assets:

(1) Leases, including leases of land from the Israel Land Administration or from other third parties where the Group bears significantly all of the risks and the yields that derive from the asset, are classified as finance leasing. On initial recognition, the leased assets are measured, and a liability recognized, in an amount that is equivalent to the lower of the fair value and the present value of the minimum future lease payments. In the measurement of the liability for the lease of land in a non-capitalized lease from the ILA, the minimum future lease payments were capitalized at a real interest rate of 5% based on capitalization interest that was used by the ILA on the date of the engagement in the lease. Future payments for exercise of the option to extend the lease period vis-à-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute contingent rent, which derives from the fair value of the land on the future dates of renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accounting policy that is customary in respect of that asset.
The other leased assets are classified as operating leasing, except for leases of property that is classified as investment property, where the leased assets are not recognized in the Group's statement of financial position. Real estate assets under operating leasing, which have been classified by the Group as investment property, are recognized in the Group's statement of financial position at their fair value, and the leasing is treated as finance leasing.
Rental fees that have been paid in advance to the Israel Land Administration in respect of leases of land which are classified as operating leases are presented in the statement of financial position as prepaid expenses and are carried to the income statement over the length of the leasing period. The leasing period and the amounts of the amortization take into account any option to extend the leasing period, in the event that at the time of the commitment under the lease it is reasonably certain that the option will be exercised.
In a lease of land and buildings the components of the land and the buildings are examined separately for lease classification purposes, with a significant consideration in the classification of the components of the land being the fact that land usually has an indefinite lifetime.

Note 2 - Principal accounting policies (Cont.)

R. Leased assets: (Cont.)

(2) Lease payments

Payments in the framework of an operational lease are carried to the income statement using the straight-line method throughout the lease period.
Minimum lease payments which are paid in the framework of a financial lease are divided between the financing expenses and reduction of the liability balance. The financing expenditure is allocated to each lease period, so as to obtain a fixed periodic interest rate on the outstanding balance of the liability. The minimum lease payments are updated in respect of conditioned rent, when the condition transpires.

S. Construction work in progress:

Construction work in progress reflect the gross amount, against which accounts have not yet been issued, which is expected to be collected from customers in respect of work that has been executed up to that time. This amount is measured in accordance with the costs that have been incurred with the addition of the profit that has been recognized as of that time, less charges that have been issued to customers during the course of the construction period and losses that have been recognized. The cost includes all of the costs that relate directly to the relevant projects with the addition of the allocation of fixed and variable overhead expenses that the Group bears in the course of the execution of the works in accordance with the contract, based on the normative capacity of the operations.
Construction work in progress are presented in the statement of financial position as a separate item – receivables in respect of works in progress. In cases where the payments that have been received from customers, plus losses that have been recognized, exceed the amount of the costs that have been incurred with the addition of the profits that have been recognized, then the difference is recognized in the statement of financial position as deferred income.

T. Inventory:

(1) Inventory of oil distillates
The inventory is presented in accordance with the lower of the cost or the net realizable value. The cost of the inventory is determined on the basis of "first in first out" (FIFO), and it includes the costs of the purchase of the inventory and of bringing it to its current location and condition. The net realizable value is an estimate of the selling price in the ordinary course of business less an estimate of the costs that are required in order to carry out the sale.

(2) Other inventory
The Inventory of oils, spare parts and other items is presented at the lower of cost and net realizable value. The cost of the inventory is determined on the moving average basis.

Note 2 - Principal accounting policies (Cont.)

T. Inventory: (Cont.)

(2) Other inventory (Cont.)

The inventory of paints is presented at the lower of cost and net realizable value. The cost of the inventory is primarily determined as follows:

Raw materials and packing materials and spare parts inventory whose consumption rate is less than one year	-	In accordance with the moving average method.
Finished goods	-	In accordance with a standard price based on raw materials, packaging materials, plus calculated production cost.
Work in progress	-	In accordance with a standard price based on raw materials plus calculated production costs.
Purchased goods	-	In accordance with the moving average method.

U. Impairment of financial assets:

Impairment in the value of a financial asset that is not presented at fair value through profit and loss is tested where there is objective evidence that a loss event has occurred after the time of the initial recognition of the asset and that this loss event has had a negative impact on the estimated future cash flows from the asset, which can be measured in a reliable manner.
Objective evidence that an impairment in the value of an asset has occurred may include the breach of a contract by a debtor, the re-organization of an amount that is due to the Group based on terms that the group would not have considered in other cases, the existence of indications that a debtor or debt issuer will become bankrupt, negative changes in the status of the payments of borrowers, changes in the economic environment which attest to insolvency of debt issuers or the absence of an active market for a security.
In the testing for impairment in the value of available for sale financial assets, which are capital instruments, the Group also tests the degree of the difference between the fair value of the asset and its original cost, whilst relating to changes in the fair value of the asset, for the length of time in which the fair value of the asset is lower than its original cost and for changes in the technological, economic or legal environment or in the environment in the market in which the company that issued the instruments operates. In general, an impairment in value of 30% of the original cost will be considered to be material, where the impairment is over the face of a year. This policy was determined in according to the nature of two of the company's most significant investments, see Note 11(a)(1)-(2).
The Group examines evidence of impairment in value in respect of receivables both at the level of the individual asset and also on a Group-wide level. The balances of trade receivables, loans and other receivables that are significant individually are tested specifically for impairment in value. The balances of trade receivables, loans and other receivables, in respect of which no specific impairment in value has been identified, are grouped together and are tested on a Group-wide basis for impairment in value, with the objective of identifying any impairment in value that has occurred and has not yet been identified. In respect of the trade receivables, loans and other receivables that are not individually significant, the Group-wide testing for impairment in value is carried out by grouping them together on the basis of similar risk characteristics.

Note 2 - Principal accounting policies (Cont.)

U. Impairment of financial assets: (Cont.)

In the Group-wide testing for impairment in value the Group makes use of historical trends of the probability of a breach, the timing of the receipt of the repayment and the total actual loss, in accordance with management's judgment in respect of the question of whether the actual losses are expected to be larger or smaller by comparison with the losses that arise from the historical trends, in the light of the economic situation and the existing credit terms.

A loss from the impairment in the value of a financial asset, which is measured at amortized cost, is calculated as the difference between the carrying value of the asset in the accounting records and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are carried to the income statement and are presented as a provision for a loss against the balances of the trade receivables, the other receivables and the loans. Interest income in respect of assets whose value has been impaired is recognized by means of the use of the interest rate used to discount the future cash flows for the purposes of measuring the loss from impairment in value.

Losses from impairment in value in respect of available for sale financial assets, are recognized by transferring the cumulative loss that has been reflected in a capital reserve in respect of available for sale assets to the income statement. The cumulative loss that is classified from other comprehensive income to the income statement is the difference between the acquisition cost and the current fair value less impairments in value that were recognized in the past through the income statement.

A loss from impairment in value is cancelled where it can be objectively attributed to an event that has occurred after the recognition of the loss from the impairment in value. The cancellation of a loss from impairment in value in respect of financial assets, which are measured at depreciated cost, is carried to the income statement. The cancellation of a loss from impairment in value in respect of financial assets that are classified as available for sale, which are capital instruments, is reflected directly under other comprehensive income.

V. Impairment of non-financial assets:

At the end of each reporting period, the Group tests the carrying value in the accounting records of its non-financial assets, except for inventory, investment property and deferred tax assets with the objective of determining whether any signs whatsoever exist, which evidence an impairment in the value of those assets. In the event that signs exist, as aforesaid, an estimate is made of the recoverable amount of the asset, with the objective of determining the amount of the loss from impairment in value that has arisen, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Common assets are also allocated to the individual cash generating units in the event that it is possible to identify a reasonable and consistent basis for such an allocation.. In the event that it is not possible to allocate the common assets to the individual cash generating units on the said basis, the common assets are allocated to the smallest cash generating units in respect of which it is possible to identify a reasonable and consistent basis for the allocation.

The recoverable amount is the higher of the fair value of an asset less selling costs and its value in use. In the evaluation of the value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate, which reflects the market's present evaluation in respect of the time value of the money, and the specific risks that relate to the asset, in respect of which the estimated future cash flows have not been adjusted.

Note 2 - Principal accounting policies (Cont.)

V. Impairment of non-financial assets: (Cont.)

Where the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower that the carrying value, the carrying value of the asset (or of the cash generating unit) is written down to its recoverable amount. A loss from impairment in value is recognized immediately as an expense in the income statement, unless the relevant asset is measured in accordance with the revaluation model. In that case, the loss from impairment in value is treated as a reduction of the revaluation reserve, until it is reduced to zero, and the balance of the reduction, if there is one, is recognized in the income statement.
Where a loss from impairment that has been recognized in previous periods is cancelled, the carrying value of the asset (or of the cash generating unit) is increased back to the updated estimated recoverable amount, but not more than the carrying value of the asset (or of the cash generating unit) that would have been set if it were not for the recognition of a loss from impairment in value in respect of its in previous periods. The cancellation of a loss from impairment in value is recognized immediately in the income statement.

W. Employee benefits:

(1) Post-employment benefits

The Group maintains a number of post-employment benefit plans. The plans are generally financed by the making of deposits in insurance companies or central severance pay funds and they are classified as defined deposit plans and also as defined benefit plans.

Defined deposit plans
A defined deposit plan is a post-termination plan whereby the Group makes fixed payments to a separate entity without having a legal or implied obligation to make additional payments. The Group's commitment to make deposits in a defined deposit plan is recognized as an expense in the income statement during the periods in which the employees provided related services.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan.The Group's net commitment, which relates to a defined benefits plan in respect of post-employment benefits, is calculated separately for each plan by means of an estimate of the future amount of the benefit that will be due to an employee in consideration for their services, in the current period and in previous periods. This benefit is presented in accordance with the present value less the fair value of the plan assets. The discount rate is determined in accordance with the yield on government bonds, whose currency and repayment terms are similar to the terms of the Group's commitment. The calculations are prepared by a qualified actuary in accordance with the unit of contractual entitlement method.

Where, in accordance with the results of the calculation, a net asset is created for the Group, an asset is recognized up to the net amount of the present value of the economic benefits, which are available by way of a refund from the plan or by the reduction of future deposits in the plan. An economic benefit in the form of refunds or the reduction of future deposits will be calculated as available where it can be exercised within the course of the lifetime of the plan or after the commitment is cleared.

Note 2 - Principal accounting policies (Cont.)

W. Employee benefits: (Cont.)

(1) Post-employment benefits (Cont.,)

The Group immediately reflects all of the actuarial gains and losses, which derive from a defined benefit plan, through the statement of other comprehensive income.
Interest costs and projected yield on the plan assets that were carried to profit and loss are presented net in the payroll expense items.

(2) Benefits in respect of termination of employment

Benefits in respect of termination of employment are recognized as an expense where the Group has clearly undertaken, without a real possibility of cancellation, to dismiss employees before they reach the customary retirement age in accordance with a formal, detailed program or to provide benefits in respect of termination as the result of an offer that has been made to encourage voluntary termination of employment. The benefits that are extended to employees on voluntary termination of employment are reflected as an expense where the Group has made a proposal to employees of a program that encourages voluntary termination, it is expected that the proposal will be accepted and it is possible to make a reliable estimate of the number of employees who will respond to the proposal.
If the benefits are to be paid more than 12 months after the end of the reporting period, there are discounted to their present value. The discount rate is determined in accordance with the yield on government bonds whose currency and repayment terms are similar to the terms of the Group's commitment.

(3) Short-term benefits

Commitments in respect of short-term benefits to employees include the Group's liability in respect of holiday pay, recuperation pay, bonuses and salaries. These benefits are measured on a non-discounted basis, and the expense is reflected at the time that the relevant service is provided, or in the event of non-accrued absences (such as maternity leave), at the actual time of the absences.
A provision in respect of short-term benefits to employees in respect of a cash bonus or a profit participation scheme, is recognized in the amount that is expected to be paid where the Group has a current legal or implicit commitment to pay the said amount in respect of service that has been provided by the employee in the past and the amount of the commitment can be reliably estimated.
Classification of employee benefits as short-time benefits or as other long-term employee benefits is performed in accordance with the date on which the liability is due to be settled.

(4) Share based payments paid in cash

In share based payment transactions which are paid in cash (phantom shares for officers and employees) the Group measures the goods or services purchased and the liability incurred due to share based payments paid in cash, according to the fair value of the liability. Until the repayment of the liability, the Group revaluates the fair value of the liability on every report date and on the repayment date, while any changes in the fair value are recognized in the income statement for the period.

Note 2 - Principal accounting policies (Cont.)

X. Provisions:

A provision is recognized where the Group has a current commitment, whether legal or implicit, as the result of an event that has taken place in the past, which can be reliably measured, and where it is expected that economic resources will be required in order to clear the commitment.

(1) Provision for warranties

A provision for warranty is recognized where the products or the service, in respect of which a warranty is provided, are sold. The provision is based on historical data, as well as on management's evaluations, and taking into account all of the possible results and their probabilities.

(2) Site restoration

In accordance with the Group's declared policy on preservation of the environment and pursuant to legal requirements, a provision is recognized for the restoration of a site with contaminated soil and the relevant expenditure, on the date on which the soil is contaminated.

(3) Legal claims

A provision for claims is recognized where the Group has a present legal commitment or an implicit commitment as the result of an event that has taken place in the past, it being more likely than not that the Group will be required to use economic resources to settle the commitment and it may be reliably estimated. Where the impact of the time value is material, the provision is measured in accordance with its present value.

Y. Revenues:

(1) The sale of products

Income from the sale of products in the ordinary course of business is measured at the fair value of the consideration that is received or which is to be received, less returns, commercial discounts and quantity discounts. In cases in which the credit period is short and reflects the credit that is customary in the sector, the future consideration is not discounted.

The Group recognizes income where there is convincing evidence (usually performance of a sale agreement) that the significant risks and benefits of the ownership of the product are transferred to the purchaser, the receipt of the consideration is expected, the possibility exists of reliably estimating the possibility that the goods will be returned, the costs that have been incurred, or which will be incurred in respect of the transaction may be reliably estimated, where the management has no continuing involvement with the goods, and also where the income can be reliably estimated. If it is expected that a discount will be provided and its amount can be reliably measured, the discount is deducted from the revenues from the sale of the products.

The timing of the transfer of the risks and the yields varies in accordance with the specific terms of the sales contract. In respect of the sale of products in Israel, the transfer of the risks and the yields generally takes place on the date of delivery of the product to the customer, however for certain international shipments transfer occurs when the goods are loaded on the transporter's means of transportation.

Note 2 - Principal accounting policies (Cont.)

Y. Revenues: (Cont.)

(2) Construction contracts (mainly seawater desalination project and solar electricity production)

Income and expenses from construction contracts are carried to the income statement, on a pro rata basis based on the percentage of the completion of the contract, where it is possible to reliably estimate its results. Income from construction contracts includes the original amount that was included in the contract with the addition of amounts in respect of changes in the work, claims and incentives, in the event that income is expected and that it is possible to measure it in a reliable manner.

The evaluation of the percentage completion is based on an estimate of engineering progress in accordance with milestones determined for each construction contract. Where it is not possible to reliable evaluate the results of the construction contract, income is recognized from the contract only up to the level of the costs that it is reasonable to assume that will be recovered. A forecast loss on a construction contract is recognized immediately in the income statement.

(3) Rental income

Rental income in respect of investment property is recognized on the straight line basis over the length of the relevant rental period.

(4) Services

Income from services (mainly in relation to maintenance of water facilities and waste water treatment systems and service fees at Supergas) provided is carried to profit and loss proportionately to the stage of completion of the transaction on the date of the report. An estimate of the completion stage is calculated in reference to a review of the work performed.

(5) Income from management and maintenance fees and net income from the use of electricity

Income from management and maintenance fees and net income from the use of electricity is reflected pro-rata over the length of the period in which the relevant services are provided.

(6) Dividend income

Dividend income in respect of investments is recognized at the time at which the shareholders' entitlement to receive the income is created.

Z. Payment of lease fees:

Payments under an operating lease are carried to the income statement under the straight line method, over the length of the period of the lease.

Minimal leasing payments, which are paid within the framework of finance leasing, are divided between the financing expense and the reduction of the balance of the liability. The financing expenses are allocated to each of the periods covered by the lease, such that a fixed periodic interest rate is received, for the remaining balance of the liability.

Minimal leasing payments, in respect of conditional leasing charges are updated when the conditional amount is clarified.

Note 2 - Principal accounting policies (Cont.)

AA. Transactions with and loan to a related party:

Assets and liabilities (including loans), in respect of which a transaction has been performed with a controlling interest, are measured in accordance with their fair value at the time of the transaction. As a result of the fact that these are transactions on the capital plain, the Company reflects the difference between the fair value and the consideration from the transaction under shareholders' equity.

AB. Franchise arrangements for provision of services:

Franchise arrangements for provision of services are arrangement in which the State (the franchise issuer) engages in a contract with an entity from the private sector in which such operator undertakes to plan, build and finance some property or infrastructure for service to the public and in consideration for construction of such property, the operator receives a franchise from the state to operate the property for a defined period, and also to provide other services related to the property.

Granite as an operator, through the consolidated company Via Maris, engaged in a franchise arrangement for provision of BOO (Build, Own Operate) services with the State for construction, building and operation of a water desalination facility.

Granite, through the consolidated company Supergas, engaged in BOO (Build, Own, Operate) franchise arrangements with the Electricity Authority for the construction of midsize plants for the production of electricity through photovoltaic technology, which feed all of the energy produced at the plants to the distribution grid.

Since the state and/or the Electricity Authority controls and regulates the services which the operator is required to provide through the infrastructure, the persons to whom he is required to provide them and the price at which they shall be provided, the operator is obligated to supply the product in respect of which the franchise was given through the infrastructure, and since the franchise arrangement constitutes in essence an arrangement for the whole useful lifetime of the facility, considering that the discard value of the infrastructure at the end of the arrangement period is not significant, the Group treated the said arrangements in accordance with interpretation provision number 12 (IFRIC 12).

The periods of the arrangements are divided into a construction period and an operation period which begins from the time of completion of construction of the infrastructure for the period of the franchise. The Group's rights pertaining to the franchise are recognized as a financial asset, receivables in respect of a franchise arrangement, which is treated under the application of IAS 39 as loans and receivables, since the Group has an unconditional right to receive from the entity granting the franchise proceeds in consideration for the construction and operation services in the water desalination plant as well as all of the electricity produced through the infrastructure purchased by the entity granting the franchise. The asset is recognized during the construction period in respect of the construction costs, with the addition of the accepted contractual margin according to the Company's estimation, and is repaid through the proceeds during the operation period. After the initial recognition, interest income is recognized along the arrangement period according to the effective interest method.

In Via Maris, the financial asset – receivables in respect of a franchise arrangement, is recognized up to the sum of the secured amount, and the balance is recognized as an intangible asset since only part of the proceeds is secured by a payment undertaking by the franchise issuer.

Note 2 - Principal accounting policies (Cont.)

AC. Taxes on income:

(1) General

Tax expenses (benefit) on income include the sum of the current taxation as well as the change in the deferred taxation balances, except in respect of deferred taxes that derive from transactions that are reflected directly under shareholders' equity.

(2) Current taxation

The current taxation on income expenses is calculated based on the Company and the consolidated companies' chargeable income for tax purposes, during the course of the reporting period. The chargeable income is different from the income before taxes on income, as the result of the inclusion or the non-inclusion of income and expense items that are chargeable to taxation or which are allowable as a deduction in different reporting periods, or which are not chargeable to tax or allowable as a deduction. Assets and liabilities in respect of current taxation have been calculated on the basis of the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of the Financial Position.

Current tax assets are presented as offset against current tax liabilities, where they relate to taxes on revenue which are imposed by the same tax authority and the Group intends to pay the current tax assets and liabilities on a net basis.

(3) Deferred taxation

The companies in the Group record deferred taxation in respect of timing differences between the values of assets and liabilities for tax purposes and their values in the financial statements. Deferred tax balances (assets or liabilities) are calculated in accordance with the tax rates that are expected to apply at the time that they are realized, based on the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of the Financial Position. Deferred taxation liabilities are generally recognized in respect of all of the timing differences between the value of assets and liabilities for tax purposes and their values in the financial statements. Deferred tax assets are recognized in respect of timing differences that can be deducted up to the amount of the chargeable income against which it is expected that the deductible timing differences can be exploited. The deferred taxes in respect of the structure component of investment property are calculated in accordance with a business model whose purpose is significant consumption over time of all of the economic benefits incorporated therein.

The taxes that would apply in the event of the disposal of the investments in associates are not taken into account in the calculation of the deferred taxes, since it is the Group's intent to hold those investments and to develop them. The Group may be liable for a tax increment in the event of the distribution of dividends by the Group companies. Such tax increment was not included in the financial statements, while the policy of the Group companies is not to cause the distribution of a dividend which involves a tax increment for the recipient company in the foreseeable future.

Deferred tax assets and liabilities are presented after having been set-off, where the entity has an enforceable legal right to setoff.

Note 2 - Principal accounting policies (Cont.)

AD. Earnings per share:

The Company calculates the amounts of the basic earnings per share in respect of the profit or loss that is attributed to the shareholders in the Company by dividing the profit or loss that is attributed to the shareholders in the Company by the weighted average number of ordinary shares in circulation during the course of the reporting period. For the purposes of the calculation of the diluted earnings per share, the Company adjusts the profit or loss that is attributed to the regular shareholders and the weighted average number of ordinary shares in circulation in respect of the impact of all of the potential dilutionary shares.

AE. Exchange rates and linkage base:

(1) Balances that are stated in foreign currency or which are linked thereto are recorded in the financial statements in accordance with the representative exchange rates that were published by the Bank of Israel and which were in force as of the date of the statement of the financial position.

(2) Balances that are linked to the Consumer Prices Index are presented in accordance with the last known index as of the date of the statement of financial position (the index for the month preceding the date of the financial statements), or in accordance with the index in respect of the last month of the reporting period (the index for the month in which the date of the financial statements lies), in accordance with the terms of the transaction.

(3) The following are details in respect of the exchange rates and Index:

	Representative exchange rate of			**The Index in Israel**	
	Euro	**Canadian Dollar**	**US Dollar**	**Index for**	**Known index**
	NIS to 1 Euro	**NIS to 1 Dollar**	**NIS to 1 Dollar**	**Basis 1993**	**Basis 1993**
The date of the financial statements:					
December 31, 2012	4.921	3.750	3.733	219.80	219.39
December 31, 2011	4.938	3.740	3.821	216.27	216.27
December 31, 2010	4.738	3.555	3.549	211.67	210.89
	%	%	%	%	%
Change in the year ended on:					
December 31, 2012	(0.34)	0.27	(2.30)	1.63	1.44
December 31, 2011	4.23	5.19	7.66	2.17	2.55
December 31, 2010	(12.94)	(1.33)	(5.99)	2.66	2.28

Note 2 - Principal accounting policies (Cont.)

AF. Effective amendments of standards which are applied in these financial statements:

(1) Amendment of IAS 12 "Income Taxes"

The amendment introduces a presumption that the carrying amount of investment properties measured at fair value in accordance with the provisions of IAS 40, will be recovered through sale. Accordingly, deferred taxes will be calculated according to the tax rates and bases applicable at the time of sale of the property. The said presumption is rebuttable if the investment property is depreciable and is held within a business model whose objective is to consume substantially all the investment property's economic benefits over time, through use rather than through sale.

(2) Amendment of IFRS 7 "Financial Instruments: Disclosures" (Disclosures – Transfer of Financial Assets)

The amendment makes disclosure requirements regarding the entity's exposure to risks in respect of transactions for the transfer of financial assets, in the context of which the transferor retains a certain level of ongoing exposure to the asset ("continued involvement"), and with respect to transactions for the transfer of financial assets which were fully written-off, which were performed shortly before the end of the reporting period.

AG. New Standards, Amendments to Standards and Interpretations Not Yet Adopted and in respect of which no Effect on Future Periods is Expected:

- **IFRS 10 "Consolidated Financial Statements"**

  The standard sets forth a new model for the purpose of determining the existence of control in another entity based on the power of the investor relative to the investee, its exposure to variable yields from its involvement therein and its ability to make use of its power so as to influence the scope of the yields. The standard does not include a change in financial statement consolidation procedures.

- **IFRS 11 "Joint Arrangements"**

  The standard states that a joint arrangement is an arrangement in which two parties or more hold joint control (as defined in IFRS 10) thereof. The standard further defines two types of joint arrangements – joint transactions, which shall be presented according to the equity method, and operations under joint control, which shall be presented by the entity which holds joint control thereof in the amount of its proportionate share in the assets, liabilities, revenues and expenses of the activity.

- **IFRS 12 "Disclosure of Interests in Other Entities"**

  The standard sets forth disclosure requirements in reference to an entity's interests in consolidated companies, joint arrangements, associates and non-consolidated structured entities. The purpose of the disclosures is to assist in the evaluation of the nature and related risks in connection with the interests in the said entities and the effect of such interests on the financial statements of the reporting entity.

Note 2 - Principal accounting policies (Cont.)

AG. New Standards, Amendments to Standards and Interpretations Not Yet Adopted and in respect of which no Effect on Future Periods is Expected: (Cont.)

- **IAS 28 (2011) "Investments in Associates and Joint Transactions"**
  The standard determines that the equity method shall be applied to both associates and joint transactions. The standard further determines that when an investment in a joint transaction is classified as an investment in an associate, or *vice versa*, no re-measurement of the rights in the investee entity is performed.

- **IFRS 13 "Fair Value Measurement"**
  The standard replaces the specific fair value provisions in the various international financial reporting standards, providing a single source of guidance on how fair value is measured. Accordingly, instructions on fair value measurement have been set forth for all the items measured at fair value in the statement of financial position or for disclosure purposes.

- **IAS 19 (2011) "Employee Benefits"**
  The standard changes the provisions of IAS 19 "Employee Benefits" in its existing format. Due thereto, it is determined that actuarial profits or losses shall be carried to other comprehensive income. It is further determined that short-term employee benefits shall include benefits that are expected to be settled in full within 12 months from the end of the year in which the employee renders the entitling service.

- **Amendment of IAS 1 (amended) "Presentation of Financial Statements" (regarding presentation of other comprehensive income items in the statement of compensative income)**
  The amendment provides that items included in other comprehensive income be separated and presented in one of two groups – items which shall be classified in the future to the income statement, and items which shall not be classified in the future to the income statement

- **Amendment of IAS 16 "Fixed Assets" (Manner of Classification of Spare Parts, Backup Equipment and Auxiliary Equipment)**
  The amendment prescribes that spare parts, backup equipment and auxiliary equipment meeting the definition of fixed assets in IAS 16 shall be presented in accordance with the provisions thereof, while items of such type that do not meet this definition shall be presented in accordance with the provisions of IAS 2 "Inventory". In the framework of this amendment, the instruction that spare parts and auxiliary equipment that may only be used in the context of a fixed assets item be classified as fixed assets was cancelled. This amendment shall be applied to annual reporting periods commencing on January 1, 2013, or thereafter. Early application is possible.

Note 2 - Principal accounting policies (Cont.)

AH. New Standard that has been Published and is not in Effect and has not been Early Adopted by the Group, which is Expected to have an Effect on Future Periods:

- **IFRS 9 "Financial Instruments"**
  The standard replaces the requirements appearing in IAS 39 in relation to the classification and measurement of financial assets and financial liabilities. According to the standard, there are two main categories of financial assets measurement: reduced cost and fair value.

  The standard's provisions apply to annual reporting periods commencing on January 1, 2015 or thereafter. Early application is possible. In addition, subject to the standard's transition provisions, early adoption of the standard's provisions is possible in respect of financial assets only, without adoption of the foregoing provisions in respect of financial liabilities.
  The standard's provisions shall be applied retroactively. Entities applying the standard for the first time on January 1, 2013, or thereafter, are not obligated to amend the comparison figures, but are required to include certain disclosure requirements as specified in IFRS 7.
  At this stage, the Group's management is unable to estimate the effect of application of the standard on its financial condition and its results of operations.

Note 3 - Critical estimates and the determination of the fair value

A. General

In the implementation of the Group's accounting policy, which is described in Note 2 above, the managements of the companies in the Group are required to exercise broad accounting judgment in respect of estimates and assumptions, in connection with the carrying values of assets and liabilities, which cannot necessarily be found in other sources. The estimates and the related assumption are based on past experience and on other factors, which are considered to be relevant. The actual results may well be different from those estimates.
The estimates and assumptions that they are based on are reviewed routinely by the management of the companies in the Group. Changes in the accounting estimates are recognized only in the period in which the change is made in the estimates in the event that a change affects only one period or they are recognized in the said period and also in future periods in cases where the change affect both the current period and also the future periods.

B. Critical estimates

The following is information in respect of critical estimates, which have been prepared whilst implementing the accounting policies, and which have a significant impact on the financial statements:

(1) The revaluation of investment property and investment property under construction – in accordance with the IFRS and in accordance with the Company's selection, the Group presents investment property and investment property under construction in accordance with the fair value, based mainly on an evaluation by independent external appraisers, possessing the appropriate professional skills. The fair value is examined at least once a year and at any time at which indications exist that there has been a significant change in value. Even in the case where the indications do

Note 3 - Critical estimates and the determination of the fair value (Cont.)

B. Critical estimates

(1) (Cont.)

not exist, the Company's management may, per its discretion, choose to perform valuations. In each case where the Company's management decides to update the fair value of all or part of the assets, as the case may be, the BOD report for such quarter shall include the Board's explanations in respect of the valuation that it made itself, as required by law.

Changes in the fair value are carried to the income statement and accordingly they may have a material effect on the Company's results.

(2) Contingent liabilities – in the evaluation of chances of the legal claims that have been filed against the Company, consolidated companies and its associates, the companies have relied on the opinions of their legal advisers as well as on estimates made by their managements. These evaluations by the legal advisers and the managements are based on their best professional judgment, taking into account the stage at which the proceedings are to be found, and also on the legal experience that has accumulated on various subjects. Since the results of the claims will be determined in the courts, those results may be different from those evaluations.

(3) Provision for doubtful debts – the financial statements include provisions for doubtful debts, which, in the opinion of the managements of the companies in the Group, provide a fair reflection of the loss that is inherent in the debts whose collection lies in doubt. The provision for doubtful debts includes specific provisions and general provisions in accordance with IAS 39. In the determination of the fairness of the provisions, the managements have based themselves, inter alia, on information that is in its hands in respect of the financial position of the debtors, the extent of their activities, an assessment of the collateral received from them, a receivables aging analysis, history of bad debts, financial strength and a business analysis of the customer and industry trends. Actual collection of the debts may be different to the estimates of the managements of the Group companies.

(4) Impairment in the value of assets (including goodwill) **–** at each balance sheet date the Group tests if events have occurred or if changes have taken place in the circumstances that indicate that an impairment has occurred in the value of one or more of the non-monetary assets. If signs of impairment in value exist, a test is conducted as to whether the amount at which the investment in the asset is presented can be recovered out of the discounted cash flows that are expected from that asset, and in the event that it is necessary, a provision for impairment in value is recorded up to the level of the amount that is recoverable. The discounting of the cash flows is calculated in accordance with a post-tax discount rate, which reflects the market's estimate in respect of the time value of the money and the specific risks that relate to that asset. The determination of the estimates of the cash flows is based on past experience with the asset or similar assets, and on the Company's best estimate in respect of the economic conditions that will be extant during the course of the balance of the useful life of the asset. In the determination of the net selling price of some of the assets use was made of evaluations by a valuator.

In respect of realty assets, the estimates also take into account the state of the market in the area in which the asset is located.

Changes in the Group's estimates, as aforesaid, may lead to significant changes in the carrying value of the assets and in the operating results.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

B. Critical estimates

(5) The fair value of derivatives, financial assets available for sale and other financial instruments – the fair value of financial instruments that are not traded on an active market (for example: call options, put options, and investments in non-marketable instruments) is determined using evaluation techniques. The Group exercises judgment in the determination of the appropriate methodology and in the determination of the assumptions, based on generally accepted practice and the current conditions in the market and also based on calculations of fair value performed by appropriate independent external appraisers. Changes in the assumptions may lead to the recognition of impairment in value or losses in future periods.

(6) Taxes on income - the Group is subject to the tax laws. Broad judgment is required in order to determine the current tax liability for each of the companies in the Group.
The Group has many transactions, whose tax results are uncertain. The Group recognized liabilities in respect of the tax results of those transactions, based on management's estimates, which place reliance on professional advisors, in respect of the timing and the level of the tax liability that derives from those transactions. Where the tax results of those transactions is different from management's estimates, the tax expenses and the deferred tax liabilities will be reduced or increased at the time that the final assessments are determined.

C. Determination of fair value:
As part of the accounting principles and the disclosure requirements, the Group is required to determine the fair value of non-financial and financial assets and liabilities. The fair values have been determined for the purposes of measurement and/or disclosure on the basis of the methods that are described below. Additional information in respect of the assumptions that have been used in the determination of the fair value is provided in the noted that relate to this asset or liability.

(1) Investment property and investment property under construction – As aforesaid in Note 2O, the Group's investment property is presented at fair value, where changes in the fair value are carried to the income statement as income or as expenses.
For the purpose of the determination of the fair value of investment property, the Company’s management bases itself, primarily, on evaluations that are performed once a year by independent appraisers of land, having the required knowledge, experience and expertise. The Company’s management is in the habit of determining the fair value in accordance with generally accepted evaluation methods of realty assets, primarily discounted cash flows and comparison with selling prices of similar assets and the Group's assets in the near environment. Where use has been made of the discounted cash flows method, the interest rate used in the discounting of the net cash flows that are expected from the asset can have a significant impact on the fair value.
In the determination of the fair value of investment property, the Company takes into account, inter alia, and so far as is relevant, the location of the property and its physical state, the quality of the tenants and their stability, the rental period, the rental prices in similar properties, the adjustments that are required to the existing rental prices, the actual and forecast occupancy levels for the property and the costs of operating it. In the determination of the fair value of investment property under construction, taken into account, *inter alia* and insofar as relevant, are the duration of the construction of the project, the amount of the rent, the additional cost required for construction thereof until

Note 3 - Critical estimates and the determination of the fair value (Cont.)

C. Determination of fair value: (Cont.)

(1) (Cont.)
the current operation thereof and the interest rate, the project's risk premium, deduction of developer profit and the required capitalization rate. A change in the value of any of these components, or all of them, could have a significant impact on the fair value of the property as estimated by the Company's management.
The Group strives to determine as objective a fair value as possible, but at the same time, the process of estimating the fair value of investment property also includes subjective elements, which are sources, inter alia, in the past experience of the Company's management and its understanding of what is expected to take place in the investment property market at the time at which the estimate of the fair value is determined. In the light of what is stated in the previous paragraph, the determination of the fair value of the Group's investment property mandates the exercise of judgment. Changes in the assumptions that were used in the determination of the fair value could have a significant effect on the Group's state of affairs and the results of its activities.

(2) Impairment in the value of goodwill – in order to determine whether an impairment has taken place in the value of goodwill, the Company's management prepares an estimate of the value in use of the cash generating units to which the goodwill has been allocated, for the purpose of the calculation of the value in use, the Group calculates an estimate of the future cash flows that are expected to derive from each of the cash generating units as well as the appropriate discount rate in order to calculate the present value.

(3) Investments in shares – for the purpose of the calculation of the fair value of financial assets that are measured at fair value through the profit and loss, and financial assets that are classified as available for sale (mainly investments in Bank Leumi and in Leumi Card), this is determined whilst relating to their average quoted closing bid prices at the reporting date. In the absence of quoted process, the evaluation is carried out using the discounted cash flows method under "going concern" assumption and/or the net asset value method.

(4) Trade and other receivables – the fair value of loans and receivables including trade and other receivables, other than in respect of construction work in progress but including receivables in respect of franchise agreements, is determined on the basis of the present value of the future cash flows, which are discounted using the market interest rate, which weight, *inter alia*, the risk of the borrower as of the reporting date. In periods that follow the initial recognition, the fair value of trade receivables and other receivables is calculated solely for the purpose of the provision of disclosure.

(5) The Company reviews in its quarterly reports the need to update the value of the investment real estate properties by examining micro economic changes that may have a material effect on the fair value of the properties and/or upon the occurrence of a material event that was defined as a material or a very material asset in the Company's statements, due to populating, material change in rent, etc. Also, with regard to investment real estate properties under construction, the costs actually invested during the period, the updated forecast of costs for completion and lease agreements signed during the period are taken into account. Upon initial classification of a property that was under construction as investment property, and insofar as no valuation was received therefor in the six months preceding the classification date, an external valuation will be performed therefor, as of the end of the quarter in which it was first classified as investment property.

Note 4 - Cash and cash equivalents

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Balances with banks	103,429	101,619
Short-term deposits – unlinked	75,784	120,135
Short-term deposits – in Dollars	3,605	2,676
	182,818	224,430

Note 5 - Financial assets held for trade

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Shares	94,532	246,914
Government bonds	141,620	487,252
Corporate bonds	213,352	547,058
Participation certificates in trust funds and exchange-traded notes	16,136	117,994
Others	5,117	2,568
	470,757	1,401,786

Mainly investment in a diversified manner in shares which are traded in the TA-100 Index and in the Canadian stock exchange in bonds which are rated BB+ and higher and in deposits in financial institutions. (The total investment in shares and bonds in the Canadian stock exchange is approx. NIS 59 million).

Note 6 - Trade accounts receivable

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Open debts	1,624,196	1,570,701
Income receivable	31,491	23,705
Checks collectable	212,657	233,022
Credit card companies	76,014	72,915
Current maturities of long-term loans extended	15,756	17,404
	1,960,114	1,917,747
Net of – provision for doubtful debts	(202,417)	(197,983)
	1,757,697	1,719,764

For details regarding balances in respect of related and interested parties – see Note 38C.

Note 7 - Other receivables:

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Institutions	33,477	13,062
Prepaid expenses	34,183	23,020
Deposits in trust	24,118	37,990
Advances to suppliers	10,403	11,363
Current maturities of receivables in respect of a franchise arrangement	39,674	20,316
Other receivables	40,160	50,071
	182,015	155,822
Net of – provision for doubtful debts	(8,995)	(11,138)
	173,020	144,684

For details regarding balances in respect of related and interested parties – see Note 38C.

Note 8 - Inventory

The composition:

	As of December 31	
	2012	**2011**
	NIS in Thousands	**NIS in Thousands**
Raw materials	96,401	113,120
Work in progress	16,783	16,587
Finished works	366,105	285,694
Ancillary materials, spare parts and instillations	18,713	24,532
	498,002	439,933

Note 9 - Investments in and loans to associates

A. Material active consolidated companies that are held directly by the Company:

Name of subsidiary	Country of incorporation	Holding rate in the rights in the capital of the consolidated company		Volume of the investment in the investee company		Amounts that the Company has made available to the consolidated company: Loans (6)		Amounts that the Company has made available to the consolidated company: Financial guarantees: Amount of guarantees		Amounts that the Company has made available to the consolidated company: Financial guarantees: Amount of guaranteed at the end of the period	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		%	%	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Canit Hashalom Investments Ltd.	Israel	99	99	4,736,685	4,193,304	(1)1,749,103	(1)1,355,327				
International Consultants (E-Consult) Ltd.	Israel	100	100	43,139	44,142	(2) 26,161	(2) 26,782	In an unlimited amount as collateral for a loan from a bank		25,444	24,806
Azrieli Center Parking Lot Ltd.	Israel	100	100	23,692	21,662						
Otzem Entrepreneurship and Investments (1991) Ltd.	Israel	100	100	86,110	44,927	(3)117,224	(3) 127,472				
Otzma & Co. Maccabim Investments Ltd.	Israel	100	100			(3) 48,000					
Canit Northchase L.P. (4)	USA	99	99	10,435	10,963			In an unlimited amount as collateral for a loan from a bank		28,931	29,613
AG Galleria Office Buildings LP (4)	USA	90	90	130,034	86,202				-		
AG Plaza Enclave Inc	USA	100		76,702		(5) 88,285					

(1) The amount presented is net of capital reserve. The composition of the loans without deduction of capital reserve is NIS 1,130 million Index- linked and bearing interest at the rate of 4.8% (in 2011 - approx. NIS 1,097 million) and approx. NIS 787 million (in 2011 approx. 258 million), not Index- linked and bearing interest in accordance with the Income Tax Regulations.
(2) The loan bears interest in accordance with the Income Tax Regulations and is presented net of capital reserve.
(3) Capital notes are not Index-linked and are non-interest bearing for a period of 5 years. The balance is presented net of capital reserve.
(4) Limited Partnership.
(5) The loan is linked to the U.S. dollar and bears interest at the rate of 10.25% per annum. (See Note 13E).
(6) With respect to the accounting treatment, see Note 2AA.

For details of material consolidated companies that are not held directly – see Note 42 to the financial statements.

Note 9 - Investments in and loans to associates

B. Details in respect of loans and long-term receivables:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Loans and long-term receivables (2)	49,248	39,486
Capital notes	86,860	86,860
Net of the Company's share in losses of associates	(101,057)	(93,266)
	35,051	33,080

(1) **Specification of Payment Due Dates -** The payment due date for the loans, the long-term receivables and the capital notes which have been given to the associates has not yet been determined.

(2) Includes the sum of approx. NIS 27 million linked to the index and bearing interest of 10% and the sum of approx. NIS 12 million, not linked and bearing interest of 4.68%.

Note 10 - Investments, loans and receivables

A. The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Loans extended (see B(1) and C below)	120,242	92,506
Net of current maturities (see C below)	(21,813)	(22,159)
	98,429	70,347
Checks and notes collectable	11,010	9,607
Assets in respect of benefits for employees	1,582	1,420
Receivable in respect of the averaging of income from rental fees	57,906	30,091
Other receivables (see B(2) below)	17,968	10,661
	186,895	122,126

Note 10 - Investments, loans and receivables (Cont.)

B. Additional information:

(1) The loans that were extended, mainly to lessors of fuelling stations, are presented at a discount for the difference between the interest stated in the loans and the market interest on the date of the granting of the credit, which was carried to financing expenses upon provision of the credit.

(2) In 2012, formed costs in the sum of NIS 2,911 thousand were included, in respect of expansion of the water desalination plant and in the sum of NIS 7,860 thousand in respect of the construction of midsize solar plants for electricity production, which have not yet been recognized as a financial asset, see also Note 12. In addition, the balance of the other receivables includes mainly customer debts in respect of initial filling of oil distillates linked to the distillates prices.

Note 10 - Investments, loans and receivables (Cont.)

C. Details regarding long-term loans:

Specification of the linkage bases and the interest terms

	As of December 31, 2012 (NIS in Thousands)									
	Unlinked NIS			Index-linked NIS			NIS linked to the Dollar or stated in Dollars			
	Nominal interest rate			Nominal interest rate			Nominal interest rate			
	0%-2%	2%-10%	Total	0%-4%	4%-8%	Total	0%-3%	3%-8%	Total	Total
Long-term loans	8,156	45,287	53,443	30,807	30,690	61,497	337	4,965	5,302	120,242
Net of current maturities			(13,756)			(5,912)			(2,145)	(21,813)
Long-term loans, net			39,687			55,585			3,157	98,429

	As of December 31, 2011 (NIS in Thousands)									
	Unlinked NIS			Index-linked NIS			NIS linked to the Dollar or stated in Dollars			
	Nominal interest rate			Nominal interest rate			Nominal interest rate			
	0%-2%	2%-10%	Total	0%-4%	4%-8%	Total	0%-3%	3%-8%	Total	Total
Long-term loans	12,591	16,175	28,766	29,213	28,055	57,268	1,254	5,218	6,472	92,506
Net of current maturities			(10,584)			(6,399)			(5,176)	(22,159)
Long-term loans, net			18,182			50,869			1,296	70,347

Note 10 - Investments, loans and receivables (Cont.)

D. (1) As collateral for the full and accurate payment of the debt for bond holders issued by a consolidated company of Supergas, Supergas had undertaken to provide, as collateral to the benefit of the bond trustee (the "Trustee") a deposit which will be in at the quarterly payment amount (principal and interest) which is the highest expected to be paid according to the bond's payment schedule, until the expiration of the bond period. The deposits are Index-linked and bear interest at a rate of 1%. The balance of the deposits as of December 31, 2012 is NIS 21,573 thousand (December 31, 2011 – NIS 22,037 thousand).

(2) The restricted investments are used as a collateral for the payment of the senior financing extended by a banking corporation for the construction of the desalination facility at Via Maris, and are mainly invested in mutual funds and in governmental loans and the balance thereof as of December 31, 2012 is NIS 48,650 thousand (December 31, 2011 - NIS 28,893 thousand).

Note 11 - Available for sale financial assets and financial assets that have been designated as at fair value through profit and loss:

A. Available for sale financial assets

(1) Investment in Bank Leumi Le'Israel Ltd. ("Bank Leumi")

On April 30, 2009 the Company acquired approx. 4.8% of the shares in Bank Leumi (approx. 71 million shares) for a consideration that was equivalent to NIS 742 million.

In order to finance some of the acquisition amount, the Company issued short-term commercial paper in an amount of approx. NIS 153 million to institutional bodies and others. See also Note 20A.

In 2011 the Company received a dividend in the sum of approx. NIS 43 million from Bank Leumi.

As of the date of the statement of financial position, the balance of the Company's investment in Bank Leumi's shares is approx. NIS 895 million.

(2) Investment in Leumi Card Ltd. ("Leumi Card")

As of the Report Date, the Company holds 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

Leumi Financial Holdings Ltd. ("Leumi Holdings") has the right of first refusal on the sale of the shares that are held by the Company to a third party which is not a permitted transferee of the Company, as defined in the agreement.

Commencing from May 26, 2008, Mr. Menachem Einan – active deputy chairman of the Azrieli Group, has served as the company's representative on Leumi Car's Board of Directors.

As of date of the statement of financial position, Leumi Card's Board of Directors is made up of 12 directors (of whom 4 are external directors).

In the light of the number of directors and the control structure in Leumi Card, the Company has reached the conclusion that it does not have material effect in Leumi Card and therefore the investment is presented as an "available for sale financial asset".

As of date of the statement of the financial position, the Company's investment balance in Leumi Card totaled at an amount of approx. NIS 514 million.

Note 11 - Available for sale financial assets and financial assets that have been designated as at fair value through profit and loss: (Cont.)

A. Available for sale financial assets (Cont.)

(2) Investment in Leumi Card Ltd. ("Leumi Card")

The fair value has been determined by an independent external appraiser, where the evaluation is based on the discounted cash flows approach (D.C.F.), based on the net profit as extrapolated from the business plan, adjustments to the profit and less investments. In the determination of the recoverable amount of the cash flows, a weighted average cost of capital (WACC) of 10. % has been taken into account and the long-term growth rate has been set at 2.5%.

In March 2012, the Company received a dividend in the sum of approx. NIS 8 million from Leumi Card.

(3) Available for sale financial assets include investments in shares in companies, which do not exceed 20%.

B. Financial assets that have been designated as at fair value through profit and loss:

The Company's investments are carried out through the business division that is engages in investments in hi-tech companies in Israel and abroad, at rates of between 0.16% and 5.6% of the issued share capital of those companies (the "Investee Companies"). The Investee Companies are engaged in research and development and have not yet reached a stable situation in their businesses. Consequently, the continuation of the activities of the Investee Companies involves certain risks, which derive from the nature of their activities, including uncertainty in respect of the success of the development and their ability to market their products. The Company's management has designated these investments as at fair value through profit and loss, in accordance with the provisions of International Accounting Standard 39, Financial instruments: "Recognition and Measurement". See also Note 2M(1) in respect of investments that are presented at fair value through profit and loss.

Note 12 - Long-term receivables in respect of a franchise arrangement

A. Sea water desalination project

On October 28, 2002, an agreement was signed between the consolidated company Via Maris Desalination (Holdings) Ltd. ("Via Maris") and the State of Israel (the "Franchise Agreement") for the planning, financing, construction, operation and maintenance of a facility for desalination of sea water at an annual production of 30 million cubic meters at a BOO (Build, Own, Operate) format, at the Kibbutz Palmachim area. The Franchise period is until 2029. During the franchise period Via Maris is obligated to supply to the state desalinated water at a scope which will be determined by the State and at a minimum quality specified in the Franchise Agreement. In consideration for construction of the desalination facility and operation thereof, Via Maris will be entitled to receive a fixed payment for providing an available capacity as well as a variable payment for the desalinated water which will be actually provided. On August 30, 2007, Via Maris received the operation certificate of the desalination facility from the state.

Note 12 - Long-term receivables in respect of a franchise arrangement

A. Sea water desalination project

In the beginning of 2009, Via Maris signed with the State an agreement for the provision of additional amounts of desalinated water (the "Extension Agreement"). The Extension Agreement is for a period of approx. 18 years, until May 15, 2027. For that purpose, Via Maris extended the desalination facility to an annual production of 45 million cubic meters. The extension of the facility was completed an in July 2010 a permanent certificate was received from the State (PTO) for supply of water from the extended facility.

On October 30, 2011, Via Maris signed with the State another amendment to the franchise agreement, regulating, *inter alia*, an additional expansion of the plant and increase of its annual capacity to 90 million cubic meter. The expansion agreement is for a period of approx. 18 years until April 28, 2029. The increase of production will be made in two phases – an additional 23 million cubic meters a year which was completed in December 2012 and an additional 22 million cubic meters per year which shall be completed by the end of July 2013.

The capitalization of the fixed payments in respect of availability of the desalination plant, until the end of the franchise period which is defined under IFRIC 12 as a the financial asset of receivables for the franchise arrangement sums up as of the date of the report to an amount of NIS 825,361 thousand (including a current maturity in the sum of NIS 32,987 thousand presented as a current asset).

B. Production of Solar Electricity using Photovoltaic Technology

Supergas, through its consolidated SPVs, entered into license agreements with the Electricity Authority and the Israel Electric Corporation for the construction of midsize plants for the production of electricity using photovoltaic technology and for feeding the same into the electricity grid. The franchise period is for 20 years from the date of connection to the electricity grid.

All of the franchise arrangements determined the index-linked tariff that would be received for every kilowatt of electricity fed into the electricity grid throughout the franchise period.

The balance of the receivables in respect of the franchise arrangement includes the construction costs plus an acceptable contractor's margin in accordance with Supergas's estimate, and is settled through the income in the operating period.

Capitalization of the minimal payments in respect of the solar electricity that is produced, until the end of the franchise period, which is defined according to IFRIC 12 as a financial asset – receivables in respect of a franchise arrangement, as of December 31, 2012, is in the sum of NIS 52,257 thousand, including current maturities in the sum of NIS 2,086 thousand, which is presented as a current asset.

C. Construction of Plants for the Improvement of Wells and Wastewater Treatment Plants

G.E.S. has additional franchise arrangements with local authorities which are defined according to IFRIC 12 as a financial asset – receivables in respect of franchise arrangements.

D. The collection dates of the balances for the receivables in respect of a franchise arrangement after the financial statements' date:

	First year	Second Year	Third year	Forth year	Above five year	Total
			NIS in Thousands			
Receivables in respect of a franchise arrangement	39,674	43,919	40,573	42,625	731,593	898,384

Note 13 - Investment property and investment property under construction

A. Movements and composition:

	As of December 31, 2012			As of December 31, 2011		
	Land, buildings and commercial areas for lease	Investment property under construction	Total	Land, buildings and commercial areas for lease	Investment property under construction	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Balance as at the beginning of the year	13,981,528	858,042	14,839,570	11,969,647	240,617	12,210,264
Additions during the course of the year:						
Investments	527,847	263,339	791,186	736,656	980,529	1,717,185
Adjustments to fair value	341,504	(12,608)	328,896	887,296	(38,437)	848,859
Net translations differences deriving from the translation of the financial statements of overseas operations	(51,255)	-	(51,255)	46,153	-	46,153
Transfer from investment property under construction	-	-	-	324,667	(324,667)	-
Total additions	818,096	250,731	1,068,827	1,994,772	617,425	2,612,197
Deductions in the course of the year:						
Disposals	2,200	-	2,200	-	-	-
Total deductions	2,200	-	2,200	-	-	-
Balance at the end of the year	14,797,424	1,108,773	15,906,197	13,964,419	858,042	14,822,461
Advance payments on account of investment properties (See Note 13H below)			48,502		17,109	
			15,954,699		14,839,570	

B. The composition with a distinction between ownership rights and leasing rights:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Under capitalized leasing	11,001,755	10,506,309
Under non-capitalized leasing	36,838	35,886
Under ownership	4,867,604	4,280,266
	15,906,197	14,822,461

Note 13 - Investment property and investment property under construction (Cont.)

C. Determination of the fair value of the Group's investment property:

Description of the Property	Fair Value As of December 31 2012 NIS in Thousands	Fair Value As of December 31 2011 NIS in Thousands	Valuation Technique	Cap Rate As of December 31 2012 %	Cap Rate As of December 31 2011 %
Commercial centers and malls in Israel	9,270,359	9,134,355	Capitalization of cash flow by external appraiser	7.25-9.25	7.25-9.25
Land for commercial centers and malls in Israel	-	275,427	Current prices in a similar active market by an external appraiser		
Office and other space for lease in Israel	3,776,235	3,579,400	Capitalization of cash flow by external appraiser	7.25-9.0	7.25-9.0
Land for office and other space for lease in Israel	133,090	580,005	Current prices in a similar active market by an external appraiser		
Income-producing property U.S.	1,493,550	1,028,950	Capitalization of cash flow by external appraiser	6.25-9.25	7-9.25
Investment property under construction in Israel	1,098,067	111,778	Costs incurred that cannot yet be estimated at their fair value.		
Other	134,896	112,546			
	15,906,197	14,822,461			

D. Additional information:

(1) Canit Hashalom has leased the land on which the "Azrieli Center" was built from the Municipality of Tel-Aviv-Jaffa under a capitalized lease for a period of 200 years. The lease period is until February 6, 2195. A mortgage has been registered in Canit Hashalom's lease rights in favor of the Mortgage Company of Bank Leumi, Bank Leumi Le'Israel Ltd. and Bank Hapoalim Ltd.

(2) From December 24, 2003, Canit Hashalom has been leasing the land on which the "Azrieli Modi'in" mall has been built from the Israel Lands Authority under a capitalized lease for a period of 98 years in respect of residential units and for a period of 49 years in respects of units with other designations (the mall and offices) with an option for additional periods of 98 years and of 48 years, respectively. As of the date of the approval of the financial statements the lease agreement has not yet been signed.

Note 13 - Investment property and investment property under construction (Cont.)

D. Additional information: (Cont.)

(3) The Company has leased the land on which the "Azrieli Jerusalem (Malha)" mall has been built from the Israel Lands Authority under a capitalized lease for a period of 49 years, ending on August 15, 2039, with an option for an additional period of 49 years.

(4) The Company has leased the land on which the "Azrieli Ayalon" mall has been built from the Israel Lands Authority under a capitalized lease for a period of 49 years, ending on August 1, 2031, with an option for an additional period of 49 years.

(5) The Company is leasing the Azrieli Or Yehuda Outlet Mall from the Israel Lands Authority under a capitalized lease for a period of 49 years, ending on March 24, 2040, with an option for an additional period of 49 years.

(6) The Company is leasing the Azrieli Givatayim Mall from the Israel Lands Authority under a capitalized lease for periods of 49 years, ending on September 5, 2053 and February 9, 2051.

(7) The Company is leasing Azrieli Haifa Mall from the ILA under a capitalized lease for periods of 49 years ending October 31, 2042 and March 2, 2035 with an option for an additional period of 49 years.

(8) The Company is leasing industrial buildings in Caesarea Industrial Park from the Caesarea Edmond Benjamin de Rothschild Development Corporation Ltd. under a capitalized lease for a period of 49 years, ending on July 7, 2053 and March 12, 2049, with an option for an additional period of 49 years.

(9) Some of the assets of consolidated companies are registered in their names in the Lands Registry. Another part has not yet been registered for technical reasons, the main reason for the non registration deriving from the proceedings of the land arrangements and the reparcelization arrangements of the land have not yet been settled.

(10) See Note 33 in respect of collateral and charges.

(11) The Group has several projects in the commercial centers and malls segment and in the office space for lease segment, which are under planning and construction – in Southern Hakirya in Tel Aviv of an area of approx. 9,000 sqm (leased under a capitalized lease from the ILA for a period of 49 years, ending on May 29, 2060, with an option for another period of 49 years from the end of the lease period), in Rishon LeZion with a net area of approx. 19,000 sqm, in Kiryat Ata (Stage B) with an area of approx. 3,000 sqm, in Ramle of an area of approx. 32,000 sqm (in the framework of a development agreement with the ILA until February 1, 2014. After completion of the construction work, a lease agreement will be signed with the ILA until January 14, 2050), in Ramat Gan the addition of a second floor to Ayalon Mall, in Holon with an area of approx. 34,000 sqm.

(12) See Note 32B(3) in respect of the Group's engagement through Canit Hashalom with the City of Holon.

(13) See Note 32B(4) with respect to the Group's undertaking in connection with a commercial project in Rishon Lezion.

Note 13 - Investment property and investment property under construction (Cont.)

D. Additional information: (Cont.)

(14) The amounts that have been carried to the income statement:

	For the year ended December 31		
	2012	**2011**	**2010**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**
Income from rental, management and maintenance	1,411,192	1,255,966	1,105,292
Direct operating expenses deriving from rent, management and maintenance	316,813	266,842	216,684

E. Purchase of 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 purchase of an office building at 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 loan raising costs) in the sum of approx. NIS 2 million (approx. U.S. $544 thousand).

In accordance with the Agreement, the Buyer purchased 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 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%), 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 lessees 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 purchase of the building, the Company took a loan from an American financing institution in the sum of U.S. $70 million. The loan was extended for a period of approx. five years and bears fixed interest of 3.6%. In favor of the loan, the Buyer pledged the Office Building.

F. On May 1, 2012, Otzma & Co. Maccabim Investments Ltd., a private company wholly owned by the Company ("Otzma") entered into an agreement whereby it would purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva, from third parties that are partners therewith in the said property, in consideration for the sum of NIS 48.8 million (plus V.A.T). On October 23, 2012 the transaction was closed. As of the Report Date, Otzma holds 100% of the rights in the property.

Note 13 - Investment property and investment property under construction (Cont.)

G. On July 23, 2012, the Company entered into a conditional sale agreement for the purchase of income-producing rental space in a power center known as "One Plaza" in Beer Sheva (the "Power Center").
On November 25, 2012, the Antitrust Commissioner announced his objection to the said transaction, despite his preliminary approval, which was given prior to execution of the agreement.
In January 2013, the Company filed an appeal with the Antitrust Court from the Antitrust Commissioner's decision.

H. On October 22, 2012, Clalit Health Services ("Clalit") notified the Company that it had decided to approve the Company's bid as the winning bid for the purchase of Clalit's rights in a lot of an area of approx. 10,000 sqm located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for the sum of NIS 240 million (excluding VAT), which amount is linked to the consumer price index. The purchased lot is designated for the construction of a project of approx. 75 thousand sqm, comprising leasable office and retail space of approx. 58 thousand sqm (approx. 48 thousand sqm offices and approx. 10 thousand sqm retail), and residential areas of approx. 17 thousand sqm.
In December 2012, the agreement was signed and the Company paid the first installment on account of the consideration in the sum of NIS 48 million.
Possession of the lot is expected to be handed over no later than December 31, 2014. However, Clalit is entitled to postpone the handing over date by one year against a predetermined payment.
The Company intends to finance the purchase of the lot and the construction from internal financing of the Company and/or through bank financing.

I. Projected Revenues in respect of Signed Lease Contracts
Set forth below are the minimal lease payments due to be received in respect of lease contracts for the agreement periods (excluding extension options):

The revenue recognition period	Revenues from fixed components
	NIS in Thousands
Up to one year	1,215,885
From one to four years	2,128,111
Above four years	1,077,278
	4,421,274

Note 14 - Fixed assets

A. The movement and composition:

	Land and buildings at cost	Machines and equipment	Furniture, equipment and computers	Motor vehicles	Installations and leasehold improvements	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Cost						
Balance as of January 1, 2011	1,339,420	1,289,015	212,478	60,244	22,843	2,924,000
Additions	29,430	70,138	12,573	13,723	1,680	127,544
Write-offs	(8,104)	(6,899)	(544)	(6,208)	(615)	(22,370)
Effect of changes in exchange rates	-	3	19	43	3	68
Balance as of December 31, 2011	1,360,746	1,352,257	224,526	67,802	23,911	3,029,242
Additions	27,952	83,257	10,012	9,234	2,667	133,122
Write-offs	(67,406)	(14,793)	(8,118)	(7,861)	-	(98,178)
Effect of changes in exchange rates	-	(2)	(8)	(11)	(1)	(22)
Balance as of December 31, 2012	1,321,292	1,420,719	226,412	69,164	26,577	3,064,164
Accumulated depreciation and loss from impairment						
Balance as of January 1, 2011	502,996	806,223	149,335	32,066	13,632	1,504,252
Depreciation for the year	31,147	57,957	12,708	7,393	2,106	111,311
Write-offs	(2,162)	(6,080)	(522)	(4,001)	(615)	(13,380)
Effect of changes in exchange rate	-	4	17	8	2	31
Balance as of December 31, 2011	531,981	858,104	161,538	35,466	15,125	1,602,214
Depreciation for the year	28,062	61,210	12,458	8,270	1,736	111,736
Write-offs	(11,853)	(13,920)	(8,041)	(6,150)	-	(39,964)
Effect of changes in exchange rates	-	(2)	(7)	(6)	(1)	(16)
Balance as of December 31, 2012	548,190	905,392	165,948	37,580	16,860	1,673,970
Depreciated Cost:						
As of December 31, 2012	773,102	515,327	60,464	31,584	9,717	1,390,194
As of December 31, 2011	828,765	494,153	62,988	32,336	8,786	1,427,028

B. The purchase of fixed assets on credit:

See Note 35 on the subject of additional information for the cash flows statement.

C. See Note 33 on the subject of charges.

Note 14 - Fixed assets (Cont.)

D. In the first quarter of 2012, the consolidated company Sonol reached new contractual agreements with an owner of gasoline stations which leases several stations thereto for operation thereof (the **"**New Agreement**"**). Until December 31, 2011, these leases were classified as finance leases. Following a change in the terms and conditions of the lease in the New Agreement, as aforesaid, the lease of the said stations does not meet the conditions determined in IAS 17 for the recording thereof as finance leases. Therefore, since January 1, 2012, these leases have been classified as operating leases. In the framework of the change, the Company wrote off the net fixed assets in the sum of approx. NIS 55.4 million, and the other long-term liabilities and short-term payables by the sum of approx. NIS 40.6 million. In addition, loans given to the lessor by Sonol in the sum of approx. NIS 17.1 million were presented in the investments and long-term loans item, in lieu of presentation thereof, until December 31, 2011, net of the liability in respect of a finance lease. The pre-tax effect of the write-off of the said assets, in the sum of approx. NIS 2.3 million, was carried to the other revenues item in the income statement.

E. Details in respect of interests in land used by the Group as fixed assets

(1) Buildings on land held under capitalized lease from the Israel Lands Authority with an amortized cost, including the buildings thereon and the capitalized lease fees as of December 31, 2012 in the amount of NIS 60,907 thousand (2011 - NIS 68,667 thousand). The original leasing periods are of 49-98 years, ending in the years 2023-2062. Some of the lands have renewal options of the lease period for additional 49 years.

(2) Buildings on land held under capitalized lease from the Israel Lands Authority with an amortized cost of NIS 51,914 thousand as of December 31, 2012 (2011 - NIS 46,702 thousand). The original leasing periods are 49 years, ending in the years 2014-2039; Other than one lease agreement which terminated and is in the process of renewal of the option for additional 49 years.

(3) Buildings on land that is either owned or leased from third parties, buildings on leased land, leasehold improvements with an amortized cost and land which is leased through financing lease in a sum of NIS 142,720 thousand as of December 31, 2012 (2011 - NIS 194,337 thousand).

Some of the land that is owned or that is leased in Israel has not yet been registered in the name of the consolidated companies at the Land Registry. The main reason for the absence of the registration is that the processes of the organization of the land and the organization of the reparcelization of the land have not yet been organized.

Note 15 - Intangible assets

A. The movement and composition:

	Goodwill	Customer relations	Distribution rights to oil distillates and others and supply rights and operating rights of stations	Franchise Arrangements	Software	Others (*)	Others
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Cost							
Balance as of January 1, 2011	322,035	159,107	169,360	52,261	63,456	86,750	852,969
Additions	-	-	4,189	1,502	4,977	5,348	16,016
Purchases in the framework of business combinations	-	-	-	-	-	-	-
Write-offs	(2,234)	-	-	-	-	(2,745)	(4,979)
Effect of the changes in the exchange rates	60	-	-	-	-	-	60
Balance as of January 1, 2012	319,861	159,107	173,549	53,763	68,433	89,353	864,066
Additions	-	-	3,139	6,194	4,839	1,206	15,378
Write-offs	-	-	(80,763)	-	(339)	(9,969)	(91,071)
Effect of changes in exchange rates	(19)	-	-	-	-	-	(19)
Balance as of December 31, 2012	319,842	159,107	95,925	59,957	72,933	80,590	788,354

(*) The amounts included under the heading others comprise primarily brand names, commercial marks, payments for vacating premised and haulage rights.

Note 15 - Intangible assets

A. The movement and composition (Cont.):

	Goodwill	Customer relations	Distribution rights to oil distillates and others and supply rights and operating rights of stations	Franchise Arrangements	Software	Others	Others
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Accumulated depreciation and losses from impairment							
Balance as of January 1, 2011	22,518	76,455	97,209	167	54,449	50,654	301,452
Depreciation for the year	-	12,433	796	306	4,824	4,926	23,285
Write-offs	(2,234)	-	-	-	-	(463)	(2,697)
Loss from impairment, net	1,620	-	-	-	-	-	1,620
Balance as of January 1, 2012	21,904	88,888	98,005	473	59,273	55,117	323,660
Depreciation for the year	-	10,680	4,105	306	5,078	4,170	24,339
Write-offs	-	-	(90,437)	-	(339)	(2,263)	(93,039)
Balance as of December 31, 2012	21,904	99,568	11,673	779	64,012	57,024	254,960
Book value							
As of December 31, 2012	297,938	59,539	84,252	59,178	8,921	23,566	533,394
As of December 31, 2011	297,957	70,219	75,544	53, 290	9,160	34,236	540,406

Original Amount of Goodwill	
As of December 31, 2010	308,277
As of December 31, 2011	306,044
As of December 31, 2012	306,044

Note 15 - Intangible assets

B. Presentation of the amortization of intangible assets:

Current amortization in respect of intangible assets is reflected under the cost of sales, general and administrative expenses and/or under selling and marketing expenses in the income statement, as the case may be.

C. Allocation of goodwill to cash generating units

The goodwill has been allocated to cash generating units for the purposes of the testing for impairment in value, as follows:

	For the year ended December 31		
	2012	2011	2010
	NIS in Thousands	NIS in Thousands	NIS in Thousands
Activity A- Fuels	152,361	152,361	153,981
Activity B - Gas	63,057	63,057	63,057
Activity C - Paint	24,391	24,391	24,391
Activity D - Ecology	58,129	58,148	58,088
	297,938	297,957	299,517

The testing for impairment for the units that are described above as cash generating units, is determined by the capitalization of the future cash flows, which will be generated from the continuing use of the units, based on the following assumptions:

(a) The cash flows are estimated based primarily on the actual results of activities and on the business plans for the coming five years.

(b) The forecast annual rate of growth that is included in the forecast cash flows in the representative year: in the range of 1.4%-2.5% (last year - 1.7%-2.5%), in accordance with management's evaluation. This growth rate is based on the long-term growth rate of the GDP, the rate of population growth in Israel, business trends in operations in each sector and on the expected increase in competition for the various products.

(c) For the purposes of the estimation of the cost of capital for the activities, an estimate has been made of the pre-tax weighted average cost of capital (WACC), whilst using the CAPM model for the calculation of the price of the capital and additional assumptions in respect of the price of debt and its appropriate debt structure. In the determination of the recoverable amount of the unit, discount rates of primarily: 9.17% for fuel operations (2011 – 9.54%), 10% for gas operations (2011 – 17.3%), 13.1% for paint operations (2011 – 13.2%) and 12.8% for ecology operations (2011 – 13.2%) were taken into account. The estimate of the discount rate was made in reliance, *inter alia*, on the price of the capital for each activity, including the taking into consideration of the risk free interest rate, the market premium and the beta, the price of debt and comparison to similar public companies and other competing companies, as the case may be.

The estimates and the assumptions were determined in accordance with the evaluations of the managements in the Group in respect of future trends in the sector, and they are based on both external and internal sources (historical data) and in accordance with economic evaluations by independent appraisers.

Note 16 - Prepaid lease fees

Leases in which the Group is the lessee:

A consolidated company has entered into agreements for lease of buildings which are used thereby. Most of the lease agreements (without options) are for periods that do not exceed 10 years. Most of the rent is linked to the Consumer Price Index.

A consolidated company has lease agreements, which are for up to 25 years for the most part. Most of the lease agreements include additional lease payments, based on changes in the CPI or other market data.

A consolidated company has entered into a land lease agreement for an initial period of approx. 25 years, which is being used thereby as a water desalination site and for the company's offices.

A consolidated company mostly leases land for 10-year periods, with an option for renewal of the contract at the end of the period, and sub-leases it to parties making use of wireless communication, mostly to cellular companies. The rent is linked to the Consumer Price Index.

Prepaid lease fees which refer to rights in land and buildings leased by Granite for various periods, the last period ends in 2053, amounted to the sum of NIS 44,354 thousand (in 2011 - NIS 41,296 thousand) out of which the sum of NIS 3,472 thousand was included as prepaid expenses in the other receivables item, including derivative instruments. (In 2011 – NIS 4,727 thousand) depreciation of rent paid in advance that was carried to profit and loss as rent expenses in 2012 is approx. NIS 5,252 thousand (2011 – NIS 5,741 thousand).

The following are details of the lease payments and income in respect of sub-lease that have been carried to the income statement:

	For the year ended December 31		
	2012	2011	2010
	NIS in Thousands	NIS in Thousands	NIS in Thousands
Minimal lease payments recognized as an expense	179,225	176,107	170,931
Conditional lease payments recognized as an expense	14,502	9,205	9,372
Income in respect of sub-lease	(19,876)	(17,491)	(16,744)
	173,851	167,821	163,559

Note 17 - Trade payables

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Open debts	774,563	828,420
Checks payable	29,892	26,304
	804,455	854,724

Note 18 - Other payables

The composition:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Advance from customer and income in advance	41,635	31,008
Liabilities for the completion of work in progress	36,646	10,186
Liabilities to employees and other liabilities in respect of salaries and wages	69,645	61,205
Interest and expenses payable	95,289	100,836
Payables in respect of derivative financial instruments	12,740	6,374
Institutions	156,035	138,796
Others	17,974	37,444
	429,964	385,849

For further information regarding payables that constitute related and interested parties, see Note 38C.

Note 19 - Deposits from customers

A consolidated company charges its customers with a deposit for ensuring the recovery of the equipment provided to them at the time of the engagement therewith, which it is required to return upon the end of the engagement and the recovery of the equipment. According to law, the amount which will be recovered to its discontinuing customers shall equal the amount of the deposit in accordance with the latest update that has been approved by the Ministry of Industry and Trade, with the addition of linkage differentials from the time of the latest approval that has been received and up to the time of the actual payment.

Note 20 - Loans and credit from banks and other credit providers

A. Current liabilities:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Credit from banks		
Overdrafts	24,372	2,846
Short-term loans	1,444,103	1,643,355
	1,468,475	1,646,201
Credit from other credit providers		
Commercial paper	334,159	168,436
Short-term loans	1,472	1,400
	335,631	169,836
Current maturities of long-term liabilities		
Current maturities of loans from banks (*)	1,461,707	447,853
Current maturities of loans from others	6,487	5,165
Current maturities of bonds	179,183	176,367
	1,647,377	629,385
Total current liabilities	3,451,483	2,445,422

(*) The Company intends to act to refinance loans in the sum of approx. NIS 932 million in respect of the Azrieli Center, which are due in August 2013.

As of December 31, 2012, the liability balance due to the issuance of the unrated commercial paper (the "CP") amounted to approx. NIS 132 million (as of December 31, 2011 – approx. NIS 32 million). The CP were issued for a period of one year, which will renew automatically for four additional periods of one year each, paying attention to daily exit points, for which seven business days' notice is to be given in advance and in writing. The CP bear interest at an annual rate equivalent to the Bank of Israel's interest rate plus 0.8%, which is paid at the end of each year. The principal will be paid at the end of the period or at such time as the exit points are exercised.

On July 1, 2009, the Company announced the issuance of a series of commercial paper, which are rated P-1 by Midroog Ltd., with a volume of up to NIS 135 million for a period of ninety days from the time of the clearing, which will renew automatically for up to nineteen additional period of ninety days each (in accordance with notification, which will be sent to the investors), paying attention to daily exit points, for which seven business days' notice is to be given in advance and in writing, as an off the TASE transaction in accordance with the TASE Directives. In January 2012, Midroog expanded the rating framework for this series to NIS 200 million. The CP bear interest at an annual rate equivalent to the Bank of Israel's interest rate plus 0.6%, which is paid at the earlier of the end of each period of ninety days or at such time as the exit points are exercised.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

A. Current liabilities: (Cont.)

The principal will be paid at the end of twenty periods of ninety days or on repayment if the period is not renewed, as aforesaid, or at such time as the exit points are exercised. This series has been registered in "Nesher", the TASE's trading system for classified investors (Securities not listed for trading in the TASE) type securities. As of December 31, 2012, the Company has issued the sum of approx. NIS 200 million.

For the purpose of securing sufficient liquidity for payment of the CP, the Company undertook to maintain liquid balances and signed unused credit facilities at a total scope of at least NIS 200 million.

B. Non-current liabilities:

	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Bonds		
Bonds (1), (2), (3), (4)	1,731,701	1,883,094
Loans from banks	4,506,515	4,107,782
Other long-term liabilities		
Long-term loans from others	94,891	101,988
Capital notes	1,108	1,084
	95,999	103,072
	6,334,215	6,093,948
Net of current maturities	1,647,377	629,385
Total non-current liabilities	4,686,838	5,464,563

(1) In March 2007, the Company performed a private placement to institutional investors of bonds (Series A), with a par value of 740 million bonds of par value NIS 1 each. The bonds are linked to the Consumer Prices Index (principal and interest) and bear interest at a rate of 4.8% a year. The Company will repay an amount equivalent to 5% of the amount of the principal (NIS 37 million) in the month of March in each of the years 2008 to 2016 and in March 2017 it will repay an amount that is equivalent to 55% of the amount of the principal (NIS 407 million). The interest payments will be executed once every three months.

For the purposes of this issue, the bonds were rated Aa2 by Midroog and AA/Stable by Standard & Poors Maalot. In November 2011, Maalot upgraded the bond rating to AA/Stable.

The bonds (Series A) have been registered for trade on the continuous institutional Listing on the Stock Exchange, where the Company is entitled to register the bonds (Series A) for trade on the Stock Exchange, at its sole discretion. The bonds will be accelerated upon certain conditions, including: on receivership, arrears in payments, a change in control, the sale of rights in at least two of the following assets: the Ayalon Mall, Hanegev Mall or the Jerusalem Mall, where as the result of the sale there is a lowering of the rating of the bonds is lowered, as it may be from time to time.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(1) (Cont.)

The grounds for immediate repayment in respect of a change in control, the sale of at least two of the Group's assets, as aforesaid, and the lowering of the rating of the bonds below BBB+ or an equivalent rating thereof, will be cancelled when the Company's bonds are registered for trading. Within the framework of the issuance of the bonds (Series A), the Company has undertaken not to distribute a dividend to its shareholders, so long as such a distribution would cause a lowering of the rating for the bonds.

The balance the principal and linkage differentials of the bonds (Series A) (net of issuance expenses) as of December 31, 2012 is approx. NIS 660,765 thousand (December 31, 2011 – approx. NIS 694,653 thousand). As of the date of the Financial Statements the Company is in compliance with the contractual restrictions that have been set.

(2) In June 2005 the subsidiary Canit Hashalom issued bonds (Series A) with an overall par value of NIS 500 million, which is repayable (in equal payments for both principal and interest) four times a year, over a period of 10 years with the balance, in the amount of NIS 200 million to be paid in June 2015. The bonds are linked to the Consumer Prices Index (principal and interest) and bear interest at a rate of 4.95% a year. The bonds are not marketable.

For the purposes of this issue, the bonds were rated Aa2 by Midroog Ltd.

As collateral for its liabilities vis-à-vis the holders of the bonds (Series A), Canit Hashalom registered first ranking fixed charges, in an unlimited amounts on various assets belonging to Group companies, whereas of the date of approval of the financial statements the charges are as follows: (a) 16,083,900 ordinary shares with no par value in Otzma & Co. Maccabim Investments Ltd. (a consolidated company); (b) 53,969,250 ordinary shares with no par value in Provident Yield Investments Ltd. (a consolidated company); (c) various bonds that had been issued by the subsidiaries, as aforesaid, which are collateralized by a charge on their rights in the following assets: the entire rights in Herzliya Business Park; 50% of the rights in the Azrieli Mall, Hod Hasharon; 40% of the rights in the Azrieli Holon Mall and 50% of the rights in K.M.T. Petach Tikvah.

The bonds are accelerated upon certain conditions, including upon receivership, an arrears in payments, a sale of more than 50% of its rights in the "Azrieli Center", if an amount of NIS 50 million is not deposited in the account of the reserved amount that will be charged in favor of the trustee for the bondholders, within 3 months from the beginning of 2013, the date of maturity of the long-term loans that were provided to the Company by the banks.

In July 2009 Canit Hashalom increased the series of the bonds (Series A) to institutions by approx. NIS 89.5 million par value, for a consideration of approx. NIS 103 million.

An amount of approx. NIS 44.5 million from the series that was increased will be repaid in equal payments for both principal and interest, four times a year, in accordance with the times and the terms that were set for the original series. The balance, in an amount of NIS 45 million is to be paid in June 2015. The bonds are linked to the Consumer Prices Index (principal and interest) and bear interest at a rate of 4.95% a year. The bonds are not marketable. For the purposes of the increase, the bonds were rated Aa2 by Midroog Ltd.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(2) (Cont.)

The balance the principal and linkage differentials of the bonds (Series A) (less issuance expenses) as of December 31, 2012 is approx. NIS 429,215 thousand (as of December 31, 2011 – approx. NIS 470,840 thousand). As of the date of the Financial Statements, Canit Hashalom is in compliance with the contractual restrictions that have been set.

(3) Registered bonds (Series 3 and 4) of Granite, which are non-marketable (except on the continuous institutional listing) to institutional investors, in an overall amount of NIS 300,000 thousand. The bonds are linked to the Consumer Prices Index, bear semi-annual interest of 5.70% - 6.35% a year and are repayable in 2013. The bonds (Series 3 and 4) were issued in consideration for the payment of their par value. As collateral for the bonds (Series 3), Granite recorded specific charges on some of the assets of consolidated companies. The bonds are rated by S&P Maalot Ltd. ("Maalot"). As of the date of the financial statements, the Series 3 bonds are rated A and the Series 4 bonds are rated A-, both with a stable outlook.

The bonds (Series 3 and 4) were issued in accordance with the terms stated in the trust deed that was signed with trust companies acting as the trustee for the holders of the bonds. In accordance with the trust deeds, the trustees have the right to accelerate the unpaid balance of the bonds upon the occurrence of certain events.

The balance of the bonds (Series 3 and 4) principal and linkage differentials (net of issue expenses) as of December 31, 2012, is in the sum of NIS 43,100 thousand.

(4) In July 2007, a consolidated company of Supergas which was established for the purpose of the issue, and to which, primarily, the domestic gas operations and some of the commercial gas operations, for the marketing of gas in moveable containers were transferred, executed an issue of bonds to institutional investors through a private issue, with an overall par value of NIS 600 million. The bonds, which are rated with a rating of Aa1 by Midroog Ltd., are for a period of 18 years, and are repaid in quarterly installments of the principal from 2010. The bonds are linked to the Consumer Prices Index (principal and interest) and bear interest at a rate of 4.9% a year, which is paid once every calendar quarter. The balance of the bonds is presented after deducting net issuance expenses, which amount to NIS 1,287 thousand as of December 31, 2012 (December 31, 2011 – NIS 1,504 thousand). The effective rate of interest for the bonds is 4.94% a year.

The bonds are secured by a first-ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company of Supergas, in addition, Supergas charged by a first ranking fixed charge in an unlimited amount all of the shares of the consolidated company owned and held thereby, including the rights deriving from such shares.

According to the bond terms, the consolidated company of Supergas is required to meet financial covenants. Deviation from the financial covenants would allow the holders of the bonds to demand the acceleration of repayment or early repayment as described below.

In the event that the ratio between the available cash flow of the domestic operations (the quarterly income flow from domestic operations net of expenses (gas and other) on an annual average), and the quarterly bond debt ("Debt Coverage") shall fall below 126.5%, it will not be possible to withdraw surpluses from the reserve account in which cash surpluses which exceed the service charges and gas purchases are deposited.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(4) (Cont.)

Acceleration of payments:

a. If the ratio between the average quarterly free cash flows from the domestic gas operations (the cash flow of the receipts from the domestic operations less actual purchases of gas and expenses in respect of the services agreement in respect of the domestic gas operations), for the past year and the quarterly installment (principal and interest) which are expected to be paid to the bondholders at the time of the first expected payment (the "Debt Coverage Ratio") falls below 111%.

b. If the rate of the margin on the commercial gas operations in containers falls below 12% (as of the date of the financial statements, the rate of the margin is materially higher than such rate).

Acceleration and realization of collateral:

1. If the Debt Coverage Ratio falls below 103%.
2. In the event of insolvency.
3. The non payment of a payment of principal or interest.
4. A decision for dissolution or receivership of Supergas' consolidated company.
5. The imposition of an attachment or execution of the entire or material assets of Supergas' consolidated company.
6. A fundamental breach of the terms of the bonds.
7. In the event that Supergas' consolidated company loses the gas license.
8. In the event of a change in control such that Granite ceases, under certain conditions, to control Supergas.
9. The lowering of the rating of the bonds rating below Baa1 or if the rating is not monitored.

In addition, there are grounds for the replacement of Supergas as a supplier of services in the transaction, the main ones being: if the debt cover ratio falls below 106%; events in which Supergas becomes insolvent or if it loses its gas supplier license. In addition, Supergas created in favor of the bondholder trustee, a first fixed charge in an unlimited amount, on the shares of the subsidiary thereof, a floating charge on all of the subsidiary's assets, a fixed charge on all of the subsidiary's rights in certain bank accounts, a fixd charge on all of the subsidiary's rights vis-à-vis the insurance company which insures its assets and on additional rights as set forth in the agreement.
As of the date of the financial statements, Supergas's consolidated company is in compliance with the covenants while the debt service coverage ratio as of the Report Date is 213%.

(5) In 2005 the consolidated company Via Maris signed with Bank Hapoalim an agreement for provision of the required senior financing for the construction of the desalination project, at a total amount of approx. NIS 315 million but no more than an amount equal to 78% of the comprehensive investment amount in the facility (the "Original Financing

Agreement”).

Note 20 - Loans and credit from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(5) (Cont.)

In August 2009, Via Maris signed, within the realization of the extension plan for the facility (see Note 12), a new financing agreement with Bank Hapoalim, incorporating also the provisions of the Original Financing Agreement (the "Incorporated Financing Agreement"), Accordingly, the bank provided financing facilities, in shekels and in foreign currency, for the financing of 80% of the extension costs.
The Incorporated Financing Agreement determines a series of provisions, representations and warranties including the compliance with several financial ratios, of which principles are: debt coverage ratio of 1.10:1 (as of December 31, 2012, it is 1.23), fixed payment to fixed expense ratio of 1:1 (as of December 31, 2012, it is 1.17), loan lifetime coverage ratio of 1.15:1 (as of December 31, 2012, it is 1.22).
In January 2012, an agreement was signed with Bank Hapoalim to finance another expansion of the desalination plant (see also Note 12 regarding receivables in respect of a franchise agreement), which was closed on March 1, 2012. The agreement integrates the provisions of the original financing agreement, the provisions of the combined financing agreement and further provisions added or amended (the "Second Expansion Financing Agreement"). Accordingly, the bank shall provide financing facilities in NIS and in foreign currency to finance up to 80% of the cost of the second expansion. The Second Expansion Financing Agreement sets forth a series of provisions, representations and undertakings, including a 5% reduction of the shareholder's financing after completion of the expansion, such that the leverage ratio in respect of the second expansion be 85:15 and the leverage ratio for the entire plant 20:80, as well as compliance with a minimal debt coverage ratio of 1:2:1.
According to the financing agreement with the bank, all of the property of Via Maris, its assets, shares, rights in respect of the bank account, its IP and all of the project agreements and insurance policies are pledged to the bank.
As of the date of the financial statements, Via Maris meets the required financial ratios.
The sum of the credit to Via Maris, which is included in the financial statements, amounts, as of December 31, 2012, to approx. NIS 632 million, of which the sum of approx. NIS 47 million is presented as short-term.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

C. Details in respect of interest and linkage:

			As of December 31			
			2012		2011	
	Linkage	Nominal interest	Par value	Carrying value	Par value	Carrying value
		%		NIS in Thousands		NIS in Thousands
Overdrafts from banks	Unlinked	3.40-4.40		24,372		2,846
Short-term loans from banks (*)	Unlinked	2.70-4.40		1,284,119		1,505,769
Short-term loans from banks	Foreign currency	3.40-4.90		159,984		137,586
Short-term loans from other credit providers	Index	4.00		1,472		1,400
Commercial paper	Unlinked	Bank of Israel + 0.8 Bank of Israel + 0.6		334,159		168,436
Bonds that are not convertible into shares	Index	4.80-6.30	1,457,084	1,731,701	1,609,799	1,883,094
Long-term loans from banks	Index	1.07-4.00		256,492		255,718
Long-term loans from banks	Index	4.00-6.00		2,434,640		2,645,505
Long-term loans from banks (*)	Unlinked	3.20-5.80		856,736		612,347
Long-term loans from banks	Linked to the Dollar	3.60-6.00		958,647		594,212
Liabilities in respect of finance leasing	Index	4.00-8.00		7,396		7,625
Liabilities in respect of finance leasing	Unlinked	6.00-9.50		9,492		9,868
Liabilities in respect of finance leasing	Linked to the Dollar	8.00		3,012		40,691
Capital notes	Unlinked	-		1,108		1,084
Other long-term loans	Index	4.20-5.50		1,699		2,596
Other long-term loans (*)	Unlinked	3.8		6,832		90,174
Other long-term loans	Foreign currency	5.51		86,360		10,000
Other long-term payables	Index	-		2,134		1,397
Other long-term payables	unlinked	-		287		1,530
Total loans and credit from banks and other credit providers			1,457,084	8,160,642	1,609,799	7,971,878

(*) Some of the shekel loans bear variable interest which is dependent on the Prime interest. The Prime interest rate, as of December 31, 2012, is 3.5% (2011 – 4.25%).

See Note 33 for details in respect of loans that are secured by charges.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

D. Contractual restrictions and financial covenants in the Company:

If certain conditions exist, as detailed in the loan agreements (primarily at the time of a change in the structure and the control in the Company, arrears in payments, receivership and a worsening of the value of the collateral), the banks are entitled to accelerate the loans. The total sum of credit for which the Company committed for the aforesaid terms amounted as of December 31, 2012 to approx. NIS 1,328 million. As of the date of the financial statements, the Company is in compliance with the contractual restrictions that have been set.

E. Contractual restrictions in Canit Hashalom:

If certain conditions exist as detailed in the loan agreements (primarily at the time of a change in the structure and the control in the Canit Hashalom, arrears in payments, receivership and a worsening of the value of the collateral), the banks are entitled to accelerate the loans. The total sum of credit for which Canit Hashalom committed for the aforesaid terms amounted as of December 31 ,2012 to approx. NIS 932 million. As of the date of the financial statements, Canit Hashalom is in compliance with the contractual restrictions that have been set.

F. Contractual restrictions and financial covenants in Granite:

During November 2012, Granite signed financing agreements with banking corporations in the sum total of NIS 300 million. The financing agreements include various undertakings, including undertakings to meet financial covenants.

a. The share of the equity of Granite, plus deposits from customers, out of the total assets in the consolidated statement of financial position, net of the Fuel Administration Balance and net of receivables in respect of a franchise agreement, shall be no less than 15%, provided that for any decline below 17%, a special report shall be given by the Company's auditor, quantifying the amount of the effect of the rise in fuel prices from November 2004 until the Report Date on the inventory and receivables items, and that the ratio net of such effect is equal to or higher than 17%. (As of December 31, 2012, it is 21.27%).

b. The total financial credit (bank credit and bonds) in Granite (standalone) will not exceed NIS 400 million. (As of December 31, 2012, it is NIS 325 million).

c. The rate of the equity from the total Statement of Financial Position of Granite (standalone) will be no less than 50% and the sum of the equity will be no less than the sum of NIS 650 million. (As of December 31, 2012, 58.1% and NIS 887 million, respectively).

As of the date of the financial statements, Granite is in compliance with the required covenants.

G. With respect to the terms and conditions of the loan for the purchase of an office building in Texas in 2012 – see Note 13E.

Note 20 - Loans and credit from banks and other credit providers (Cont.)

H. Other Liabilities:

	As of December 31	
	2012	**2011**
	NIS in thousands	**NIS in thousands**
Liabilities for financing lease	19,900	58,184
Other	42,374	41,938
	62,274	100,122

Information pertaining to liabilities in respect of finance leasing according to segmentation of payment dates:

	As of December 31, 2012		
	Minimum future lease fees	**Interest component**	**Current value of minimum lease fees**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Less than one year	2,357	1,005	1,352
One year to five years	9,286	3,707	5,579
More than five years	28,531	14,210	14,321
	40,174	18,922	21,252

	As of December 31, 2011		
	Minimum future lease fees	**Interest component**	**Current value of minimum lease fees**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Less than a year	5,763	2,043	3,720
One year to five years	23,026	11,868	11,158
More than five years	81,057	34,031	47,026
	109,846	47,942	61,904

Note 21 - Benefits for employees

Employee benefits include post-employment benefits, other long-term benefits, benefits upon the termination of employment, short-term benefits and also share-based payments.
In respect of post-employment employee benefits, the Group has defined benefits plans, in respect of which it deposits amounts in appropriate severance pay funds and insurance policies. Moreover, the Group has a defined deposit plan in respect of some of its employees, with regard to whom section 14 of the Severance Pay Law, 5723-1963 applies.
See Note 23 in respect of share-based payments.

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Present value of unfunded liability	15,254	14,134
Present value of funded liability	36,970	32,329
Total present value of liability	52,224	46,463
Fair value of the plan assets	34,802	30,289
Liability recognized in respect of defined benefit plan	17,422	16,174
Liability in respect of other short-term benefits	56,232	48,435
Liability in respect of other long-term benefits	10,912	10,581
Liability in respect of termination of employment (early pensions)	19,514	23,719
Liability in respect of share-based payment	15,736	14,154
Total employee benefits	119,816	113,063
Presented under the following items:		
Investments and loans – assets in respect of employee benefits	(1,582)	(1,420)
Other payables	63,154	55,171
Long-term employee benefits	58,244	59,312
	119,816	113,063

Actuarial assumptions

The main actuarial assumptions as of the reporting date (according to the weighted average):

	2012	2011	2010
	%	%	%
Cap rate as of December 31 (A)	1.81-5.27	2.81 - 5.08	3.83-5.27
Expected yield on plan assets as of January 1 (A)	4.05-4.70	4.12 - 5.03	4.5-5.5
Rate of future salary increases	1.88-4.00	1.86 - 4.00	2.78-3.81

a. The expected capitalization and yield rates on the plan assets are based on unlinked Israeli government bonds, which bear fixed interest.

b. The calculations are based on the following demographic assumptions:
[1] The mortality rate is based on published statistical data and on generally acceptable mortality tables.
[2] The rate at which employees leave is based on an analysis of past data.

Note 22 - Capital

A. The share capital and share rights as of December 31, 2012 and 2011:

	Registered		Issued and paid up	
	As of December 31		As of December 31	
	2012	2011	2012	2011
	NIS	NIS	NIS	NIS
Ordinary shares of par value NIS 0.1	12,750,150	12,750,150	12,127,276	12,127,276

Every ordinary share of NIS 0.1 par value fully paid grants the right to participate to vote at general meetings. Every shareholder will have one vote for every share he owns, which is fully paid up. All the shares have equal rights relating to the amounts of capital paid or credited as paid on their par value, and everything connected with distribution of dividend, bonus shares and any other distribution, repayment of capital and participation in the distribution of the Company's surplus assets upon liquidation.

B. Dividend distribution policy:

In March 2011, the Company's BOD determined that until the receipt of another decision, in view of the Company's main operations in income-producing property, a dividend will be distributed from the Company's net profit, subject to any law and the Company's needs, net of revaluations and net of the tax effect thereon, and also taking into consideration other indexes typical to income-producing property companies such as the FFO Index.

The amount of the dividends distributed in the future is expected to be affected by the Company's profits and operation needs, including investments and business opportunities when the investment in them is likely to reduce the liquidity.

In addition, the Company's BOD decided that the Company will include in its periodic and/or quarterly statements, as the case may be, disclosure regarding any decision in connection with implementation of this decision. In addition, the Company's BOD may reexamine and determine, at any time, the dividend distribution policy, and all at its sole discretion.

The Company undertook vis-à-vis the trustee, in the Indenture of the Company's Series A bonds, not to distribute a dividend to its shareholders, insofar as such a distribution shall cause a decline in the rating of the bonds.

C. On March 29, 2011, the Company's board of directors resolved to distribute a dividend in the sum of NIS 240 million, which was paid on April 27, 2011 (NIS 1.98 per share).

On March 21, 2012, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 240 million (NIS 1.98 per share) that was paid on April 30, 2012.

D. The surplus balance available for distribution as of December 31, 2012 is NIS 9,366,791 thousand (this balance also includes the revaluation fund of financial assets available for sale and real estate revaluation profits).

Note 23 - Share-Based Payments

A. In May 2010 the Company's board of directors and the general meeting of the shareholders approved a phantom unit allotment plan ("Phantom Units") at a total value of approx. NIS 28 million which were allotted to 32 senior officers of the Company (with the exception of the chairman of the Company's board of directors and the deputy chairman of the Company's board of directors as of such date who are the controlling shareholders) and employees of the Company (the "Plan"). The Phantom Units that were granted as aforesaid by virtue of the Plan will entitle the Offerees to cash monetary compensation which derives from the rise in the value of the Company's shares, based on the mechanism specified in the Plan. The Company's board of directors confirmed that the base price will be the price of the share that will be determined in a tender in which the Company's shares were offered.

The Phantom Units were granted in three equal installments, commencing one, two and three years after the date of allotment thereof, and the right to exercise the same will be valid for a period of two years from the date of release of each installment.

The Plan sets forth accepted instructions for adjustment of the base price of the Phantom Units, or the number of Phantom Units, in cases of the distribution of a dividend, the distribution of stock dividends, rights offerings by the Company to its shareholders, capital split or consolidation, the performance of merger or split transactions or any other restructuring, as the case may be.

On June 10, 2010 the foregoing Phantom Units were granted according to the share price which was determined in the tender and amounted to NIS 83.25 per share.

As of December 31, 2012 this cost is estimated, before tax, at approx. NIS 17 million (including options granted in 2011 to the Company's CEO, whose office commenced on April 1, 2011, see below). The parameters used for the estimate were the average closing price of Azrieli Group's stock in the 30 trading days before December 31, 2012, which was NIS 92.59 per share, the average standard deviation of the three installments is 21.53% (which constitutes a weighted average of the standard deviation of the share of the Company), and an average risk-free interest rate of 1.81% (based on the yield to maturity of a government bond with a similar lifespan). The cost recognized in the Income Statement in the year ended on December 31, 2012 (including a cost in the sum of approx. NIS 1.2 million which was carried to the income statement in 2012, in respect of the Phantom Units that were granted to the active deputy chairman of the board amounts to the sum of approx. NIS 3 million before tax (in 2011 - approx. NIS 1.5 million).

Similarly to the terms and conditions of the existing plan at the Company, in April 2011 the management company, which is wholly owned by the Company's CEO, was granted 284,527 Phantom Units of a total value of approx. NIS 9 million according to a base price that was determined according to an average share price, in March 2011, of NIS 98.09 (see also Note 38C(6)).

The parameters used to evaluate the cost of the phantom units granted to the CEO as of December 31, 2012 are the closing rate as aforesaid, an average standard deviation of the three installments of 23.52%, and an average risk-free interest rate of 1.87%. The cost carried to the income statement in the year ended December 31, 2012 amounts to approx. NIS 0.8 million before tax.

As of December 31, 2012, 69,262 options were exercised by officers.

Note 23 - Share-Based Payments (Cont.)

B. In September 2012, Granite's CEO announced that he waives the phantom options granted to him in Granite. The balance of the liability, in an immaterial amount, was carried to the income statement.

C. In August 2012, the chairman of Granite's board of directors (who also serves as active deputy chairman of the board of the Company) announced that he waives all of the stock options that were granted to him in Granite and all of his rights by virtue of the said options. The cancellation of the options had no effect on the financial results in the report year.

D. Allotment of options in Tambour:

(1) In May 2012, Tambour's CEO exercised 60,000 options of Tambour which constitute the balance of the options that were granted to him in the framework of a plan for allotment of options for the purchase of ordinary shares of par value NIS 1 of 2004. The exercise price was NIS 3.8 per option.

(2) In March 2011 and May 2012, Tambour's CEO exercised 135,088 and 405,264 phantom units respectively.

Upon discontinuation of the trade in Tambour's shares on TASE, Tambour's CEO waived 270,176 phantom units that had not yet vested according to the plan.

E. Salary Expenses (Income) in respect of Share-Based Payment Arrangements and Additional Details:

	For the year ended December 31		
	2012	**2011**	**2010**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Salary expenses in respect of share-based payment grants that are settled in the Group's equity instruments	-	-	16
Salary expenses (income) in respect of share-based payment grants that are settled in cash	2,309	(212)	14,640
Total (income) expenses recognized as salary expenses in respect of share-based payments	2,309	(212)	14,656

Note 24 - Income

The Composition:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Income	12,559,100	10,678,354	9,257,828
Net of government levies	3,503,746	3,131,084	2,913,906
Net income	9,055,354	7,547,270	6,343,922
Composition of the income, net:			
Sales	7,068,391	6,100,096	5,075,358
Services	39,500	39,384	42,573
Construction contracts	406,218	53,611	43,093
Franchise agreements	130,053	98,213	77,606
Total income from sales, work and services	7,644,162	6,291,304	5,238,630
Rental, management and maintenance fees	1,411,192	1,255,966	1,105,292
Total income	9,055,354	7,547,270	6,343,922

Note 25 - Cost of income

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
A. According to the sources of income:			
Sales	5,973,311	5,050,992	4,025,501
Services	34,565	32,770	36,953
Construction contracts	341,255	44,016	43,495
Franchise agreements	100,306	77,572	65,668
	6,449,437	5,205,350	4,171,617
Rental, management and maintenance fees	316,813	266,842	216,684
Total cost of income	6,766,250	5,472,192	4,388,301
B. According to its components:			
Oil distillates and other material consumed	6,295,418	5,052,317	3,945,977
Labor and external work	158,350	144,150	156,943
Depreciation and amortization	30,660	36,865	42,060
Production expenses and others	362,429	294,129	250,888
	6,846,857	5,527,461	4,395,868
Less increase/plus decrease in inventory of work in progress	(196)	(819)	896
Less increase in inventory of finished products	(80,411)	(54,450)	(8,463)
	6,766,250	5,472,192	4,388, 301

Note 26 - Sales and marketing expenses

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Wages, salaries and related expenses	246,801	251,410	243,963
Automatic fuelling and commissions paid	27,988	25,852	23,970
Advertising	32,383	29,990	31,048
Depreciation and amortization	81,580	82,559	82,345
Maintenance of buildings, facilities and fuelling stations	44,486	44,114	45,251
Rental fees and municipal taxes	218,624	210,457	202,280
Haulage and maintenance of commercial motor vehicles	78,442	68,518	62,200
Other sales and marketing expenses	49,657	51,750	51,030
	779,961	764,650	742,087

Note 27 - Administrative and general expenses

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS thousands	NIS thousands	NIS thousands
Wages, salaries and related expenses	85,016	80,626	84,341
Share based payments	1,627	(865)	11,423
Consultancy, legal and audit fees	47,720	43,085	36,043
Provision for bad and lost debts	8,255	2,715	10,727
Depreciation and amortization	14,154	14,482	13,512
Management fees to related parties	23,064	21,132	24,866
Other administrative and general expenses	38,366	39,113	44,118
	218,202	200,288	225,030

Note 28 - Other income

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Dividends received from investments in available for sale financial assets	8,461	44,564	26,133
Capital gain from the sale of fixed assets	2,374	570	777
Profit from appreciation in value of an investee company which is recognized upon loss of material effect thereon	14,822	-	-
Profit from waiver of conditional consideration in the acquisition of a consolidated company	-	5,733	-
Profit from the sale of available for sale financial assets	-	1,702	22,265
Profit from the acquisition of shares in investee companies	-	-	2,884
Miscellaneous	1,734	2,039	4,226
	27,391	54,608	56,285

Note 29 - Other Expenses

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Impairment in respect intangible assets	-	1,620	579
Amortization of investments in associates	-	73	-
Impairment of financial assets available for sale	1,450	1,496	-
Loss from realization of investment in associates	-	-	209
Capital loss from realization of fixed assets	58	2,187	2,282
Miscellaneous	287	2,128	972
	1,795	7,504	4,042

Note 30 - Financing revenues and expenses

The composition:

	For the year ended December 31		
	2012	2011	2010
	NIS thousands	NIS thousands	NIS thousands
Financing revenues			
Revenues from interest on loans and receivables	14,035	17,130	22,063
Financing revenues from a financial asset in respect of a franchise arrangement	40,280	41,946	36,178
Profit from a change in exchange rates, net	1,293	-	21,069
Revenues from interest on deposits in banks	5,431	5,848	4,989
Net change in the fair value of financial assets held for trade	21,761	764	41,199
Interest and dividend from financial assets held for trade	36,911	-	23,709
Change in the fair value of derivative financial instruments	764	33,975	-
Other financing revenues	1,525	1,998	2,428
Financing revenues carried to profit and loss	122,000	101,661	151,635
Financing expenses			
Interest expenses on loans, liabilities and bonds	463,239	510,098	453,660
Net Loss from changes in exchange rates	-	30,809	-
Change in the fair value of derivative financial instruments	31,545	4,494	44,505
Net change in the fair value of available for sale financial assets, designated as at fair value through profit and loss	293	1,374	5,288
Net change in the fair value of financial assets held for trade	351	100,193	-
Interest and dividend from financial assets held for trade	-	(66,189)	-
Change in fair value of embedded derivatives	-	1,700	-
Miscellaneous bank expenses and charges	14,331	11,248	9,081
Linkage on deposits from customers	2,298	3,611	3,242
Other financing expenses	7,212	4,650	4,024
Financing expenses	519,269	601,988	519,800
Less capitalized credit costs	(22,286)	(10,829)	(5,363)
Financing expenses carried to the income statement	496,983	591,159	514,437
Net financing expenses carried to the income statement	374,983	489,498	362,802

Note 31 - Taxes on income

A. Details in respect of the tax environment in which the Group operates:

(1) Amendments to the Income Tax Ordinance and the Land Betterment Tax Law

a. On December 6, 2011, the Law for Change in the Tax Burden (Legislative Amendments), which is based on the recommendations of the taxation chapter of the Trajtenberg Committee, was published.

Set forth below are the main changes in the new law in the field of corporate taxation:

(1) Cancellation of reductions that were planned in the coming years in income tax and in corporate tax commencing from 2012.

(2) Rise in the rates of corporate tax, capital gains tax and appreciation tax in 2012 forth to the rate of 25%.

Since the legislative process was completed in the last quarter of 2011, the Group has updated, as of December 31, 2011, its deferred tax balances as a result of the said changes in the tax rates in the years in which the temporary differences in respect of which the Group recognized deferred taxes are expected to invert. Accordingly, as of December 31, 2011, the Group has recognized an increase in deferred tax liabilities in the sum of NIS 608,576 thousand, out of which a sum of NIS 600,832 thousand against deferred tax expenses in the income statement and a sum of NIS 7,744 thousand was carried as an expense to other comprehensive income.

b. On September 17, 2009 the Income Tax Regulations (The determination of the interest rate for the purposes of Section 3(J)) (Amendment), 5769-2009 were published, in the framework of which the provisions in the Tax Regulations (Determinations of the interest rate for the purposes of Section 3(J)), 5746-1986 were changed comprehensively.

On February 23, 2012 the Minister of Finance's notice in respect of determining the interest rate for the purposes of Section 3(J) of the Tax Ordinance was published in the official gazette, as follows:

The interest rate for the purposes of Section 3(J) of the Ordinance for 2011 will be 3.8%.

The interest rate for the purposes of Section 3(J) of the Ordinance for 2012 will be 4.68%.

The interest rate for the purposes of Section 3(J) of the Ordinance for 2013 will be 4.1%.

On the other hand, where the loans are extended in foreign currency (as defined in the Regulations), the interest rate for the purposes of Section 3 (J) has been set as the rate of the change of the exchange rate for that currency plus 3%.

(2) The Company and a subsidiary have a holding (90%-99%) in American partnerships, which hold real property. The profits (losses) of the American partnerships from the rental of the real properties and from the sale thereof are attributed directly to the partners, in accordance with their shares in the capital in the partnerships, because under American tax law, a partnership which has been registered in the USA is considered to be transparent for tax purposes.

Note 31 - Taxes on income (Cont.)

A. Details in respect of the tax environment in which the Group operates: (Cont.)

(2) (Cont.)

Accordingly, the Group will have the profits (losses) of the American partnerships in which they serve as the general partners attributed to them and they will be chargeable with tax in the USA in respect of profits, which are attributed to them, as aforesaid, in accordance with the federal corporation tax rate (at a rate of up to 35%) and with state tax, which is customary in Texas (whose rate is 1% of the revenue taxable margin, as defined by law), which constitutes an expense for the purposes of the calculation of the federal tax. In addition, under certain circumstances, a "branch tax" at a rate of 12.5% may be levies on the profits of the partnerships (even if they have not yet actually been distributed). If the profits, as aforesaid are reinvested for the purposes of the operations in the USA and subject to compliance with additional conditions, the "branch tax" may be deferred.

In a similar manner, the general partners in the American partnerships will be liable for tax in the USA in respect of their share (1%) of the profits (losses) from the rental of the realty assets and/or from their sale, in accordance with the tax rates that are mentioned above (with the exclusion of "branch tax").

In accordance with the provisions of Section 63 of the Ordinance, the limited partners (the Company and its subsidiary), will be liable for corporation tax in Israel in respect of their share of the profits from the rental of the land in the USA and in the real capital gain that is derived from their sale by the American partnerships.

In the case of tax payable in the USA, in respect of which it is not possible to obtain a tax credit in Israel in the tax year in which it was paid, *inter alia*, by reason of losses for tax purposes incurred by the subsidiary - a credit may be obtained in respect thereof (in adjusted values, in accordance with the rate of the rise in the CPI) against the tax imposed on the subsidiary in Israel in respect of revenues from lease overseas in the five subsequent years.

A loss deriving from the rental of the property in the USA shall be deemed a loss in a business outside of Israel, for the purposes of Section 29 of the Ordinance, and in accordance therewith it may be offset in the tax year in which it arose against taxable income (including capital gain) from a business outside of Israel and against taxable passive income outside of Israel. The loss balance remaining after such setoff may be offset against taxable income (including capital gain) in a business outside of Israel in the following tax years. Under certain conditions, the said loss may also be offset against taxable income in Israel, with limitations being imposed on the receipt of a credit from foreign taxes.

(3) The Company has a holding (100%) in a U.S. subsidiary which is liable for tax in the USA. The tax rate on the Company's current income and capital gains from the sale of the properties is 35%.

Note 31 - Taxes on income (Cont.)

A. Details in respect of the tax environment in which the Group operates: (Cont.)

(4) Benefits under the Encouragement of Industry (Taxes) Law

a. Tambour and some of its consolidated companies are "Industrial Companies" in accordance with the Encouragement of Industry (Taxes) Law, 5029-1969 and accordingly they are entitled to benefits, the main ones of which are:

[1] Depreciation at increased rates.

[2] The deduction of issuance expenses on shares that are registered for trade on a Stock Exchange in three equal annual installments, from the year in which the shares are registered for trade.

[3] The possibility of presenting consolidated financial statements for companies having one production line for tax purposes. (see b below).

b. Certain consolidated companies in Tambour Group file since tax year 2010, a consolidated report to the tax authorities according to the Encouragement of Industry Law (Taxes), 5729-1969, since based on the opinion of Tambour's legal counsel, the companies are industrial companies belonging to the same economic sector, as defined in the aforesaid law. Therefore, the tax payment of the Group for 2012 was reduced by an amount of approx. NIS 10 million (2011 – approx. NIS 9 million) by setting off current losses generated in the consolidated company by Tambour's revenues.

c. Via Maris Group includes several companies: Via Maris Desalination Ltd., Via Maris Operation Ltd. and Via Maris Construction Partnership. Within a restructuring which took place, a holding company was established, Via Maris Desalination (Holdings) Ltd., to which all of the interests in the aforesaid companies were transferred. According to Via Maris' approach, see water desalination is a productive activity and the company which was established and the companies being transferred are industrial companies according to the Industry Encouragement Law (Taxes) 5729-1969. Via Maris is filing a consolidated tax report for tax purposes commencing with tax year 2011.

B. Tax revenues (expenses) on revenues recognized in the income statement:

	For the year ended December 31		
	2012	**2011**	**2010**
	NIS thousands	**NIS thousands**	**NIS thousands**
Current tax revenues (expenses)			
For the current period	(126,632)	(105,350)	(85,910)
Net taxes in respect of previous years	(2,745)	7,740	1,787
	(129,377)	(97,610)	(84,123)
Deferred tax expenses	(142,782)	(778,471)	(208,036)
Total expenses of taxes on income	(272,159)	(876,081)	(292,159)

Note 31 - Taxes on income (Cont.)

C. Taxes on income in respect of the components of other comprehensive income:

	2012			2011			2010		
	Amounts before tax	Tax income (expenses) (*)	Amounts withholding of taxation	Amounts before tax	Tax income (*)	Amounts withholding of taxation	Amounts before tax	Tax income (expenses) (*)	Amounts withholding of taxation
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Translation differentials for overseas operations	(12,333)	-	(12,333)	15,917	-	15,917	(4,540)	-	(4,540)
Loss in respect of the hedging of cash flows	(1,148)	298	(850)	(74)	19	(55)	-	-	-
Change in the fair value of available for sale financial assets	168,456	(29,952)	138,504	(515,988)	84,205	(431,783)	95,136	(13,621)	81,515
Realization of available for sale financial assets	-	-	-	-	-	-	(22,265)	5,878	(16,387)
Actuarial profits (losses) for defined benefit plan	(336)	84	(252)	(3,692)	923	(2,769)	1,533	(241)	1,292
Total other comprehensive income (loss)	154,639	(29,570)	125,069	(503,837)	85,147	(418,690)	69,864	(7,984)	61,880

(*) In 2012 the deferred taxes have been calculated in accordance with a tax rate of 25% (in 2011 in accordance with a tax rate of 25%, and in 2010 in accordance with a tax rate of 18%).

Note 31 - Taxes on income (Cont.)

D. Taxes on income carried directly to equity:

	2012	2011
	NIS in thousands	NIS in thousands
Acquisition of loans from non-controlling interests	-	4,884

E. Compatibility between the theoretical tax on the profits before taxes on income and the tax expenses:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Profits before taxes on income	1,258,417	1,499,093	1,547,263
The Company's principal tax rate	25%	24%	25%
Tax calculated at the Company's principal tax rate	314,604	359,782	386,816
Addition (saving) in the tax liability in respect of:			
Different tax rates and laws in subsidiaries that operate outside of Israel	(16,778)	13,594	544
Net of tax calculated in respect of the Company's share of the losses of associated companies accounted by the equity method	2,915	3,889	5,344
Exempt income	(9,031)	(15,410)	(8,648)
Income taxable at a special tax rate	-	62	92
Disallowed expenses	1,986	1,227	1,046
Company's share in partnership	12	131	(495)
Permanent differences	-	1,177	-
Exploitation and creation of deferred taxes in respect of losses and benefits from previous years, in respect of which deferred taxes were not recorded	(13,915)	(7,084)	(9,646)
Change in timing differences, in respect of which deferred taxes were not recorded	(173)	-	-
Losses and benefits for tax purposes from periods in respect of which deferred taxes were not recorded	652	3,042	3,041
Taxes in respect of previous years	2,745	(7,740)	(1,787)
Differences in the definition of capital, assets and expenses for tax purposes and others	(8,033)	(19,093)	(27,756)
Effect of the change in the tax rates on timing differences in the reporting period	-	(11,786)	3,962
Effect of change in the statutory tax rate	-	600,832	-
Effect of the tax rates in respect of the net gain on the adjustment of the fair value of investment property	-	(49,829)	(62,692)
Other differences	(2,825)	3,287	2,338
Tax expenses on income	272,159	876,081	292,159

Note 31 - Taxes on income (Cont.)

F. Deferred taxes assets and liabilities:

(1) Deferred tax assets and liabilities that have been recognized:

The deferred taxes in respect of companies in Israel have been calculated in accordance with the tax rates that are expected to apply at the time of the reversal, as detailed above. Deferred taxes in respect of subsidiaries that operate outside of Israel have been calculated in accordance with the relevant tax in each country.

The deferred tax assets and liabilities are attributed to the following items:

	Realty assets and fixed assets (3)	Benefits for employees	Financial instruments (1), (3)	Deductions and losses carried forward for tax purposes (3)	Others (2)	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Deferred Tax asset (liability) balance as of January 1, 2011	(1,447,431)	17,312	(163,839)	48,884	60,697	(1,484,377)
Changes carried to the income statement	(205,817)	599	19,262	7,048	1,269	(177,639)
Changes carried to other comprehensive income	-	917	91,968	-	-	92,885
Changes carried to equity	-	-	-	-	4,884	4,884
Effect of change on the tax rate carried to the income statement	(623,425)	2,924	(5,913)	13,949	11,633	(600,832)
Effect of change on the tax rate carried to other comprehensive income	-	-	(7,744)	-	-	(7,744)
Deferred Tax asset (liability) balance as of December 31, 2011	(2,276,673)	21,752	(66,266)	69,881	78,483	(2,172,823)
Changes carried to the income statement	(113,562)	2,157	(20,198)	2,815	(13,994)	(142,782)
Changes carried to other comprehensive income	-	84	(29,654)	-	-	(29,570)
Deferred Tax as of December 31, 2012	(2,390,235)	23,993	(116,118)	72,696	64,489	(2,345,175)

(1) Primarily for available for sale financial assets and financial asset – receivables for a franchise arrangement.

(2) Primarily doubtful debts and linkage differentials on deposits from customers.

(3) The deferred taxes as of December 31, 2012 have been calculated mainly at a tax rate of 25% (as of December 31, 2011 - 25%).

Note 31 - Taxes on income (Cont.)

F. Deferred taxes assets and liabilities:

(2) Deferred tax assets that have not been recognized:

Deferred taxes not recognized in respect of the following items:

	As of December 31	
	2012	**2011**
	NIS thousands	**NIS thousands**
Losses for tax purposes	158,000	212,639
Capital losses for tax purposes	61,212	63,516
Real differences from securities	47,000	48,000
	266,212	324,155

(3) Losses and deductions for tax purposes that are available to be carried forward to the coming years

a. The current business losses for tax purposes of consolidated companies, which are carried forward to the following year amounted to approx. NIS 368,178 thousand as of December 31, 2012 (December 31, 2011: approx. NIS 394,737 thousand). Consolidated companies have recorded a deferred tax asset in an amount of NIS 52,212 thousand in respect of the accumulated business losses (December 31, 2011 – NIS 44,832 thousand) in accordance with management's evaluation that there is a high level of confidence that these losses will be exploited in the coming years.

b. A consolidated company has a real difference on marketable securities that have not been allowed as a deduction in the reporting year and which are available to be carried forward to the coming years, whose balance is approx. NIS 47,000 thousand as of December 31, 2012 (December 31, 2011 – NIS 48,000 thousand). This difference will be allowable as a deduction in the coming years against income from marketable securities, if there is such income in those years. Deferred taxes assets have not been created in respect of these accumulated losses.

c. The Company and consolidated companies have accumulated capital losses for tax purposes in an amount of approx. NIS 143,156 thousand (December 31, 2011 – approx. NIS 144,422 thousand). The Company and the consolidated companies have recorded deferred tax asset of NIS 20,484 thousand in respect of the accumulated capital losses (December 31, 2011 – NIS 16,414 thousand).

d. According to the existing tax laws, there is no time restriction for the exploitation of losses for tax purposes, or on the exploitation of the deductible timing differences. Deferred tax assets have not been recognized in respect of such losses and differences , in cases where it is not expected that there will be sufficient chargeable income in the coming years against which it will be possible to exploit the tax benefits.

e. The Group did not create deferred taxes in respect of its investments in consolidated companies since the decision whether to liquidate the companies is given to the Group and it did not decide to dispose of them in the near future.

Note 31 - Taxes on income (Cont.)

G. Tax assessments:

As of the date of the approval of the financial statements immaterial amounts were paid and final tax assessments were finalized for the Company and a consolidated company up to and including the 2010 tax year and to another consolidated company up to and including the tax year 2009.

In Q1/2012, Supergas and two of its subsidiaries reached an agreement with the income tax authorities regarding disputed assessments for 2005 to 2009. The agreement covering the years in respect of which orders were issued was approved by the Court. The expenses that were recorded in the reporting period are not material.

In July 2012 the consolidated company Tambour and its consolidated company received assessments to the best of judgment for 2008 to 2010. The dispute between the Tambour group and the Israel Tax Authority essentially revolved around the subject of filing of consolidated statements for tax purposes – see A(4)(b) above. Tambour filed a contestation against these assessments. In reliance on Tambour's professional advisors, Tambour's management estimates that the prospects of the assessment being accepted are lower than 50%.

In December 2012 Granit reached an assessment agreement with the income tax authorities for 2008 to 2011. The effect of the assessment agreement is not material.

In December 2012 Sonol reached an agreement with the income tax authorities regarding disputed assessments for 2007 to 2010. The effect of the assessment agreement is not material.

Save for the above mentioned companies, the Group's other companies have final tax assessments up to and including the 2008 tax year, in the framework of Section 145(a)(2) of the Income Tax Ordinance (Prescription).

Note 32 - Engagements

The consolidated companies have engagements and liabilities as of the Date of the Statement of Financial Position, as follows:

A. Material engagements:

		NIS in thousands
(1)	For the purchase of fixed assets	10,770
	For the supply of fuel, oils and equipment (supply January- December 2013)	3,576,450
	For the performance of projects	759,895
	For rentals and leases of stations, facilities and buildings (*)	1,950,631
	For the rental and maintenance of computers and ancillary equipment for a period of up to one year	4,259
	Operating leasing agreements for motor vehicles	27,031
	(*) Following are the repayment times for rental and leasing undertakings:	
	2013	195,227
	2014	185,830
	2015	175,719
	2016	163,017
	2017 forth	1,230,838
		1,950,631

(2) Supergas, through a fully owned subsidiary, entered into lease agreements in the sum of approx. NIS 61 million for the purpose of constructions of facilities for the production of solar energy. Supergas' commitment, according to the agreements, shall commence upon receiving the permanent production licenses.

(3) See Note 38 in respect of the engagements with related and interested parties.

Note 32 - Engagements

B. Engagements for investments:

(1) In respect of the engagements of Via the Sea Desalination Ltd. with the State of Israel, see Note 12 above.

(2) SuperNG Natural Gas Distribution Company Ltd. (“SuperNG), a company jointly owned, in equal shares, by Supergas and Shapir Civil and Marine Engineering Ltd. (“Shapir”), which was founded for the construction and operation of a natural gas distribution network, won a tender for the construction and operation of a natural gas distribution network in the Central area. On November 1, 2009, an agreement was signed between the State and SuperNG, granting such license thereto. In 2010, SuperNG signed an agreement with the government company Israel Natural Gas Lines Ltd. (“INGL”), ordering four pressure-reduction and metering stations (“PRMS”) for connection of the transmission system to the distribution system. The construction of the PRMS will be performed in the coming years by INGL, or another on its behalf, and it shall also operate them. As of the Report Date, SuperNG is performing planning and construction activities for the first planned stages of the network, concurrently with signing of contracts with the potential consumers. According to the license conditions, Super NG is committed to an investment in the construction of the distribution system a sum of approx. NIS 160 million according to the milestones set in the license.

During December 2012, Supergas and Shapir received a notice from the Natural Gas Authority that a jointly held special purpose vehicle had won a tender for receipt of a distribution license in the Hadera and Valleys [Amakim] area. According to the terms of the special purpose vehicle’s tender bid, it must invest approx. NIS 217 million according to the set milestones. The special purpose vehicle is currently completing its preparations in order to obtain the license from the Ministry of Energy and Water and is simultaneously preparing for the election of the advisors and contractors in order to plan and establish the distribution network in accordance with the said license.

(3) Holon Azrieli Center

The Group, via Canit Hashalom, is entitled to receive leasing rights in a reserve of land with an overall area of approx. 34,000 sqm in the East Holon Industrial Area (in this section: the "Land Reserve") under an agreement that was signed between the City of Holon and Canit Hashalom on June 5, 2008 (in this section: the "Agreement") and approved by the Minster of the Interior in December 2008. Within the framework of the Agreement, Canit Hashalom made guarantees available to the Economic Company for the Development of Holon Ltd., in an amount of NIS 8 million, linked to the CPI (which as of December 31, 2012 were at an amount of approx. NIS 8.7 million), which is intended to ensure the compliance with Canit Hashalom's undertakings under the Agreement.

The entire Land Reserve is owned by the City of Holon, without any known charges or mortgages. In accordance with the Agreement the project is for the construction of a business park (with no more than four sub-stages), including buildings for hi-tech offices, display halls and commerce, service areas and parking areas as well as for additional uses ("the Project"). The Project will be built and operated as an income-producing property (for rental) by way of a joint venture, where the material terms of the transaction are as follows:

a. The City of Holon will lease parts of the Project to Canit Hashalom, in accordance with the Agreement, for a period of 99 years with an option for an additional 99 years for a payment, in accordance with the participation rate in the transaction.

b. Canit Hashalom for its part has undertaken to execute and to complete the construction of the buildings and the works in accordance with the sub-stages that have been determined between the parties, such that it can be registered as the lessee of those constructed parts in accordance with the sub-stages of the Project.

c. Canit Hashalom will be entitled to receive 83% of the floor space that will be built in the Project, as aforesaid, whereas the City of Holon will be entitled to 17% of the floor space that will be built, as aforesaid ("the participation rate in the project").

Note 32 - Engagements (Cont.)

B. Engagements for investments: (Cont.)

(3) (Cont.)

d. The construction rights that are permitted under the City Zoning Plan stand at 88,348 square meters for the main areas, of which Canit Hashalom has undertaken to exploit at least 80% of the entire buildings rights that are permitted in accordance with the Urban Construction Plan. In the first stage, (within the first three years) Canit Hashalom has committed to build 42,000 square meters of the main areas as well as 81,000 square meters of underground parking, and this in up to four sub-stages, while the first stage is supposed to be completed within 3 years of the time of the issuance of the first building permit and the last stage is supposed to be completed within 9 years of the time of the issuance of the first building permit, as aforesaid.

e. Canit Hashalom will be entitled to discontinue the Project before the start of any stage (from the second stage and thereafter, and on condition that it has fully completed the previous stage) with the requirement that it gives notice 90 days before the time that has been set for the start of that stage, in which it requests to discontinue the Project and subject to agreed-upon compensation in the amount of NIS 8 million for the City of Holon.

f. The Project will be managed and operated as an income-producing property that is held jointly by the two parties, where the areas of the Project will be rented as a common reserve for the two parties. The areas will be rented through a management company and the division of the rental fees will be carried out using a mechanism that has been agreed by the two parties. In accordance with this mechanism, the rental receipts up to a certain amount per square meter (which is linked to the base index) will be divided between the parties in accordance with their shares in the joint venture. Over and above the said amount, the rental receipts from the general area that is managed jointly, will be divided between the parties in equal shares.

g. As of the date of signing of the financial statements, Canit Hashalom is continuing the building construction work in accordance with the comprehensive building permit which was received for Stage A of the project, whose construction is expected to finish by the end of 2013. According to the Agreement, upon completion of Stage A, the rights of Stage A will be registered in the name of Canit Hashalom.

For registration purposes only, the Stage A area division is performed by Canit Hashalom and the City of Holon through appraisers on behalf of the parties.

h. The management of the Project will be executed by the management company that will be owned jointly by the parties in shares that are proportionate to their holdings in the joint venture. The management will be executed on a basis of cost +15%, and this will constitute the fees of the management company.

i. The Agreement sets various restrictions on the transfer of rights in areas in the Project and/or in the rights and undertakings of Canit Hashalom therein. It is further determined in the Agreement that the transfer of shares, including by way of a public offering, in shares in Canit Hashalom in an amount of up to 25% will be permitted. It is further clarified that the provisions that touch upon the transfer of rights and a change in the ownership structure will not apply to the parent company or to a subsidiary or an affiliate of Canit Hashalom.

Note 32 - Engagements (Cont.)

B. Engagements for investments: (Cont.)

(4) Azrieli Rishonim Mall

The Group, through Canit Hashalom, owns of a block of land on an area of approx. 19,000 sqm in Rishon Lezion (the "Site"). Since the Site constitutes part of a larger block of land jointly owned by Canit Hashalom and third parties, an agreement was signed between Canit Hashalom and such third parties for division of the land, and a perpetual lease was registered in favor of Canit Hashalom for those parts of the land constituting the Site. A parallel lease is due to be registered in favor of the third parties, in reference to other parts of the land not forming part of the Site.

In February 2012 the District Committee decided to approve the plan governing the project for the construction of approx. 48,000 sqm of leasable area (commercial and office) and 82,095 sqm of above ground and underground parking space. In June 2012 the District Zoning Committee decided to send various documents for the inspection and response of the plans' objectors. In December 2012 a summary discussion took place on the subject, and the Company is waiting for the District Committee's final decision regarding publication of the plan's approval. As of the Report Release Date, the Company has completed construction of the Site's temporary parking lot, received the final approvals in respect thereof and commenced the operation thereof. In addition, an excavation and shoring permit has been received for the Site and the Company is executing the excavation and shoring works on the Site.

On January 8, 2012 an administrative petition which was filed against the District Committee, Canit Hashalom and others, for approval of the plan under such conditions, was withdrawn for being premature, since the Ministry of Transport has not yet provided its response in connection with the approval of the plan. To the best of the Company's knowledge, the Petitioners are entitled to petition against approval of the plan again, upon final approval thereof. In January 2013 an appeal was filed by some of the objectors to the plan against the issuance of the excavation and shoring permit. The appeal was dismissed by the Appeal Committee.

Canit Hashalom has assumed an undertaking whereby, if the plan is approved, Canit Hashalom would build, at its expense, 600 parking spaces to be used as a parking lot for the benefit of train users.

(5) Purchase of a land from Kupat Holim Clalit

For details of the terms and conditions of the purchase – see Note 13H.

Note 33 Charges and guarantees

A. Fixed and floating charges:

	December 31, 2012 NIS in thousands	Secured by
Short-term credit from banks	1,395,593	A floating charge on the general assets and on the shares of some of the consolidated companies.
Long-term loans from banks (including accumulated interest that is presented as short-term)	3,893,380	A charge on the rights to receive monies in respect of investment property of the Company and of some of the investee companies. Moreover, the Company has given an undertaking to banks not to create floating charges on the generality of its assets. Moreover, the Company and one of its consolidated companies have made an irrevocable commitment to a banking entity that they have not and will not create a floating charge on the generality of its property and its assets, whether they are owned by it and whether they will be owned by it in the future, and including all of its goodwill and share capital and it has also undertaken not to make an undertaking in any form whatsoever to create a floating charge, as aforesaid, without the agreement of the bank, in advance and in writing. The Company will be entitled to create a floating charge, as aforesaid, and solely that in parallel to the creation it also creates a floating charge in favor of the bank. In a consolidated company, the charge of the shares of some of the investee companies. Floating charge on the entire assets and rights of some of the principal investee companies. Fixed charge on some of the fixed assets of some of the investee companies and a charge on rights for receipt of monies in respect of projects in a subsidiary of a consolidated company.
Bonds	1,070,722	A charge over some of the fixed assets of some of the companies in the Group. Canit Hashalom a first ranking fixed charge, in an unlimited amount on the share capital of Canit Hashalom's consolidated companies as well as on its rights in connection with bonds that they have issued. In a subsidiary of a consolidated company, the bonds are collateralized by a first ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company. In addition, the investee company has created a first ranking fixed charge in an unlimited amount over all of the shares in the consolidated company that it owns and in its holding, including the rights that derive from those shares.

Note 33 Charges and guarantees (Cont.)

B. The Company and consolidated companies have contingent liabilities as of the date of the statement of financial position, as follows:

		NIS thousands
(1)	Financial guarantees to banks for a subsidiary:	
	Financial guarantees to banks for associates and third parties	9,859
(2)	Performance guarantees and others:	
	- Performance guarantees for customers and others, including tender guarantees	59,346
	- Guarantees to authorities	109,451
(3)	Guarantees extended in connection with the desalination facility.	
	- Operation and supply guarantees	235,996
	- Guarantees for the financing of energy costs in excess of the receivables from the state in respect of the energy component	Unlimited in amount
(4)	Guarantee extended by the Company to a consolidated company for its liabilities vis-à-vis a bank. The balance of the liability as of December 31, 2012 is in the sum of approx. NIS 25.4 million.	Unlimited in amount
(5)	A guarantee that has been provided by the Company to a consolidated limited partnership thereof in respect of its liabilities to a bank. The balance of the liability as of December 31, 2012 is NIS 28.9 million.	Unlimited in amount
(6)	A guarantee that has been provided by the Company to a consolidated limited partnership thereof overseas in respect of its liabilities to a financing corporation exercisable only in certain cases defined in the loan agreement.	481,266
(7)	A guarantee that has been provided by the Company to a consolidated limited partnership thereof in respect of its liabilities to a financing corporation, exercisable only in several certain cases defined in the loan agreement.	255,785

Note 34 – Contingent liabilities

a. Claims against Sonol of IDF disabled veterans operating fuelling stations as part of an arrangement between the IDF disabled veterans, the Ministry of Defence, the Israel Lands Administration and the fuel companies:

The parties	Amount of claim	Nature of claim	Prospects of claim
5 claims against Sonol	The claims are for declaratory relief and a monetary claim amounting to approx. NIS 80 million.	5 claims by IDF disabled veterans (one of which by the heirs of an IDF disabled veteran) who received operating rights for gasoline stations as part of an arrangement between the disabled veterans and the Rehabilitation Department of the Ministry of Defense, the Israel Lands Administration/ a local authority and the fuel companies, for termination of the agreements between the Plaintiffs and the Company, alleging that they involve a restrictive arrangement, which is prohibited under the Antitrust Law. In addition, in some of the said claims, it is alleged that the series of agreements between the parties includes discriminatory conditions in a uniform contract, bad faith and discrimination against the Plaintiffs relative to other gasoline stations. Monetary compensation is also claimed in respect of alleged overcharging as a result of restrictive arrangements and/or overpricing and price discrimination and discrimination in commercial conditions.	In the Company's estimation, based on the estimation of Granite's management, in reliance on the Sonol's legal counsel, the chances of 4 claims are lower than 50%. With respect to one of the claims, the Company estimates, based on the estimation of the Granite's management, in reliance on the Sonol's legal counsel, that its chances are higher than 50%, but that the court will not award the Plaintiffs the full monetary remedy requested. In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the likelihood of paying sums over and above the provision included in the financial statements is low.

b. Class actions:

1. Claim against Sonol and other fuel companies	A claim for NIS 27, with the share of Sonol and its consolidated company in the claim amounting to NIS 3, together with a motion to have it certified as a class action for a total of approx. NIS 132.6 million.	A claim and a class certification motion of December 2007. The action concerns the Plaintiffs' claim whereby service fees were collected in respect of refuelling carried out during nighttime hours and on Saturdays and festivals and that this charge, until May 30, 2002, was carried out, apparently, not according to the law and contrary to the Supervisory Order for Products and Services (Maximum Prices for Oil Products), 5752-1992, and Supervisory Order for Products and Services (Maximum Prices at Filling Stations), 5756-1996.	In February 2013, after the date of the financial statements, the court denied the class certification motion.

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and another fuel company	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 class certification motion from 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 claimant 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 damaging injustices.	The parties delivered to the court a request for the approval of a settlement arrangement that was not approved by the court at this stage. The court appointed an expert on its behalf to examine the likelihood of the phenomenon contemplated by the class action after which the court will consider the approval of the settlement arrangement. The Company estimates, based on Sonol's management, which is based on its legal advisors, that insofar as the settlement arrangement is not approved, the chances of the class certification motion being accepted are higher than 50%. The Company estimates, based on Sonol's management, that the financial statements include sufficient provision.
3. Claim against Sonol and other fuel companies	A claim in the total sum of approx. NIS 1.2 billion.	Claim and class certification motion of October 2010. The action concerns a claim that the fuel companies engaged with station owners in prohibited restrictive arrangements which harm competition in the fuel industry and prevent reduction of the fuel price to the end consumer and the ability of competing entities to effectively penetrate the market.	In February 2013, after the date of the financial statements, the court approved the petitioners' withdrawal from the proceeding.
4. Claim against Sonol	A claim in the total sum, estimated by the Plaintiff, of 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 the estimate of Granite's management which is based on Sonol's legal advisors, that the chances of the claim being accepted are lower than 50%.
5. Claim against Sonol	A claim in the sum of NIS 33.6 million.	A claim and a motion for class certification of April 2011. The action concerns the petitioner's claims that Sonol collects from customers bound by a Dalkan agreement therewith a payment in respect of "night", "Sabbath" or "holiday" increments, even when these customers fuel at self-service pumps, without receiving service from the station attendants, unlike "casual" customers using self service fuelling.	The Company estimates, based on the estimate of Granite's management, in reliance on Sonol's legal advisors, that the chances of the claim and the motion being accepted are estimated at more than 50%, while the Company estimates, based on the estimate of Granite's management, in reliance on Sonol's legal advisors, that Sonol will not incur a material amount over and above the provision that was recorded. In October 2012, Sonol signed a settlement arrangement, according to which it will pay an immaterial amount for closing the case. The agreement was submitted to the approval of the court but its decision has not yet been made.

The parties	Amount of claim	Nature of claim	Prospects of claim
6. Claim against Sonol and other fuel companies	A claim in the sum of NIS 1 billion, while Sonol's share is at the alleged rate of 21%.	A claim and a motion for class certification of August 2011 against Sonol and other fuel companies, alleging that they misled the regulator over the years, and thus loaded on the marketing margin that was collected thereby expenses that they were prohibited from loading. It was further claimed that they sold gasoline at a more expensive price than permitted.	The Company estimates, based on the estimate of Granite's management, in reliance on Sonol's legal advisors, that the chances of the claim and the motion are lower than 50%.
7. 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.	In February 2013, after the date of the financial statements, the court approved the petitioners' withdrawal from the proceeding.
8. Claim against Sonol	A claim in the sum of c NIS 1 billion.	A claim and a motion for class certification of November 2011. The action concerns a claim whereby Sonol collected from Dalkan customers, for fuels, significantly higher prices than the prices that it collects from its "casual" customers, who are not bound therewith in a Dalkan agreement, and that such collection is contrary to law.	The Company estimates, based on the estimate of Granite's management which is based on Sonol's legal advisors, that the chances of the claim being accepted are lower than 50%.
9. Claim against Sonol and a consolidated company of Sonol	A claim and a motion for class certification in the sum of NIS 50 million.	A claim and a motion for class certification of August 2012, alleging that Sonol breached its duties to maintain sanitary conditions in the stations.	The Company estimates, based on the estimate 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.
10. Claim against a consolidated company of Sonol	A claim and a motion for class certification in the sum of NIS 5 million.	A claim and a motion for class certification of October 2012, alleging that a consolidated company of Sonol breached a duty to mark the prices of tobacco products (cigarettes) sold thereby as prescribed by law.	In January 2013, after the date of the financial statements, the court approved a consent motion for withdrawal from the case.
11. Claim against a consolidated company of Sonol	A claim and a motion for class certification in the sum of approx. NIS 29 million.	A claim and a motion for class certification of December 2012, alleging that in transactions performed in cash in the convenience stores of the "so good" chain the sum of the purchase is rounded upwards, contrary to the relevant legal provisions requiring the rounding of the sum of the purchase downwards.	The Company estimates, based on the estimate of Granite's management which is based on Sonol's legal advisors, that at the proceeding's preliminary stage, it is impossible to estimate the chances of the claim.

The parties	Amount of claim	Nature of claim	Prospects of claim
12. Claim against Supergas and other gas companies	A claim in a total estimated sum of approx. NIS 1 billion	A claim and a motion for class certification of December 2003, claiming that between 1994 and 2003 there were cartels in the field of the private gas market and the commercial gas market.	In March 2012, the court confirmed that the proceedings pertaining to the sanctioning of the settlement arrangement as a judgment would continue. The Company estimates, based on the estimate of Granite's management, in reliance on Supergas's legal advisors, that the likelihood that the settlement arrangement will be approved (subject to certain changes that may be requested in the context of the proceeding) exceeds 50%. Supergas's financial statements included a provision which reflects the expected costs according to the settlement arrangement.
13. Claim against Supergas and other gas companies	A claim in the estimated sum of approx. NIS 821 million – Supergas's share, approx. NIS 193 million. In July 2009, the amount of the claim was reduced 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 arguments whereby the gas cylinders are, from the outset, were not completely filled.	In March 2013, the court approved a settlement arrangement with certain changes which were determined thereby between the parties, according to which Supergas will pay an immaterial amount.
14. Claim against Supergas and other gas companies	Claim in the sum of approx. NIS 89.5 million (the share attributed to Supergas – approx. NIS 27 million).	A claim and a motion for class certification of November 2010. The action concerns a claim that there is an "indirect" restraint between the gas companies and buyers of apartments in condominiums, as a consequence of which the apartment buyers are ostensibly harmed, while paying excess amounts over and above the amount customary in competition conditions both for the initial connection and for consumption.	In February 2013, after the date of the financial statements, the court denied the class certification motion.

The parties	Amount of claim	Nature of claim	Prospects of claim
15. Claim against Supergas and other gas companies	Claim in an amount that has not yet been quantified.	A claim and a motion for class certification of February 2011. The action concerns a claim that the gas companies market LPG to their customers at a higher atmospheric pressure and temperature than the conditions at which, so it is alleged, the gas companies purchase the LPG and/or than the conditions at which LPG should be sold in accordance with international trade standards, and therefore, according to the Plaintiffs, the gas companies are selling an inferior product to the product that they purchase, contrary to the Consumer Protection Law, thus gaining unjust enrichment, according to the Plaintiffs.	In November 2012, the petitioners' filed, with the consent of the respondents, a motion to withdraw from the case. The Company estimates, based on the estimate of Granite's management in reliance on Supergas's legal advisors, that the likelihood that the withdrawal motion will be approved exceeds 50%.
c. Other claims			
1. The State of Israel – the Fuel Administration versus Sonol, and other fuel companies, ORL and PEI; ORL v. PEI, Sonol and other fuel companies. (The hearing on these claims was consolidated with a hearing on the claim of Sonol and other fuel companies versus the Fuel Administration, ORL and PEI)	The State's claim is in the sum of approx. NIS 120.7 million (Sonol's share is approx. NIS 19 million). In an additional claim, no relief was claimed from the company. In the claim of Sonol and the fuel companies, approx. NIS 25 million was claimed from the State (Sonol's share is approx. NIS 4.6 million).	A claim filed by the State of Israel in 2004 against Sonol, other fuel companies, and against ORL and PEI in respect of monies paid by the State for storage, financing and insurance of an emergency inventory that turned to sludge, and in respect of storage fees overpaid by the State, allegedly, due to the fact that the inventory was not transferred to closed storage on the date on which the State requested its transfer. In 2005, ORL filed a claim against the company, other fuel companies and PEI, in which it petitioned for declaratory relief that the balances of crude oil appearing in the records of PEI as oil without an owner belong to ORL in full (and not to the fuel companies).	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Sonol, the chances of Sonol's defense in the first claim are good, and in any event, if the claim is granted, ORL or PEI will be liable for most of the amount claimed in respect of storage fees that were transferred to these two companies.

The parties	Amount of claim	Nature of claim	Prospects of claim
2. The State of Israel – the Fuel Administration versus Sonol and other fuel companies	A claim amounting to approx. NIS 23.4 million. Sonol's share is approx. NIS 4 million.	A claim filed by the State of Israel against Sonol and other fuel companies, in respect of differences in value between the value of crude oil of the emergency inventory that became unusable ("sludge") and the "affixing value" of the quantity of the emergency inventory, whose writing off the State announced in 2000.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Sonol, if the claim shall be heard, the chances that the defendant fuel companies will be required to pay the amount of the claim are lower than 50%.
3. PEI versus Sonol and other fuel companies	A claim amounting to approx. NIS 33 million, of which approx. NIS 5.8 million is claimed from Sonol.	A claim by PEI against Sonol, other fuel companies and ORL, concerning the refrainment of the defendant fuel companies from paying PEI storage fees for such emergency inventory of crude oil that ORL alleges became unusable ("sludge") (and in respect of which the proceedings in Sections 1 and 2 above were filed).	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Sonol, the chances that this claim will be accepted are slim.
4. Claim against Sonol	A claim in the sum of approx. NIS 9 million	A financial claim of June 2009 by a former station operator. The action concerns a claim that Sonol collected from him ostensibly high prices which, according to the Plaintiff, Sonol owes him. In view of a binding judgment in Sonol's claim against the Plaintiff, which constitutes a *res judicata* requiring the dismissal of the vast majority of the Plaintiff's claims, the Plaintiff was authorized to omit from his claim causes that had already been decided in this proceeding and reduce the amount of the claim. The Plaintiff requested to reduce the amount of the claim to approx. NIS 2.3 million, but the court's decision has not yet been made.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Sonol, the prospects of the claim against Sonol being accepted are less than 50%.
5. Claim against Sonol and others	A claim in the sum of approx. NIS 13 million	A claim against a third party, alleging a breach of a loan agreement, while Sonol and three of its former employees are being sued under the claim that they collaborated in the smuggling of property of the third parties in order to thwart the repayment of the debt to the claimant.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Sonol, the prospects of the claim are less than 50%, because of the chances of a limitations claim and because of the exemption granted to the primary respondents by the claimant and on the merits of the claim.

	The parties	Amount of claim	Nature of claim	Prospects of claim
6.	Claim against Sonol	A claim in the sum of approx. NIS 18 million	A claim against Sonol in respect of its alleged breach of a lease agreement. This claim was filed as a result of a claim by Sonol against the claimants for NIS 4 million.	In July 2011, a judgment was issued in the claim whereby Sonol paid an immaterial amount. In October 2011, an appeal and counter-appeal were filed with the Supreme Court from the District Court's judgment. In January 2013, the parties filed a notice and consent motion with the Supreme Court, in which they notified the court that they reached an agreement which dispenses with the need to continue hearing the appeals. In January 2013, the court issued a judgment as requested, ordering the dismissal of the appeals.
7.	Claim against Sonol and a consolidated company thereof (counter-claim in a claim proceeding of Sonol and the consolidated company against the aforesaid claimant).	A claim in the sum of approx. NIS 7 million	Within the context of a claim in an amount of approx. NIS 4.8 million filed by Sonol against the operators of a fuelling station between 1991 and 2002 and also operated as an agency for distributing fuels in the Northern region, due to a debt from the purchase of fuels and oils. The defendant filed a counter-claim, *inter alia*, due to the setoff of amounts that, according thereto, were not credited in the current settlement of accounts between Sonol and them during operation of the fuelling station, transportation of fuels to another fuelling station and loss of future profits from the operation of the fuelling station.	In August 2011, a judgment was received in the claim and the counterclaim, whereby Sonol was paid the sum of approx. NIS 5.8 million (including linkage and interest). In October 2011, the Plaintiff filed an appeal from the judgment. In January 2013, after the date of the financial statements, the case was closed.
8.	Local authorities' demands from Sonol	Demands in the sum of approx. NIS 17 million	Several local authorities submitted to Sonol demands for payment of additional municipal tax (retroactively and on a current basis). Sonol denied the demands and filed an appeal in respect thereof.	In the Company's estimation, based on an assessment of Granite's management, in reliance on Sonol's legal advisers, the likelihood of paying material amounts over and above the provisions included in the statements is lower than 50%.

The parties	Amount of claim	Nature of claim	Prospects of claim
9. The State of Israel v. Sonol and former officers	Criminal	In December 2010, the Ministry of Environmental Protection filed an indictment against Sonol and against former officers of Sonol, in respect of a number of violations of the said water regulations: failure to perform seal tests; failure to deliver results of seal tests; failure to report fuel leak, including in aggravated circumstances; failure to repair an unsealed facility, including in aggravated circumstances; and failure to install a Piezometer. The offenses were allegedly committed between 2000-2004.	In the Company's estimation, based on an assessment of Granite's management, in reliance on Sonol's legal advisors, at this stage, it is impossible to estimate the amount of Sonol's exposure, should it be convicted, *inter alia* due to the proceeding's preliminary stage.
10. Claim against Sonol	A claim in the sum of approx. NIS 18 million	In March 2011, a claim for monetary relief was filed against Sonol by a company with which an agreement for the construction and operation of a fuelling station was signed, asserting that Sonol breached the agreement therewith.	In the Company's estimation, based on an assessment of Granite's management, which is based on Sonol's legal advisors, the chances of the claim are estimated at less than 50%.
11. Claim against Sonol	A claim in the sum of approx. NIS 6 million	In April 2012, a monetary claim was filed against Sonol, alleging that Sonol breached the lease agreement entered into between Sonol and the claimant and in order to reduce the damages the claimant was forces to engage with another company on terms that are less favorable.	In the Company's estimation, based on an assessment of Granite's management, which is based on Sonol's legal advisors, the chances of the claim are less than 50%.
12. Various municipalities versus Supergas	Demands in the sum of approx. NIS 55 million	A demand for the payment of municipal taxes on gas accumulators located in rooms in apartment buildings. Supergas filed an administrative appeal in connection with the charge. The court accepted the appeal and dismissed the charge for municipal taxes. One of the authorities filed a motion for leave to appeal to the Supreme Court, which dismissed the motion and returned the deliberations to the Appeals Committee.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Supergas, Supergas's prospects to rebuff the demands of the municipal taxes are greater than 50%.
13. A municipality versus Supergas	Approx. NIS 6 million	A demand for the amendment of a municipal tax assessment (including linkage and interest differentials) for a gas container farm from 1997. Supergas has filed an objection against the assessment and the municipal tax manager rejected the objection. In December 2004, Supergas appealed against the manager's decision.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Supergas, the prospects for dismissal of the claim for payment in respect of the previous years and with regard to the validity of the amended assessment are higher than 50%.

The parties	Amount of claim	Nature of claim	Prospects of claim
14. An agency operator versus Supergas	Approx. NIS 34 million	A claim from 2004 for monetary refunds in respect of investments carried out in an agency that was operated for a several years by the claimant, and thereafter was returned to Supergas. Deliberation of the claim was transferred to arbitration.	According to the Company's assessment, based on an assessment of the management of Granite, which is based on the legal advisors of Supergas, the prospects of the claim being accepted in excess of the amount paid as an interim payment are less than 50%.
15. An agency operator versus Supergas	Approx. NIS 16.5 million	A claim of October 2012 against Supergas in the sum of approx. NIS 16.5 million filed by a former agent of the company and companies owned by him, alleging that Supergas owes them money for works done by them, payments and additional alleged damages.	According to the Company's assessment, based on an assessment of the management of Granite, in reliance on the legal advisors of Supergas, because of the proceeding's preliminary stage, it is impossible to estimate the chances of the claim.

The parties	Amount of claim	Nature of claim	Prospects of claim
16. A municipality versus Supergas	Demands of a municipality in the sum of approx. NIS 68 million of March 2011	Supergas submitted an application for a building permit by virtue of NOP 32c for the aboveground burial of gas cylinders. As a condition to the issue of the permit, the local committee and the municipality sent payment demands on three issues: usage fees in the sum of approx. NIS 4.5 million; development levies and fees in the sum of approx. NIS 4 million; betterment levies in the sum of approx. NIS 59 million (in this section - “the first demand for payment of levies”). In view of the decision of the National Zoning Board of February 2012, regarding the length of operation of the company’s gas site in Kiryat Ata, the municipality issued a new betterment assessment to the company in the sum of approx. NIS 57,970 thousand (in this section - “the second demand for payment of levies”), in addition to the proceeding being conducted due to the first demand for payment of levies.	In November 2012, the Appeals Committee determined that Supergas does not owe any betterment levies regarding the first demand for payment of levies. In December 2012, the local committee filed an administrative appeal regarding this decision. In the Company’s estimation, based on Granite's management's estimate, which is based on Supergas’s legal advisors, the chances of the appeal to be accepted are low. With respect to the second demand for payment of levies, in December 2012, the Appeals Committee determined that the decision of the National Zoning Board is not a planning event which creates a liability for betterment levies. With respect to the development levies and fees – it may be estimated that there is a higher than 50% probability that the remaining liability, if any, will be much less than the amount requested, but at this stage, it is early to estimate the financial scope thereof. In respect of the usage fee demand – at this stage it is impossible to estimate the chances of the demand and its financial scope, if liability shall be determined. It shall be stated that the demands for betterment levies and for development levies are not mandatory for Supergas, such that if it shall withdraw the permit application, it shall be subject to no financial liability on these issues.

The parties	Amount of claim	Nature of claim	Prospects of claim
17. Indictment against Supergas and directors thereof	Criminal	In October 2011, the City of Kiryat Ata filed two proceedings against Supergas with the Local Matters Court in Krayot – (1) an indictment pursuant to the Business Licensing Law in respect of the operation of the gas farm in Kiryat Ata without a business license. This proceeding was filed both against the company and against the directors thereof. (2) Motion for a cessation of occupation in a business order, in the context of which the granting of an order against Supergas was sought to order it to immediately halt the gas farm's activity due to the absence of a business license. This motion was filed as an interim motion in the framework of the abovementioned indictment proceeding.	With respect to the motion for a cessation of occupation order – in January 2012, the court's decision was issued, in the context of which the City's motion was denied. With respect to the indictment proceeding, the Company estimates, based on an assessment of Granite's management, which is based on Supergas's legal advisors, that at this preliminary stage, it is impossible to estimate the chances of the said proceedings.
18. Administrative petition of a municipality and others against the National Zoning Board and others (including Supergas)	A petition for an Order Nisi	In June 2012, the petitioners filed a petition for an Order Nisi which will cancel the decision of the National Zoning Board of February 2012, according to which the gas farm in Kiryat Ata will continue to operate after the burial of the accumulators until the later of the activation of a permanent site for storage of LPG or January 2029. The petitioners sought to limit the activity of the gas companies in the gas farm for a few years and stated that they intended to seek an interim order according to which the companies would commence the burial.	The Company estimates, based on an assessment of Granite's management, in reliance on Supergas's legal advisors, that at this stage of the proceeding, it is impossible to estimate the chances of the petition.
19. Administrative petition against the National Zoning Board and others (including Supergas)	A petition for an Order Nisi	In November 2012, the City of Kiryat Ata and the Kiryat Ata Local Zoning Committee filed a petition for an Order Nisi against the National Zoning Board and others, including Supergas. In the context of the petition, the petitioners attack the decision of the National Zoning Board of September 2012 which enables the gas companies' continuing operation in the gas farm in Kiryat Ata, regardless of the delay in the commencement of the performance of the accumulators' burial in the gas farm, as well as the permits granted to the gas companies to continue operating in the gas farm regardless of the delay in the performance of the burial.	The Company estimates, based on an assessment of Granite's management, in reliance on Supergas's legal advisors, that at this stage of the proceeding, it is impossible to estimate the chances of the petition.

	The parties	Amount of claim	Nature of claim	Prospects of claim
20.	A hearing in the Israel Antitrust Authority against Supergas and officers thereof.	Criminal	In March 2012, the Israel Antitrust Authority notified Supergas and officers thereof that it intends to indict them for offenses under the Antitrust Law, subject to a hearing. In July and August 2012, a hearing was conducted prior to filing an indictment. In December 2012, the Israel Antitrust Authority announced that it decided to file an indictment against the company and two officers thereof. In January 2013, a meeting was held with the Authority in which the parties discussed the possibility to end the process with a consent order.	The Company estimates, based on an assessment of Granite's management, in reliance on Supergas's legal advisors, in view of the proceeding's preliminary stage, it is impossible to estimate the results thereof or the possible exposure degree of Supergas.
21.	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.	The Company estimates, based on an assessment of Granite's management, which is based on the legal advisors of GES, that the chances of the claim against GES are lower than 50%.
22.	Claim against GES Plant Operation (a subsidiary of GES) and former officers	Approx NIS 5.5 million (in the context of a counterclaim of April 2011 in a claim of GES Plant Operation versus the Plaintiff in the sum of NIS 4 million, for enforcement and declaratory relief and a permanent injunction).	A claim in respect of alleged damage that was caused to the counter-plaintiff due to the alleged failure of GES Plant Operation to comply with the agreement therewith.	The Company estimates, based on an assessment of Granite's management, which is based on GES Plant Operation's legal advisors, that in view of the proceeding's preliminary stage and the fact that at the core of the proceeding lies a question which requires the opinions of experts in the context of the proceeding, it is difficult to currently estimate the chances and risks of the case. However, the professional claims of GES Plant Operation carry considerable weight and according to them it can be said that the chances of the claim against GES Plant Operation being accepted are lower than 50%.

The parties	Amount of claim	Nature of claim	Prospects of claim
23. Arbitration proceeding against GES	A claim against GES in the sum of approx NIS 15 million and a claim of GES in the sum of approx. NIS 2 million.	An arbitration proceeding of 2010. In October-November 2012, the parties filed the damage claims.	The Company estimates, based on an assessment of Granite's management, which is based on GES's management and legal advisors, that since the damage claim proceeding is in preliminary stages, it is impossible to estimate the chances of the claim. However, in view of the legal advisors' clarification, especially regarding the limited liability and the existence of an insurance coverage and on the technical and factual data known to GES's management and are under professional legal examination, the chances of GES being charged in a sum exceeding the insurance coverage is lower than 50%.
24. Demand of a local committee to receive indemnity from Derech Hayam	Approx NIS 24 million	A demand of November 2012 that Derech Hayam received from a local zoning committee for indemnity for a damage claim in the sum of NIS 24 million due to a damage which might have been caused to land owned by the petitioners because of the approval of an integrated National Outline Plan for the water economy.	The Company estimates, based on an assessment of Granite's management, in reliance on Derech Hayam's legal advisors, that even if an indemnity letter would have been given, the indemnity would have referred to the construction of the facility on land on which the desalination facility contemplated by the construction permit was built, whereas the damage claim was filed in connection with land adjacent to the desalination facility. However, it is impossible to estimate the chances that Derech Hayam will be required to indemnify the local committee due to the aforesaid.
25 City v. Azrieli Group	Approx. NIS 29 million.	Demands for development levies, municipal tax (*arnona*) and levies in respect of open public areas in the Hanegev Mall in Beer Sheva.	The Company estimates that, based on its legal advisors, the chances of the demands being accepted are lower than 50%.

Note 34 – Contingent liabilities (Cont.)

d. In 2008, a claim for bodily injury totalling NIS 10 million was submitted against two of the Company's subsidiaries. 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 statement of claim. The claim has been recognized as an insurance event and is being conducted through attorneys on behalf of the defendants' insurance company. The District Court dismissed the claim against the companies with prejudice, in a reasoned judgment. The father of one of the persons who committed suicide filed an appeal with the Supreme Court which has not yet been heard. The Tel Aviv District Attorney's Office has notified the Company that it is examining the legal implications, with respect to the Company and/or its managers, of several suicide events which occurred between 2007-2009 from the roof balcony of the Azrieli Mall. The amount of the claim is included within the framework of the insurance coverage per insurance event.

e. On September 21, 2011, after the opening of Azrieli Akko Mall, the Ministry of Environmental Protection filed an appeal against Akko Local Zoning Committee's decision 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 sought its dismissal with prejudice in respect thereof. Following a hearing which was held in May 2012, and examinations the Ministry of Environmental Protection conducted together with the Strauss plant, for environmental risk reduction scenarios, in January 2013, the Ministry of Environmental Protection filed the position thereof, whereby, given that the plant will install the various means specified in the response, the risk will become acceptable. After the position of Strauss was received whereby the plant intends to fulfill the conditions which were added in the toxic materials permit, on January 8, 2013, the Appeal Committee ordered the dismissal without prejudice of the appeal.

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

g. The company recorded provisions against the claims in the sum of NIS 30,295 thousand (December 31, 2011 - NIS 29,288 thousand). In the opinion of the Company's management, the provisions recorded to settle the outcome of the claims outlined above are fair.

Note 35 - Additional information for the cash flow statement

Following is additional information for the cash flow statement in respect of non-cash activities and the acquisition of initially consolidated companies:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
A. Non-cash activities:			
Payables in respect of the purchase of non-current assets on credit	24,601	72,293	53,585
Receivables in respect of the sale of fixed assets and investment property on credit	2,380	850	-
Receivables in respect of the sale of a financial asset	3,514	7,337	-
Payables in respect of purchase of shares in a consolidated company	-	-	4,795
Payables in respect of the purchase of non-controlling minority interests	-	100	-
Payables in respect of dividend to holders of non-controlling interests	1,470	-	-
B. The acquisition of initially consolidated companies:			
Working capital (except for cash and cash equivalents)	-	-	(20,431(
Investments in associates (including loans to an associate)	-	-	113,860
Fixed assets, net (including investment property)	-	-	(53,543)
Long-term liabilities	-	-	440,483
Non-controlling interests at the time of the acquisition	-	-	32,408
Surplus cost and goodwill created on the acquisition	-	-	-
Restricted investments	-	-	(20,325)
Investments and loans	-	-	(4,361)
Receivables in respect of a franchise arrangement	-	-	(527,256)
Deferred tax liabilities, net	-	-	15,745
Profit from the purchase of shares in investee companies	-	-	2,884
	-	-	(20,536)

Note 36 - Management of financial risks

A. General:

The Group is exposed to the following risks, which derive from the use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk (including currency risk, interest risk and other price risks).

Information is provided in this Note in respect of the Group's exposure to each of the abovementioned risks, the Group's objectives, its policy and its processes in respect of the measurement and management of the risk. Additional, quantitative disclosure is provided throughout these consolidated financial statements.

The comprehensive responsibility for the institution of the framework for the management of the Company's risks and those of its consolidated companies (except for the management of the risks of Granite and of its subsidiaries, which is executed by them) (the "Company") and for the supervision over it lies in the hands of the Company's management.

The Company's audit committee is responsible, *inter alia*, for supervision and monitoring of the Company's risk management policy, and supervises the management's monitoring of compliance with the risk management policy.

Mr. Yuval Bronstein, the Company'sCFO, is in charge of market risks management in the Company.

The Company's managers routinely examine the market risks in the fields of interest, the index and the exchange rates and act to reduce the economic exposure that is inherent in those risks, whilst taking cost-benefit considerations, such as changes in the composition of the long-term and short-term bank credit, into account.

The risks management policy was formed in order to identify and to analyze the risks that the Company is facing, to determine suitable restrictions for the risks and controls and to supervise the risks and the compliance with the restrictions.

The policies and the methods employed for the management of the risks are reviewed on a routine basis in order to reflect changes in the conditions in the market and in the Company's activities. The Company, by means of training and procedures, acts to develop an efficient control environment in which all of the employees understand their roles and their commitments.

B. Credit risk:

Credit risk is the risk of a financial loss that would be caused to the Group if a customer or a counter party to a financial instrument does not meet its contractual commitments, and it derives primarily from the debts of customers and other receivables, from the long-term loans that have been extended and from investments in securities.

The Group is not under a significant credit risk stemming from its customers in the retail centers and malls segment, the office and other space for lease segment and the income-producing property segment in the U.S., since the Group is in the custom of collecting its income in respect of rental fees and management fees in advance. Moreover, in most cases, as collateral for the rental fees, the tenants are required to proved personal guarantees from third parties and/or bank guarantees and/or deposits, to the Company's satisfaction.

Note 36 - Management of financial risks

B. Credit risk: (Cont.)

The Group has a credit risk deriving from the Granite sector. Granite's income derives primarily from sales in Israel to customers in the oil distillates sectors in the direct marketing market and in the fuelling stations and commercial sectors as well from sales to customers in the paint and finishing of construction industry, customers in the gas segment and from sales to customers in the water and wastewater segment.

Granite has a procedure for the extension of credit to a customer, which includes guidelines in respect of what is to be done when a new customer is opened, the procedure includes, inter alia, a check on its financial position, a check on stability and control over the credit extended to the customer, which relies on past experience and external raisings, as well as, where possible, the receipt of collateral, such as: bank guarantees, personal guarantees, charges on land, motor vehicles, and debt notes.

Moreover, the procedure includes a hierarchy of authority for the approval of the maximum amount of a customer's credit, which starts with the credit manager and going up to the credit committee, which is headed by the Chief Executive Officer of each subsidiary. The procedure on authorities for the approval of credit is presented to the financial forum of the board of directors of each of the subsidiaries for approval. The procedure determines and defines a framework of responsibility for the collection of the payment from customers and also the ways in which customers' balances that are in arrears are to be dealt with. The routine monitoring of the receipts from customers is conducted by the credit and collection departments and by the credit committee in each subsidiary.

Granite recognizes provisions for doubtful debts, which reflect the evaluation made in respect of the loss that is contained in the debts whose collection is in doubt. This provision is made up of specific balances as well as a general component of the loss, which is determined for certain groups of similar customers, in respect of losses that have occurred, but which have not yet been identified.

The abovementioned general provision for a loss is determined on the basis of historical information in respect of the payments statistics in respect of similar financial assets.

C. Liquidity risk:

Liquidity risk finds expression in the non-ability to meet the Group's financial commitments when they are due for payment. The Group's approach to the management of its liquidity risk is to ensure, in so far as it is possible, that there is a sufficient level of liquidity to meet its commitments on time. The Group verifies the existence of sufficient levels of cash and/or credit lines in accordance with the expected needs for the payment of the operating expenses, including the amounts that are required to meet the financial liabilities; the aforesaid does not take into account the potential impact of extreme occurrences, which it is not reasonably possible to forecast.

The Group is of the opinion that at the time of need, the banks will grant it the credits required therefor for the purposes of its business.

Note 36 - Management of financial risks

D. Market risks:

Market risk is the risk that changes in market prices, such as the exchange rates of foreign currencies, the Consumer Prices Index, interest rates, the prices of capital instruments and risks associated with the prices of goods, will have an impact on the Group's income or on the value of its holdings in financial instruments and on inventory balances.

The objective of the management of the market risks is to manage and to supervise the exposure to market risk within the framework of generally accepted parameters.

During the ordinary course of business, Granite buys and sells derivatives and it also takes financial commitments upon itself in order to manage the market risks. The said transactions are carried out in accordance with guidelines that have been set by Granite's financial forum and its Board of Directors.

Currency risk

The Company's functional currency is the New Israeli Shekel (NIS).

Granite is exposed to currency risk in respect of the purchase of raw materials, fixed assets and export sales, which are stated in currencies that are different from the functional currency. The currencies in which most of the transactions are stated are the Euro and the US Dollar (most of the purchases of oil distillates are linked to the US Dollar).

The companies in the Granite Group take action in order to reduce the currency exposure by means of the systematic execution of futures transactions in foreign currencies, in accordance with an outline that has been approved by Granite's Board of Directors. As of the date of the report, the Group had foreign currency future contracts in an amount of $158 million to be repaid until March 2013 (most of the transactions were repaid in January 2013), which were intended to hedge the cash flows exposure mainly in respect of the purchase of oil distillates and approx. €3 million for reducing the currency exposure in respect of the purchase of raw materials, fixed assets and sales for export in Tambour.

The Group has loans in U.S. dollars, therefore its financial results are exposed to the risk of a change in the dollar exchange rate. Most of the Group's income in the U.S. income-producing property segment is stated in U.S. dollars, such that a rise in the exchange rate as aforesaid leads to an increase in income from rent and reduces this risk.

Interest rates risk

The Group has short-term and long-term credit at variable interest rates as well as a portfolio of securities that includes an investment in bonds that are presented at fair value. Accordingly, its financial results (financing income/expenses) are exposed to the risk of a change in the interest rates.

Index risks

The Group has loans and bonds that are Index-linked, and therefore its financial results (financing income/expenses) are exposed to the risk of a change in the Index.

Most of the Group's income in the retail centers and malls segment and in the office and other space for lease segment are linked to the Consumer Price Index, such that an increase in the Index, as aforesaid, will lead to an increase in the rental income and a reduction in this risk.

Furthermore, the index rise bears an impact on the calculation of the value of investment properties due to the increase in rent revenues.

The companies in the Granite sector are in the habit of purchasing forward transactions on the Consumer Prices Index from time to time, in accordance with an outline that has been approved by the Granite's Board of Directors or by the board of its consolidated company. As of the date of the Financial Statements, the Group was engaged in forward contracts on the Consumer Prices Index in an amount of approx. NIS 100 million.

In addition, companies in the Group from the Granite sector occasionally acquire interest on CPI rate swap contracts. As of the date of the financial statements, such companies have interest swap contracts whose payment date matches the payment date of certain loans. These contracts are designated as defined items in cash flow hedge.

Note 36 - Management of financial risks (Cont.)

D. Market risks: (Cont.)

Securities price risk

As of December 31, 2012, some of the Company's surplus cash is invested in negotiable securities, and therefore the Company may be exposed to fluctuations in the securities' prices and the market value of its investments therein, which may affect the value of the managed portfolio, the cash flow and the liquid means of the Company. A small part of the funds are also managed overseas in the Canadian dollar currency, and therefore the Company may be exposed to fluctuations in the currency exchange rates. In general, and other than as specified by the Company in the 2010 Prospectus, the Company takes no protective measures against such exposures.

In addition, the Company has a material holding in Bank Leumi's shares that are traded in TASE. Changes in the rate of Bank Leumi's share may affect the equity. The Company does hedge against such exposures (see also Note 2U).

Risks associated with the prices of goods

The Group's inventory is comprised primarily of oil distillates and accordingly the Group has an exposure to changes in the prices of oil distillates. It arises from checks that have been conducted by the Company, using external consultants, that the financial instruments market does not offer appropriate hedging tools for the mechanism under which the prices of oil distillates are fixed in Israel (which are determined on the basis of the CIF prices at Lavera port in Italy). Accordingly, the Group has no effective possibility of hedging this risk. Therefore, the Group does not carry out hedging activity in respect of this risk, however it does act to reduce the quantity of inventory that is exposed and it adjusts the quantities of the inventory of distillates in accordance with the sales forecasts. It should be emphasized that this exposure primarily affects the quantities of the inventory of distillates. Distillates that are purchased and sold during the course of the month are not exposed to this risk.

Note 37 - Financial instruments

A. Credit risk:

(1) Exposure to credit risk

The carrying values of the financial assets represent the maximum credit exposure. The maximum exposure to credit risk, as of the date of the statement of financial position, was as follows:

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Financial assets at fair value through profit and loss:		
Financial assets that are held for trade	470,757	1,401,786
Derivative financial instruments	130	5,147
Financial assets at amortized cost:		
Short-term deposits and investments	90,331	84,271
Trade receivables	1,757,697	1,719,764
Other receivables	55,155	71,778
Receivables for works in progress	41,164	32,649
Non-current investments and loans	125,511	90,615
Restricted investments	70,223	50,930
The Fuel Authority	129,130	132,720
Loans to associates	35,051	33,080
Long-term receivables in respect of a franchise arrangement	898,384	554,912
	3,673,533	4,177,652

The maximum exposure to credit risk in respect of trade receivables, other receivables, including derivative financial instruments, receivables for works in progress, long-term loans , as of the date hereof, by geographical region, is mainly local and the exposure overseas is negligible.

As of the Report Date, by counter party, the exposure was:

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Institutional customers	151,113	97,586
Business customers	1,457,609	1,488,907
Private customers	148,975	133,271
Receivables for works in progress	41,164	32,649
Other receivables, including derivative instruments	55,285	76,925
Non-current investments and loans	125,511	90,615
	1,979,657	1,919,953

See Note 5 in respect of the credit risk on financial assets that are held for trade (other than shares).

Note 37 - Financial instruments

A. Credit risk:

(1) The aging of debts and losses from impairment in value

The following is the aging of the trade receivables, other receivables, including derivative financial instruments, receivables for works in progress, long-term loans:

	As of December 31 2012		As of December 31 2011	
	Gross	Impairment	Gross	Impairment
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Not in arrears	1,827,726	9,465	1,797,803	9,565
0–30 days in arrears	59,702	948	43,986	1,420
31-120 days in arrears	50,944	5,668	31,349	4,710
121 days to one year in arrears	32,554	16,181	39,211	20,433
More than one year in arrears	222,186	181,193	218,479	174,747
	2,193,112	213,455	2,130,828	210,875

The movements in the provision for impairment in value in respect of trade receivables, other receivables and non-current loans during the year were as follows:

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Balance as of January 1	210,875	212,669
Impairment loss recognized	8,584	2,924
Doubtful debts that became bad debts	(6,004)	(4,718)
Balance as of December 31	213,455	210,875

The Group reviews the impairment in value in each reporting period and takes into account the period of the debt, the collateral that is available to it, the financial state of the debtors and the chances of legal proceedings against them.

As of December 31, 2012, credit of NIS 294,599thousand to customers is secured by credit insurance (including the self deductible), (December 31, 2011 – NIS 302,571 thousand).

Based on past experience, the Group has a general provision for impairment due to losses that occurred but have not yet been recognized that amount to NIS 5,791 thousand as of December 31, 2012 (December 31, 2011 - NIS 5,662 thousand).

Note 37 - Financial instruments (Cont.)

B. Liquidity risk

Following are details of the forecast repayment dates of the financial assets, including an estimate of interest payments:

	As of December 31, 2012						
	Book value	Forecasted cash flow	2013	2014	2015	2016	2017 onwards
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Cash and cash equivalent	182,818	182,818	182,818	-	-	-	-
Financial assets held for trade	470,757	470,757	470,757	-	-	-	-
Short-term deposits and investments	90,331	90,331	90,331	-	-	-	-
Trade receivables	1,740,449	1,740,449	1,740,449	-	-	-	-
Other receivables	49,708	49,708	49,708	-	-	-	-
Receivables for work in progress	41,164	41,164	41,164	-	-	-	-
Financial assets available for sale	1,509,531	1,509,531	253	-	-	-	1,509,278
Financial assets designated at fair value through profit and loss	20,088	20,088	-	-	-	-	20,088
Loans to associates	35,051	35,051	-	-	-	-	35,051
The Fuel Administration	129,130	129,130	-	-	-	-	129,130
Long-term receivables in respect of a franchise arrangement	898,384	1,524,665	79,349	101,002	95,583	95,448	1,153,283
Loans to customers	120,237	144,786	25,151	16,050	13,853	13,100	76,632
Loans to others	462	462	57	86	86	86	147
Collectible checks and notes	11,010	11,010	-	2,771	992	539	6,708
Long-term trade and other receivables	17,967	17,967	7	1,079	1,126	381	15,374
Restricted investments	70,223	70,223	-	-	-	-	70,223
	5,387,310	6,038,140	2,680,044	120,988	111,640	109,554	3,015,914

Note 37 - Financial instruments (Cont.)

	As of December 31, 2011						
	Book value	Forecasted cash flow	2012	2013	2014	2015	2016 onwards
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Cash and cash equivalent	224,430	224,430	224,430	-	-	-	-
Financial assets held for trade	1,401,786	1,401,786	1,401,786	-	-	-	-
Short-term deposits and investments	84,271	84,271	84,271	-	-	-	-
Trade receivables	1,719,764	1,719,764	1,719,764	-	-	-	-
Other receivables	80,341	80,341	80,341	-	-	-	-
Receivables for work in progress	32,649	32,649	32,649	-	-	-	-
Financial assets available for sale	1,305,184	1,305,184	-	-	-	-	1,305,184
Financial assets designated at fair value through profit and loss	16,737	16,737	16,737	-	-	-	-
Loans to associates	33,080	33,080	-	-	-	-	33,080
The Fuel Administration	132,720	132,720	-	-	-	-	132,720
Long-term receivables in respect of a franchise arrangement	534,596	534,596	-	22,190	22,882	24,060	465,464
Loans to customers	69,903	69,903	-	11,372	10,946	9,974	37,611
Loans to others	444	444	-	86	86	86	186
Collectible checks and notes	9,607	9,607	-	1,834	651	332	6,790
Long-term trade and other receivables	10,660	10,660	-	562	(252)	418	9,932
Restricted investments	50,930	50,930	-	-	-	-	50,930
	5,707,102	5,707,102	3,559,978	36,044	34,313	34,870	2,041,897

Note 37 - Financial instruments (Cont.)

Following are details of the forecast repayment dates of the financial assets, including an estimate of interest payments:

	As of December 31, 2012						
	Book Value	**Forecasted Cash Flow**	**2013**	**2014**	**2015**	**2016**	**2017 onwards**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Non-derivative financial liabilities							
Overdraft	24,373	24,373	24,373	-	-	-	-
Short-term credit from banks and other credit providers (1)	1,780,792	1,784,044	1,784,044	-	-	-	-
Trade accounts payables	804,455	804,455	804,455	-	-	-	-
Payables	107,573	107,573	107,573	-	-	-	-
Deposits from customers (3)	107,633	107,633	107,633	-	-	-	-
Loans from banks and other credit	4,634,351	5,694,794	1,693,257	642,950	597,049	575,774	2,185,764

providers (2)							
Bonds	1,739,522	2,091,394	266,510	217,178	141,511	137,070	1,329,125
Liabilities for finance leasing	21,252	40,174	2,357	2,363	2,367	2,312	30,775
Long-term deposits from customers	39,609	39,609	-	-	-	39,609	-
Other long-term liabilities	2,451	2,646	30	45	1,471	80	1,020
Capital notes	1,108	1,195	-	-	-	-	1,195
Derivative financial instrument liabilities							
Forward contracts on exchange rates that are not used for hedge accounting	11,170	11,170	11,170	-	-	-	-
Forward contracts	497	497	497	-	-	-	-

on the Consumer Price Index and payments							
Instruments used for hedging Interest swap contracts	703	703	703	-	-	-	-
Embedded derivatives	370	370	370	-	-	-	-
	9,275,859	10,710,630	4,802,972	862,536	742,398	754,845	3,547,879

Note 37 - Financial instruments (Cont.)

	As of December 31, 2011						
	Book Value	Forecasted Cash Flow	2012	2013	2014	2015	2016 onwards
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-derivative financial liabilities							
Overdraft	2,846	2,846	2,846	-	-	-	-
Short-term credit from banks and other credit providers (1)	1,815,360	1,822,314	1,822,314	-	-	-	-
Trade account payables	854,724	854,724	854,724	-	-	-	-
Payables	134,841	134,841	134,841	-	-	-	-
Deposits from customers (3)	105,995	105,995	105,995	-	-	-	-
Loans from banks and other credit providers (2)	4,241,418	5,522,972	697,614	1,568,067	388,349	439,402	2,429,540
Bonds	1,891,768	2,334,039	269,478	262,581	213,954	139,370	1,448,656
Liabilities for finance leasing	61,904	109,843	5,763	5,766	5,769	5,773	86,772
Long-term deposits from customers	37,760	37,760	-	-	-	37,760	-
Other long-term liabilities	2,907	2,960	905	677	1,109	-	269
Capital notes	1,084	1,195	-	98	98	98	901
Derivative financial instrument liabilities							
Forward contracts on exchange rates that are not used for hedge accounting - payments	37	37	37	-	-	-	-
Forward contracts on the Consumer Price Index and payments	5,650	5,650	5,650	-	-	-	-
Embedded derivatives	1,700	1,700	-	-	-	1,700	-
	9,157,994	10,936,876	3,900,167	1,837,189	609,279	624,103	3,966,138

(1) The carrying value includes the accumulated interest as of December 31, 2012 and 2011.
(2) The carrying value includes current maturities and accumulated interest as of December 31, 2012 and 2011.
(3) The deposits are presented as current liabilities since the law enables the customer to leave at any time that they choose and to receive the deposits back immediately together with this, it should be noted that Supergas's past experience is that the rate at which customers leave is immaterial and therefore the amounts of the deposits that are returned to customers each year is also immaterial.
(4) See Note 33B in respect of guarantees.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks:

(1) Exposure to Index and foreign currency risk

The Group's exposure to Index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2012					
	Israeli currency		Foreign currency			
	Non-linked	Index-linked	Dollar	Other(*)	Other	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Current assets						
Cash and cash equivalent	117,948	-	52,497	12,373	-	182,818
Financial assets held for trade	211,342	172,965	9,369	77,081	-	470,757
Short-term deposits and investments	90,331	-	-	-	-	90,331
Trade receivables	1,667,567	4,330	80,648	5,152	-	1,757,697
Other receivables	29,320	31,893	26,378	8,313	77,116	173,020
Receivables for work in progress	6,449	4,967	29,083	665	-	41,164
Inventory	-	-	-	-	498,002	498,002
Current tax assets	-	-	-	-	27,826	27,826
Total current assets	2,122,957	214,155	197,975	103,584	602,944	3,241,615
Non-current assets						
Investments in associates	-	-	-	-	7,626	7,626
Loans to associates	18,346	16,705	-	-	-	35,051
Investments, loans and receivables	54,978	66,957	37,990	-	26,970	186,895
Restricted investments	48,650	21,573	-	-	-	70,223
Financial assets available for sale	1,505,131	-	1,587	2,813	-	1,509,531
Financial assets designated at fair value through profit and loss	1,027	-	19,061	-	-	20,088
Long-term receivables in respect of a franchise arrangement	139,853	553,630	43,220	104,522	17,485	858,710
The Fuel Administration	-	-	129,130	-	-	129,130
Investment property and investment property under construction	-	-	-	-	15,954,699	15,954,699
Fixed assets	-	-	-	-	1,390,194	1,390,194
Intangible assets	-	-	-	-	533,394	533,394
Rent paid in advance	-	-	-	-	40,921	40,921
Deferred tax assets	-	-	-	-	52,432	52,432
Total non-current assets	1,767,985	658,865	230,988	107,335	18,023,721	20,788,894
Total assets	3,890,942	873,020	428,963	210,919	18,626,665	24,030,509

(*) Mainly CAD and Euro.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

The Group's exposure to index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2012					
	Israeli currency		Foreign currency			
	Non-linked	Index-linked	Dollar	Other (*)	Other	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Current liabilities						
Credit from banks and other credit providers	1,832,146	1,431,602	151,125	36,610	-	3,451,483
Trade payables	323,676	12,329	435,423	33,027	-	804,455
Other payables	99,459	24,661	50,051	2,337	253,456	429,964
Deposits from customers	-	107,633	-	-	-	107,633
Provisions	-	-	-	-	30,295	30,295
Current tax liabilities	-	-	-	-	44,380	44,380
Total current liabilities	2,255,281	1,576,225	636,599	71,974	328,131	4,868,210
Non-current liabilities						
Loans from banks and other credit providers	675,181	1,436,083	943,792	79,264	-	3,134,320
Bonds	-	1,552,518	-	-	-	1,552,518
Employee benefits	-	-	-	-	58,244	58,244
Other liabilities	9,944	46,095	6,056	-	179	62,274
Deferred tax liabilities	-	-	-	-	2,397,607	2,397,607
Total non-current liabilities	685,125	3,034,696	949,848	79,264	2,456,030	7,204,963
Total liabilities	2,940,406	4,610,921	1,586,447	151,238	2,784,161	12,073,173
Total net balance sheet balance	950,536	(3,737,901)	(1,157,484)	59,681	15,842,504	11,957,336

(*) Mainly Euro and GBP.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

The Group's exposure to index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2011					
	Israeli currency		Foreign currency			
	Non-linked	Index-linked	Dollar	Other(*)	Other	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Current assets						
Cash and cash equivalent	203,643	-	16,854	3,933	-	224,430
Financial assets held for trade	797,506	501,411	11,048	91,821	-	1,401,786
Short-term deposits and investments	84,271	-	-	-	-	84,271
Trade receivables	1,644,962	3,084	66,692	5,026	-	1,719,764
Other receivables	32,794	19,552	43,881	1,011	47,446	144,684
Receivables for work in progress	20,179	943	10,588	939	-	32,649
Inventory	-	-	-	-	439,933	439,933
Current tax assets	-	-	-	-	24,626	24,626
Total current assets	2,783,355	524, 990	149,063	102,730	512,005	4,072,143
Non-current assets						
Investments in associates	-	-	-	-	13,140	13,140
Loans to associates	12,508	20,572	-	-	-	33,080
Investments, loans and receivables	37,370	52,611	5,591	-	26,554	122,126
Restricted investments	28,893	22,037	-	-	-	50,930
Financial assets available for sale	1,302,371	-	-	2,813	-	1,305,184
Financial assets designated at fair value through profit and loss	1,364	-	15,373	-	-	16,737
Long-term receivables in respect of a franchise arrangement	60,013	465,214	2,186	4,997	2,186	534,596
The Fuel Administration	-	-	132,720	-	-	132,720
Investment property and investment property under construction	-	-	-	-	14,839,570	14,839,570
Fixed assets	-	-	-	-	1,427,028	1,427,028
Intangible assets	-	-	-	-	540,406	540,406
Rent paid in advance	-	-	-	-	36,603	36,603
Deferred tax assets	-	-	-	-	55,450	55,450
Total non-current assets	1,442,519	560,434	155,870	7,810	16,940,937	19,107,570
Total assets	4,225,874	1,085,424	304,933	110,540	17,452,942	23,179,713

(*) Mainly CAD and Euro.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

The Group's exposure to index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2011					
	Israeli currency		Foreign currency			
	Non-linked	Index-linked	Dollar	Other (*)	Other	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Current liabilities						
Credit from banks and other credit providers	1,834,651	470,785	115,240	24,746	-	2,445,422
Trade payables	337,180	18,238	463,187	36,119	-	854,724
Other payables	81,267	41,044	37,933	513	225,092	385,849
Deposits from customers	-	105,995	-	-	-	105,995
Provisions	-	-	-	-	29,288	29,288
Current tax liabilities	-	-	-	-	42,107	42,107
Total current liabilities	2,253,098	636,062	616,360	61,378	296,487	3,863,385
Non-current liabilities						
Loans from banks and other credit providers	466,129	2,610,504	681,204	-	-	3,757,837
Bonds	-	1,706,726	-	-	-	1,706,726
Employee benefits	-	-	-	-	59,312	59,312
Other liabilities	11,685	44,486	43,225	544	182	100,122
Deferred tax liabilities	-	-	-	-	2,228,273	2,228,273
Total non-current liabilities	477,814	4,361,716	724,429	544	2,287,767	7,852,270
Total liabilities	2,730,912	4,997,778	1,340,789	61,922	2,584,254	11,715,655
Total net balance sheet balance	1,494,962	(3,912,354)	(1,035,856)	48,618	14,868,688	11,464,058

(*) Mainly Euro and GBP.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(2) Sensitivity analysis

The strengthening of the New Israeli Shekel against the following currencies as of December 31, 2012 and an increase in the Consumer Prices Index would increase (decrease) the capital and the profit or loss, net of tax, by the amounts that are presented below. This analysis has been made on the assumption that the other variables, and especially the interest rates, remain fixed. The analysis in respect of the year 2011 was made on the same basis.

	As of December 31 2012	
	Capital	Profit (loss)
	NIS in Thousands	NIS in Thousands
1% rise in the Consumer Price Index	(27,028)	(27,028)
1% rise in the exchange rate of the US Dollar	(4,079)	(4,079)

	As of December 31 2011	
	Capital	Profit (loss)
	NIS in Thousands	NIS in Thousands
1% rise in the Consumer Price Index	(24,826)	(24,826)
1% rise in the exchange rate of the US Dollar	(2,673)	(2,673)

A decrease in the exchange rate of the US Dollar by a similar rate and a decrease in the CPI by a similar rate as of December 31 would have had an identical effect, but in the opposite direction, in the same amount, on the assumption that all of the other variables remained constant.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(3) Derivative instruments

a. Following are details of the Group's derivative financial instruments:

	As of December 31, 2012				
	Par value	**Currency receivable**	**Currency payable**	**Expiry/ repayment/ exercise date**	**Fair value**
	Thousands				**NIS in Thousands**
Instruments that are not used for hedge accounting:					
Forward transactions on the CPI	100,000	NIS(*)	NIS	January - October 2013	(497)
Forward transactions on exchange rates	158,000	Dollar	NIS	January - March 2013	(10,987)
Forward transactions on exchange rates	3,000	EURO	NIS	January - February 2013	(53)
					(11,537)
Instruments used for hedging:					
Interest swap contracts	31,298	Index	NIS	January 2013 – July 2016	258
Embedded derivatives – foreign currency					370

(*) Index-linked.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(3) Derivative instruments

	As of December 31, 2011				
	Par value	**Currency receivable**	**Currency payable**	**Expiry/ repayment/ exercise date**	**Fair value**
	Thousands				**NIS in Thousands**
Instruments that are not used for hedge accounting:					
Forward transactions on the CPI	459,795	NIS(*)	NIS	January-October 2012	(5,650)
Forward transactions on exchange rates	161,500	Dollar	NIS	January-April 2012	5,136
Forward transactions on exchange rates	1,000	EURO	NIS	January-April 2012	11
Sale options with foreign exchange	1,250	EURO	NIS	January-February 2012	(37)
					(540)
Instruments that are used for hedging:					
Interest rate SWAP contracts	31,298	Index	NIS	January 2012-July 2016	(182)

(*) Index-linked.

Note 37 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

b. Following is a sensitivity analysis in respect of the Group's derivative instruments. A change in the Consumer Prices Index or the exchange rate of the Dollar and the Euro, would increase (decrease) the profit and the loss, net of tax and the equity by the amounts that are presented below. This analysis is made on the assumption that all of the other variables will remain constant.

	December 31, 2012								
	An increase of 10%		An increase of 5%			A decrease of 5%		A decrease of 10%	
	Capital	Profit (loss)	Capital	Profit (loss)	Fair value	Capital	Profit (loss)	Capital	Profit (loss)
	NIS in Thousands								
Instruments that are not used for hedge- accounting:									
Change in the CPI									
Forward transactions	7,500	7,500	3,750	3,750	(497)	(3,750)	(3,750)	(7,500)	(7,500)
Change in the Dollar exchange rate									
Forward transactions	44,222	44,222	22,112	22,112	(10,987)	(22,122)	(22,122)	(44,222)	(44,222)

	December 31, 2011								
	An increase of 10%		An increase of 5%			A decrease of 5%		A decrease of 10%	
	Capital	Profit (loss)	Capital	Profit (loss)	Fair value	Capital	Profit (loss)	Capital	Profit (loss)
	NIS in Thousands								
Instruments that are not used for hedge accounting:									
Change in the CPI									
Forward transactions	34,485	34,485	17,242	17,242	(5,650)	(17,242)	(17,242)	(34,485)	(34,485)
Change in the Dollar exchange rate									
Forward transactions	46,311	46,311	23,156	23,156	5,136	(23,156)	(23,156)	(46,311)	(46,311)

Note 37 - Financial instruments (Cont.)

D. Interest rate risk

(1) Type of interest

Following are details in respect of the types of interest in the Group's interest bearing financial instruments:

	Carrying value	
	As of December 31	
	2012	2011
	NIS in Thousands	NIS in Thousands
Fixed interest instruments		
Financial assets (*)	1,366,396	2,007,413
Financial liabilities	5,936,795	5,595,605
Variable interest instruments		
Financial assets	121,547	93,275
Financial liabilities	2,224,863	1,127,815

(*) In the Report Period includes financial assets held for trade in the sum of approx. NIS 290 million.

(2) Sensitivity analysis for the fair value in respect of fixed interest instruments

The Group's assets and liabilities at fixed interest are not measured at fair value through profit and loss, with the exception of investment in negotiable bonds. Therefore, a change in the interest rates as of the date of this report is not expected to have any impact on the profit or loss in respect of changes in the value of assets and liabilities with fixed interest rates, other than the investment in marketable bonds with fixed interest rates.

A rise in the rate of the fixed interest as of December 31, 2012 would increase (reduce) the profit or loss, and the capital, net of tax, in the amounts presented below. This analysis was made assuming that all of the other variables remained fixed. In addition, the sensitivity analysis was made assuming that the sum of the assets as of the end of the report period, as of December 31, 2011, was applicable throughout the report year.

	Capital	Profit (Loss)
	NIS in Thousands	NIS in Thousands
A rise of 2% in the NIS interest rate	(4,108)	(4,108)
A rise of 2% in the real interest rate	153,761	153,761
A rise of 2% in the interest rate on the CAD	(149)	(149)

Note 37 - Financial instruments (Cont.)

D. Interest rate risk

(3) Sensitivity analysis for variable interest instruments

A change of 1% in the interest rates on the date of the report would increase or reduce the capital and the profit or loss, net of tax, by the sum of NIS 15,841 thousand. This analysis was made assuming that the other variables remained fixed.

E. Other price risk:

Sensitivity analysis of the security price

If the prices of the held securities (other than bonds with fixed interest rates) were higher/lower by 1%, the effect after tax would be as follows:

Financial assets held for trade in the sum of approx. NIS 102 million –

The net profit for the year ended December 31, 2012 would increase/decrease by NIS 762 thousand.

Financial assets available for sale – (see Note 11A(1))

The net profit for the year ended December 31, 2012 would not be affected since these investments are treated as available for sale and they were not disposed of and their value does not decline.

The other comprehensive income would increase/decrease by NIS 6,713 thousand as of December 31, 2012 as a result of the change in the fair value of the shares.

F. Fair value:

(1) Fair value by comparison to the carrying values in the accounting records

The carrying value of certain financial assets and liabilities, including cash and cash equivalents, marketable securities, short-term deposits and investments, trade receivables, other receivables, derivatives, restricted investments, available for sale financial assets, overdrafts from banking entities, short-term loans and credit, suppliers, other payables, finance leases liabilities and customer deposits, accord with or is close to their fair value.

The fair value of the other financial assets and liabilities and their book values, which are presented in the statement of financial position, are as follows:

Note 37 - Financial instruments (Cont.)

F. Fair value: (Cont.)

	As of December 31			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:				
Loans to associates (1)	35,051	34,384	33,080	32,413
Loans to customers and others (1)	125,614	115,601	92,609	87,196
Receivables in respect of a franchise arrangement	898,384	1,015,850	554,912	589,329
	1,059,049	1,165,835	680,601	708,938
Non-current liabilities:				
Loans from banks and other credit providers (1)	4,634,351	4,887,099	4,266,224	4,446,763
Bonds (1)	1,739,522	1,927,271	1,891,768	2,046,020
	6,373,873	6,814,370	6,157,992	6,492,783
Surplus of liabilities over assets	5,314,824	5,648,535	5,477,391	5,783,845

(1) The carrying value in the accounting records includes current maturities and accrued interest.

(2) See Note 3C in respect of the basis of the determination of the fair value.

(2) The interest rates used in the determination of the fair value

The interest's rates used in the discounting of the expected cash flows, where relevant, are based on the government yield curve for each individual type of loan, as of the reporting date, with the addition of an appropriate fixed credit margin, as follows:

	As of December 31	
	2012	2011
	%	%
Non-current assets:		
Loans to associates	7	8
Loans to customers and others	3.4-6.4	4-8
Receivables in respect of a franchise arrangement	3.3-4.01	4.11-4.54
Non-current liabilities:		
Loans from banks and other credit providers	0.64-5.7	2.5-5.6
Bonds	1.14-2.7	2.27-3.9

Note 37 - Financial instruments (Cont.)

F. Fair value: (Cont.)

(3) The hierarchy of fair value

The following table presents an analysis of the financial instruments that are measured at fair value, using an evaluation model. The various hierarchical levels have been defined as follows:

- Level 1: Quoted prices (without adjustments) in an active market for identical instruments.
- Level 2: Data which has been observed, directly or indirectly, which are not includes in level 1 above (in respect of investments in financial assets that were designated at fair value through profit and loss, use is made of up to date transactions in the market between a willing buyer and a willing seller. In respect of other financial investments, use is made of the expected interest rate and the expected change in the index.
- Level 3: Data that are not based on observed market data.

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trade:				
Government bonds	128,918	-	-	128,918
Marketable corporate bonds	226,054	-	-	226,054
Shares	94,532	-	-	94,532
Participation certificates in trust funds	16,136	-	-	16,136
Other	5,117	-	-	5,117
Derivatives not used for hedging:				
Forward transactions	-	130	-	130
Derivatives used for hedging:				
Interest rate SWAP contracts	-	960	-	960
Financial assets held for sale:				
Marketable shares	895,020	-	-	895,020
Non-marketable shares	-	-	612,923	612,923
Financial assets designated as at fair value through profit and loss				
Marketable shares	1,069	-	-	1,069
Non-marketable investments	-	19,019	-	19,019
	1,366,846	20,109	612,923	1,999,878
Financial liabilities:				
Forward transactions on CPI not used for hedge	-	497	-	497
Derivative instruments not used for hedging	-	11,170	-	11,170
Interest rate SWAP contracts used for hedge	-	703	-	703
Embedded derivatives	-	-	370	370
	-	12,370	370	12,740

Note 37 - Financial instruments (Cont.)

F. Fair value: (Cont.)

(3) The hierarchy of fair value (Cont.)

	As of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**	**NIS in Thousands**
Financial assets held for trade:				
Government bonds	487,252	-	-	487,252
Marketable corporate bonds	547,058	-	-	547,058
Shares	246,914	-	-	246,914
Convertible bonds	105	-	-	105
Participation certificates in trust funds	117,994	-	-	117,994
Other	2,463	-	-	2,463
Derivatives not used for hedging:				
Forward transactions	-	5,147	-	5,147
Derivatives used for hedging:				
Interest rate SWAP contracts	-	505	-	505
Financial assets held for sale:				
Marketable shares	770,693	-	-	770,693
Non-marketable shares	-	-	534,491	534,491
Financial assets designated as at fair value through profit and loss				
Marketable shares	1,389	-	-	1,389
Non-marketable investments	-	15,348	-	15,348
	2,173,868	21,000	534,491	2,729,359
Financial liabilities:				
Forward transactions on CPI not used for hedge	-	5,650	-	5,650
Call option on foreign currency	-	37	-	37
Interest rate SWAP contracts used for hedge	-	687	-	687
Embedded derivatives	-	-	1,700	1,700
	-	6,374	1,700	8,074

(4) Financial instruments that are measured at fair value at level 3

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

	For the year ended December 31	
	2012	**2011**
	NIS in Thousands	**NIS in Thousands**
Financial assets available for sale:		
Balance as of January 1, 2011	534,491	544,757
Total profits (losses) recognized:		
In other comprehensive income	44,133	(3,135)

In the income statement	(1,450)	206
Sales	(69)	(7,337)
Investments	1,873	-
Carried to level 3	33,945	-
	612,923	534,491

Note 38 - Related and interested parties

A. Parent company, controlling interest and subsidiary:

As aforesaid in Note 1A, the Company is a company that is held by Nadav Investments (a company that is resident in Canada) (the "**Parent Company**"), a company that is controlled by Mr. David Azrieli and his family. On the subject of material subsidiaries, see Note 41 in respect of the Group's entities.

B. Benefits for key managerial personnel (including directors who are employed by the Company):

Benefits in respect of the employment of key management personnel (including directors who are employed in the Company) include:

	For the year ended December 31					
	2012		2011		2010	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits (1) (3)	13	44,986	13	44,141	12	40,699
Other long-term benefits	1	53	1	(58)	1	1,512
Share based payments (2)	5	2,578	5	2,722	4	6,710
		47,617		46,805		48,921

(1) See also Note C(1) below

(2) See Notes 23A and 23C.

(3) Including 6 directors who are not employed by the Company.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties:

	For the year ended December 31				
	2012	2011	2010	2012	2011
	Amounts of transactions			Balances in balance sheet	
Interested party and related parties owned by the interested party	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Rental income	336	325	46		
Financing income, net	30	10	6		
Donations (9)	8,557	7,685	5,186		
Other receivables				11	3
Other payables				18,908	15,470
Associates					
Financing income	2,872	7,624	10,444		
Income from management services			242		
Income from services			5,796		
Loans and capital notes to associates				136,108	126,346
Trade receivables	232	31		35	21

	For the year ended December 31		
	2012	2011	2010
	Amounts of Transactions		
	NIS in thousands		
Key management personnel (including directors) in the Company (*)			
Interested parties who are employed by the Company	37,825	36,198	38,229
Number of persons to whom the benefit relates	4	4	3
Director remuneration for interested parties who are not employed by the Company	206	177	100
Number of persons to whom the benefit relates	2	2	2
Remuneration for directors who are not employed by the Company	918	717	261
Number of persons to whom the benefit relates	4	4	4

(*) This information is included in Section B above.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) On May 5, 2010 the Company's board of directors and the Company's general meeting approved an agreement for the provision of management services between the Company and Canadian companies wholly owned and controlled by Mr. David Azrieli (the "Management Company"), whereby the Management Company will provide the Company with management services through Mr. David Azrieli for a period of five years commencing from April 1, 2010 (the "Management Agreement").

Pursuant to Amendment 16 of the Companies Law, the term of the Management Agreement was shortened and it will expire in June 2013.

Under the agreement, the Management Company will grant the Company consulting, assistance, supervision and control services which include supporting the Group in its main fields of business, whilst making a significant contribution from the experience and expertise of Mr. David Azrieli or any person on behalf of the Management Company in the future, in development and architectural planning, consulting in the management and construction of retail centers and malls and office towers and the creation of a composition of diverse, high-quality and financially strong lessees, provision of professional and business support, including supporting various processes of the Company and the Group, assistance in identifying acquisition transactions for the Company and for the Group, assistance in the conduct of negotiations for acquisitions and mergers in the fields of business of the Company and the Group and supervision of management of market research and business development, all as the Company shall require for the purpose of promoting and supervising its business and as shall be required of the Management Company by the Company's board of directors from time to time (the "Services").

In the framework of the Services, if requested to do so by the Company, the Management Company shall provide the said services, either by way of membership on boards of directors or otherwise, also to the Group companies, in Israel and overseas, without any additional consideration.

In addition, and so long as the Company's board of directors shall not have decided otherwise, Mr. David Azrieli shall serve, for no additional consideration, as active chairman of the Company's board of directors other than in the framework of the Services, unless he shall have notified the Company a reasonable period of time in advance and no less than three months in advance that he shall cease to provide services as active chairman or until such date as the board of directors shall elect another suitable candidate or a temporary candidate, so long as no other candidate shall have been elected, whichever is earlier.

The Management Company has undertaken that the Services will be provided personally and exclusively by Mr. David Azrieli, who will be entitled to enlist the assistance of other employees or managers at the Management Company in a manner which will not derogate from the duties of the Management Company according to the agreement, so long as Mr. David Azrieli serves as chairman of the board of directors of the Management Company and/or as CEO of the Management Company, and the Management Company is wholly owned and controlled by him. Insofar as the Management Company shall provide Services in the future other than personally and exclusively by Mr. David Azrieli, the audit committee will be entitled to check their suitability for providing the Services, and insofar as the audit committee shall determine that they should be replaced by others, Mr. David Azrieli shall act to replace them by others within a reasonable period of time.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) (Cont.)

In consideration for the Services, the Company shall pay the Management Company an annual management fee in the sum of NIS 8 million for each calendar year, linked to the consumer price index known on April 15, 2010 in respect of the month of March of that year (the "**Management Fee**"). In addition to the Management Fee, the Management Company will be entitled to receive an annual bonus in an amount equal to the rate of 1% of the EBITDA of the Company (earnings before interest, taxes, depreciation and amortization) in accordance with the annual consolidated and audited financial statement of the Company, provided that the EBITDA is not negative (the "**Annual Bonus**"). In the framework of the Management Agreement, it was agreed that the sum of the Management Fee plus the Annual Bonus would not exceed the sum of NIS 24 million in any calendar year, linked to the consumer price index known on April 15, 2010 in respect of the month of March of that year.

The total Management Fee sum for 2012 amounted to approx. NIS 23,072 thousand (last year, approx. NIS 21,161 thousand)

In addition to the Management Fee and the Annual Bonus, the Company will bear Car maintenance and communication expenses in an amount no greater than the annual sum of NIS 175,000, which amount is linked to the rise in the index, the aforesaid expenses amounted in 2012 to approx. NIS 54 thousand.

In addition, and without derogating from the aforesaid, the Company will bear all of the expenses of the Management Company, in the framework of provision of the Services to the Company, including entertainment expenses, travel expenses and *per diems* in Israel and overseas, all in accordance with the Company's procedures and against presentation of appropriate evidence. Reimbursement of the expenses will not exceed maximum amounts, as will be discussed from time to time at the audit committee and will be determined thereby as appropriate, considering the Company's business and the scope thereof.

In accordance with the aforesaid, the audit committee, on March 27, 2011, approved a framework for repayment of expenses to the Management Company for the purpose of provision of the services, which will not exceed the annual sum of NIS 2 million, including in connection with repayment of flight expenses in first class or on a private plane as necessary, *per diems*, hospitality etc., which will be paid against presentation of appropriate evidence, as stated in the Management Agreement. The said expense cap does not include expenses in respect of car and telephones, in respect of which a separate cap was determined in the framework of the Management Agreement. The audit committee stated that the annual amount was determined in accordance with the scope of the Company's business and the scope of the services which the Management Company provides to the Company and their great importance and contribution to the Company.

The expenses of the chairman of the board in connection with provision of the said services, considering his circumstances are required for the business needs of the Company and as part of the ordinary course of business. Considering the aforesaid, the audit committee believes that the annual expense cap and the procedure determined for approval and examination thereof, are in the best interests of the Company and are reasonable and fair under the circumstances. The audit committee further decided that it will examine, at the end of each calendar year, the expense cap determined above and its commensurability with the Company's business and the scope thereof, with the needs of the Company and the scope of the management services. In 2012 the sum of the expenses

as aforesaid amounted to the aggregate amount of approx. NIS 0.8 million (2011 – NIS

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) (Cont.)

0.8 million).

On March 14, 2013, the Company's audit committee examined the expenses of the Management Company for 2012 and determined that such do not exceed the framework set for this purpose and that the determined expenses cap is suitable for the Company's business and the scope thereof, the Company's needs and the scope of management services provided by the Management Company.

In the framework of the Management Agreement the parties agreed that the Management Company would be entitled to borrow from the Company up to the sum of NIS million per year. The Management Company will be obligated to repay all of the amounts of the loans taken thereby as aforesaid, plus linkage differentials and annual interest at the rate of 4% (from the date of the taking of each and every loan), by and no later than sixty days after approval of the date of payment of the Annual Bonus to the Management Company.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) (Cont.)

In any case of termination of the agreement or expiration thereof as aforesaid, insofar as on such date there shall be guarantees or commitments that Mr. David Azrieli shall have provided for the liabilities of the Company and/or the Group vis-à-vis banking corporations in Israel and overseas, the Company has undertaken to ensure that Mr. David Azrieli will be released from such guarantees or commitments prior to expiration of the agreement.

Pursuant to the agreement the audit committee examined on March 14, 2013, the Services which were provided by the Management Company in that year and shall report to the Company's board of directors, before approval of the annual financial statements, on the results of its examination. The Company's board of directors examined, pursuant to the applicable law, whether the consideration is fair and reasonable, and for such purpose, received from the audit committee its opinion and a specification of the relevant data, including a specification of the Services provided as aforesaid.

(2) Granite's general meeting has approved:

a. The provision of an indemnification in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, in the past, present and future. The commitment to indemnification is limited to certain types of events and to amounts as detailed in the decision that was passed.

   The cumulative maximum amount of the indemnification, for all of the officers, may not exceed 20% of Granite's equity in accordance with the last financial statements that are known at the time of the passing of the decision in respect of the indemnification, with the addition of amounts that will be received from the insurance companies

b. The granting of an exemption in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, from liability in respect of damage caused as the result of a breach of the duty of due care vis-à-vis the Company.

c. Liability insurance of the officers in Granite and in its consolidated companies, for a period of 18 months from November 30, 2011 and within a limit of overall responsibility per case and for a period of U.S. $40 million, with the addition of legal expenses in Israel in an amount of U.S. $8 million per case and cumulatively for the period. In addition, Granite has purchased a liability insurance policy for its officers alone, with an additional cover of U.S. $10 million.

d. Expansion of the indemnification granted to Granite's officers and directors to apply also to events arising from the Improvement of Enforcement Law, within the limits of the law. Granite further limited the retroactive indemnification amount to 20% of its equity according to the financial statements, as being on the date of actual granting of the indemnification. Further approved was the granting of indemnification also to Ms. Danna Azrieli, who is deemed a controlling shareholder of the Company. The granting of an exemption to Ms. Danna Azrieli is subject to approval by the general meeting of Granite's shareholders.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(3) See Note 33 in respect of the guarantees that the Group has made available to companies in the Group.

(4) See Note 9C in respect of loans that have been extended to associates.

(5) On January 16, 2011, the Company's board of directors confirmed, after the approval and recommendation of the Company's audit committee, that Mr. Menachem Einan, the Company's former CEO ("Mr. Einan") would be promoted and appointed as Active Deputy Chairman of the Company's board of directors, in lieu of his position as CEO of the Company. In his said position, Mr. Einan shall be deemed as one of two deputy chairmen of the board who the board of directors may choose, as stated in the Company's articles of associations, in addition to Ms. Danna Azrieli, who has served, as of the date of this report, as active vice chairman of the board since June 2010. Mr. Einan will be responsible, in his new position, for the strategic fields relating to the continued business development of the Group, and realization of its long-term vision. The appointment took effect on April 1, 2011. In accordance with a management agreement that was signed between the Company and Mr. Einan dated March 1, 2010, the terms and conditions of the management agreement with Mr. Einan shall remain in effect.

Menachem Einan Ltd., a company held and fully controlled by Mr. Menachem Einan (the "Management Company") is entitled to a fixed monthly payment of NIS 300,000, linked to the Consumer Prices Index, which was published on June 15, 2009 and it is entitled to ancillary benefits, including the making available of a motor vehicle (up to Group 7), cellular telephones (including the expenses in respect thereof, reimbursement of expenses and the tax gross-up therefor).

In addition, the management company will be entitled once a year to fixed annual remuneration in an amount of NIS 1,000,000, which will be paid no later than the month of April in the following year. The said amount will be linked to the Consumer Prices Index, where the bases index will be the Index for May 2009.

The management agreement is for a period of three years, from the time that it enters force (the "First Period"). If neither of the parties has given notice of the termination of the agreement, at least 6 months prior to the end of the First Period, the agreement will be automatically extended for an additional two years from the end of the First Period (the "Second Period"). The aforesaid notwithstanding, during the course of the Second Period, each for the parties to the agreement can bring the agreement to an end, at their own judgment, by given written notice in advance, which is to be presented to the other party 6 months in advance. Without derogating from the generality of the aforesaid, it is hereby clarified that from the time of the end of the making available of the management services by the management company to the Company, and this for any reason whatsoever, including the end of the validity of the Management Agreement, the management company will be entitled to full payment of the consideration for an additional period of 12 months.

On May 5, 2010 the Company’s Board of Directors and General Meeting approved the agreement of March 1, 2010.

In addition, in 2010, the management company was granted 395,778 phantom units in the total value of approx. NIS 12 million (see also Note 23).

In addition, Mr. Menachem Einan also holds office as the Chairman of Granite Hacarmel.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(5) (Cont.)

In April 2010 the general meeting of shareholders of Granite approved, by a special majority, after receiving the approval of the audit committee and board of directors of Granite, the payment of annual remuneration to Granite chairman of the Board, Mr. Einan and/or a company controlled by him, in the amount of NIS 384,000 a year, commencing on January 1, 2010 and for so long as he serves as an active chairman of the board in Granite and until otherwise decided (the "**Annual Remuneration**"). The payment of the Annual Remuneration does not derogate from the payment of fees for participation in the board meetings to which the chairman of Granite's board is entitled to according to the resolution of the general meeting of Granite dated March 29, 2007 and the options granted to the chairman of Granite's board according to the resolution of Granite's general meeting dated May 8, 2007 and the update of their terms on August 17, 2009.

In January 2013, Mr. Einan announced his waiver of the aforesaid remuneration.

(6) Appointment of the Company's CEO and approval of the terms of his office:

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

The Management Company is entitled to a fixed monthly payment of NIS 250,000, linked to the consumer price index for the month of January 2011 that was published on February 15, 2011, and is entitled to related benefits, including provision of cars (group 7), or alternatively the Company shall bear any and all expense costs of the car purchased by Mr. Sherf or by the Management Company (including depreciation) and telephones.

In addition, the Management Company is entitled, once a year, to annual compensation in the sum of NIS 1,000,000, to be paid in two semi-annual installments. The amount as aforesaid shall be linked to the consumer price index.

Similarly to the terms and conditions of the existing phantom unit allotment plan at the Company, in April 2011 the Management Company was granted 284,527 phantom units at a total value of NIS 9 million according to a base price determined according to an average share price in March 2011, which was NIS 98 (see also Note 23).

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

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

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

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(6) (Cont.)

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

(1) If the notice was given during the First Period – an amount equal to 6 monthly payments.

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

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

(1) The company and/or the manager shall have been convicted of an offence involving moral turpitude.

(2) The company and/or the manager shall have committed a fundamental breach of the fiduciary duty vis-à-vis Azrieli Group.

(7) On May 1, 2010, the Company engaged in an agreement with an interested party in the Company, whose main provisions are as follows:

The management services that will include, in accordance with the agreements between the parties, as they may be from time, the services of the active Deputy Chairman of the Board of Directors and/or the Replacement Chairman of the Board of Directors and/or the Chairman of the Board of Directors and/or a Director and/or a managerial position in the Company. On June 1, 2010 the interested party was appointed as a director at the Company and on June 8, 2010 the board of directors ratified her appointment as an active deputy chairman of the board at the Company, pursuant to the agreement, as aforesaid.

The management services will be extended at a capacity of 80% of a position. The management company will be entitled to notify the Company, at any time, by giving written notice 7 days in advance, of the need for a change in the scale of the management services, by reducing the scope of the management services and the monthly consideration, which is due to the management company, will be reduced accordingly.

The management company will be entitled to a fixed monthly payment in an amount of NIS 164,711 (the "**Monthly Consideration**"), linked to the rate of increase in the Consumer Prices Index, from the known index in respect of September 2009. The management company will be entitled to ancillary benefits, including the making available of a group 7 motor vehicle or higher, a mobile telephone and a land line telephone (including the expenses in respect thereof) as well as the reimbursement of expenses.

The Management Agreement will be in force from May 1, 2010 ("the determining date", and it will be in force for a period of 5 years from the determining date (the "First Period"). The parties are entitled to extend the period of the Management Agreement at their own prerogative and subject to any legal provisions, and in such a case the validity of the agreement will be extended for additional periods of 5 years each. Pursuant to Amendment 16 of the Companies Law, the period was shortened and the agreement will expire in June 2013.

Each of the parties to the Management Agreement can bring it to a conclusion by giving 90 days written notice in advance to the other party.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(7) (Cont.)

The Company will be entitled to waive the actual receipt of the management services by giving prior notice, in whole or in part, against the payment of the Monthly Consideration and the additional components of the consideration for the management company, as of it has continued to extend the management services up to the end of the period of the advance notice.

In addition to the period of advance notice, the management company will be entitled to a period of adaptation of 270 days, and in any event where the engagement is terminated, the management company will be paid the full consideration in respect of the period of adaptation with the addition of all of the components of the consideration, as aforesaid.

On May 5, 2010 the Company's Board of Directors and the Company's general meeting approved the agreement dated May 1, 2010.

In addition, the abovementioned interested party is awarded remuneration in respect of its holding office as a director in Granite Hacarmel and in GES.

As of October 2012, the interested party ceased to serve as a director at Granite Hacarmel and GES.

(8) On May 5, 2010, the Company's general meeting, after the approval of the Company's Board of Directors had been received on May 5, 2010, gave its approval that within the framework of the annual contributions which are given to charities by the Company, whose scope shall be determined by the Company's board of directors from time to time, the Company shall remit, inter alia, through contributions to the Azrieli Foundation (Israel) (Registered Charity), (the "Foundation")The resolution was adopted based on an examination of the main objectives of the Foundation which are to act to promote education and culture in Israel, through projects in the field of education, culture, welfare and science, the execution of project and the conducting of research alone and/or in conjunction with other organizations, including by means of awarding grants to organizations and/or individuals for the purpose of the performance of projects and/or research work that accords with the objectives of the Foundation, which have been examined and found to accord with the Company's policy on contributions. There is nothing in the said decision that prevents the Company's Board of Directors from resolving to make contributions to other charitable entities, whose objectives accord with the Company's policy on contributions, as they may be from time to time.

Within the framework of the said decision by the general meeting, it was determined that during the period until May 2015, the company will donate to the Foundation, in each calendar year, by itself or by means of companies that it controls (except for Granite), an amount that constitutes 1.5% of the Company's annual profit and in any event not more than an amount of NIS 14 million.

The contributions remitted by the Company to the Foundation shall be used for the making of contributions and for the current needs of the Foundation. This contribution will be considered as a contribution that comes out of the Company's annual budget for contributions, as it may be determined by the Company's Board of Directors from time to time.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(8) (Cont.)

The Company's internal auditor was appointed by the Company's Board of Directors, to examine in each calendar year and prior to the time of the signing of the financial statements for that year, the total scope of the contributions that the Foundation has contributed in that year, and the correlation between the contribution that stood at the basis of the decision by the general meeting that approved the annual contribution, as aforesaid and shall submit a written report to the audit committee. On March 14, 2013, the Company's audit committee approved the reasonableness of the period which was set at 5 years.

(9) In May 2010, Provident Yield for Investments Ltd. ("**Provident Yield**") entered into an agreement with the Foundation (see Section 9 above), according to which Provident Yield will lease an area of approx. 242 sqm out of the office space in the Herzliya Business Park project, which is owned by the Group, and will also provide to the Foundation management and maintenance services as it provides to the other tenants in the project, which include, *inter alia*, cleaning, maintenance, building insurance and third party insurance for the public areas, payments of municipal taxes in respect of the public areas and gardening for a period of five years, with an option to extend the period for an additional five years, in consideration for a quarterly payment of approx. NIS 81 thousand.

On March 27 and 29, 2011, respectively, the audit committee and the board of directors confirmed that the transaction whereby the Foundation will pay a debt to Provident Yield in respect of the costs of the adjustments to the leased premises, in the total sum of NIS 782,735 plus V.A.T, in 39 quarterly installments together with the rent, plus annual interest at the rate of 7% and linkage differentials, as accepted with other tenants, is a transaction which is neither irregular nor negligible.

(10) Remuneration of the directors - in accordance with the decision of the Company's BOD and the Company's general meeting, from May 10, 2010 and August 24, 2010, the remuneration of the external directors, who are appointed in the Company, to be in accordance with the Companies Regulations (Principles for the remuneration and expenses for an external director) – 2000 (the "Remuneration"). The annual remuneration and the remuneration for participation (including remuneration as an expert outside director) will be paid in accordance with the maximum amount that is set in the remuneration regulation, in accordance with the Company's capital grade, as it may be from time to time.

In accordance with the decision of theCompany's Board of Director and general meeting as of May 6, 2010, the payment to the Company's directors, except for the independent external directors and except for directors who receive fees from the Company (whether themselves or by means of management companies that they control), in an amount of NIS 65 thousand and remuneration for participation in meetings in an amount of NIS 2,300. The amounts of the Remuneration will be Index-linked in accordance with the provisions of the Remuneration Regulations, In addition, the provisions of Sections 5 (B) and 6 (A) of the Remuneration Regulations will apply to the Remuneration paid to the directors, *mutatis mutandis*.

Note 38 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(11) In respect of the plan for the allocation of phantom units to the Active Deputy Chairman of the Company's Board, to the Company's CEO and to senior officers and employees in the Group, which was approved by the Company's BOD and by the general meeting of the shareholders on May 5, 2010, see Note 23A.

(12) According to the estimate of Granite's management, all of the transactions of Granite and the subsidiaries thereof with interested parties and affiliated parties are made under market conditions and under customary credit conditions while obtaining the approvals required according to any law.

Granite reviewed the transactions vis-à-vis interested parties and related parties in order to examine the materiality and/or negligibility of these transactions. In this review, a transaction was deemed "negligible" if it met the following conditions: (a) the transaction itself, as a single transaction, is "negligible". (b) all of the transactions of the same kind with the same interested party are immaterial. (c) there is no connection between the various transactions of the same kind. (d) Granite does not have available information according to which the said transactions are classified as transactions with an interested party. It arises from Granite's review that transactions vis-à-vis interested parties and related parties were made in the ordinary course of business and include, *inter alia*, transactions of sale of oil distillates in fuelling stations, paint sale and receipt of services in the course of current operations. It transpired from the review that transactions performed during 2010-2012 are in compliance with the terms of "negligible" transaction, as aforesaid.

D. Exemption, insurance and indemnification for officers and directors:

In accordance with the decision passed by the Board of Directors and the general meeting of the Company's shareholders on May 6, 2010. the Company has granted officers and the directors, as they may be from time to time, an exemption in advance and retrospectively from their responsibility, in whole or in part, as a result of any damage that may be caused to it and/or that has been caused to it, whether directly or indirectly, as a result of a breach of a duty of care of the Board of Directors and the officers to it and to its subsidiaries, and as officers and/or as directors in the Company or officers and/or directors acting on the Company's behalf in the subsidiaries. In accordance with the provisions of the Companies Law and in accordance with the wording of the letter of undertaking for the indemnification, the undertaking for the indemnification will apply in respect of: (a) a financial indebtedness that is placed on an officer and/or director in favor of another person under a judgment, including a judgment that is handed down as a compromise or a judgment of an arbitrator that is approved by a court and solely that those actions relate to one or more of the events that are detailed in the letter of indemnification; (b) reasonable expenses of hearings, including lawyers' fees, which are expended by an officer and/or a director or that they were charged to pay by a court, in proceedings that were presented against them by the Company or in its name or in the name of another person, or on a criminal indictment that they are acquitted of, or on a criminal indictment on which they are found guilty and which does not require proof of criminal intent; (c) reasonable expenses of hearings, including lawyers' fees that have been expended by an officer and/or a director, as the result of an investigation or proceedings that are conducted against them by an authority that is authorized to conduct the investigation or proceedings, and which ended without the presentation of an indictment against them and without any financial liability being placed upon them as an alternative to criminal proceedings, or which ended without the presentation of an indictment against them but with the placement of a financial liability as an alternative to criminal proceedings in a transgression which does not require proof of criminal intent.

Note 38 - Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

The amount of the indemnification that the Company will pay to each officer (including directors), cumulatively in accordance with each letter of indemnification that is issued to them by the Company in accordance with the indemnification decision, in respect of one or more of the events that are detailed in the letter of indemnification, may not exceed 20% of the capital that is attributed to the shareholders in the Company in accordance with the last financial statements of the Company (audited or reviewed), which were published before the date of the indemnification.

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

In addition, at the same time the Board of Directors and the general meeting of the Company's shareholders gave their approval for the Company being entitled to purchase directors and officers insurance policies, as detailed below:

On May 6, 2010, the Company's Board of Directors and the Company's general meeting approved a resolution whereby the Company shall be entitled, at any time during five periods of insurance, commencing on June 3, 2010, and with the approval of the audit committee and the Board of Directors of the Company, without requiring an additional approval of the general meeting therefor, to purchase policies to insure the liability of directors and officers as shall serve in the Company from time to time, to extend and/or to renew the existing insurance policy and/or to engage in a new policy at the time of renewal or during the period of the insurance, with the same insurer or another insurer in Israel or abroad, on terms similar to the policy which was approved on such date and as specified below, to insure the liability of directors and/or officers, provided that such engagements shall be on the basis of the principal conditions set forth below. The Company's engagements as aforesaid shall not be brought before the general meeting for additional approval thereby, and shall be approved by the audit committee and the Board of Directors of the Company, including with respect to directors on behalf of the controlling shareholder, which shall confirm that the new policies comply with the following conditions:

a. The liability cap in the framework of the insurance policies, as they shall be taken out from time to time by the Company, shall not exceed US $100 million per event and for the period of the insurance, with the addition of costs of legal defense at a rate of up to 20% of the liability cap to be purchased (in Israel only).
b. The deductible per claim for the Company shall not exceed US $150 thousands, in accordance with the cause of action and the place of filing thereof.
c. The annual insurance premium shall not exceed the amount of US $250,000.
d. The insurance policy shall be expanded to cover claims to be filed against the Company (as distinguished from claims against directors and/or officers thereof), which concern the violation of securities laws at least in Israel (Entity Coverage for Securities Claims), and procedures for the payment of insurance benefits shall be determined, pursuant to which the right of the directors and/or officers to receive indemnification from the insurer pursuant to the policy shall precede the right of the Company.

Note 38 - Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

e. The policy shall also cover the liability of the controlling shareholders, in their capacity as directors and/or officers in the Group, from time to time, provided that the terms of coverage for them shall not exceed those of the other directors and/or officers in the Group.

In accordance with the aforesaid, on May 30 and 31, 2012 the Company's audit committee and Board of Directors, respectively, approved the extension of the Company's engagement in a D&O insurance policy, which is on the basis of the day on which the claim is filed (claims made) for a period of up to 12 months commencing on June 3, 2012. The said insurance policy shall cover all of the directors and officers in the Company and in the subsidiaries, as they may be from time to time, including under the force of their roles as directors and officers in the Company's subsidiaries, except in relation to the Granite Hacarmel Group, which holds an independent D&O insurance policy (all of the directors and officers of the Company who hold office in the Granite Hacarmel Group will be covered under the Company's policy in connection with their office at Granite Hacarmel only in excess of the existing coverage of Granite Hacarmel's D&O policy). The maximum liability limit of the insurer is up to an amount of U.S. $100 million per event and for an insurance period with the addition of expenses relating to the legal defense at a rate of up to 20% of the limit of liability that is purchased (in Israel alone), the annual premium to be borne by the Company being in the amount of U.S. $121 thousand and the self deductible for a claim for the Company alone in respect of claims against directors and officers may not exceed U.S. $50 thousand, in accordance with the grounds for the claim and the place where it is presented.

The insurance policy has been expanded to cover claims that are filed against the Company (to differentiate from claims against directors and/or officers in it), the subject matter of which is a breach of the Securities Law, at least in Israel (entity coverage for securities claims), however, the right of the directors and/or the officers to receive indemnification from the insurer in accordance with the policy has preference over the right of the company.

In addition, the Company's audit committee and Board of Directors have confirmed that the engagement in the said policy complies with the conditions approved by the Company's general meeting.

POSI type policy – On June 3, 2010 the Company purchased a POSI (Public Offering of Securities Insurance) type insurance policy, which covers the responsibility of the Company, the directors and the officers in it, the controlling interests and additional parties, who have taken part in the issue to the public of shares in the Company in accordance with the prospectus that was issued in May 2010 (hereinafter: "The issue"), against claims that may be filed against them in connection with the issue and this for a period of 7 years from the time of the issue. The maximum limit of responsibility of the insurer in accordance with this policy may not exceed U.S. $100 million per event and per insurance period, with the addition of expenses relating to the legal defense at a rate of up to 20% of the limit of liability that is purchased (in Israel alone), the annual premium is in the sum of U.S. $250 thousand, and the self deductible for a claim for the Company in respect of claims under this policy shall not exceed U.S. $35 thousand.

Note 38 - Related and interested parties (Cont.)

E. Negligible transactions

On November 24, 2010, the Company's BOD decided to adopt guidelines and rules regarding the classification of transactions which are not exceptional transactions, of the Company or of a consolidated company thereof with interested parties therein or controlling shareholders, as a negligible transactions. Such guidelines were prescribed, *inter alia*, considering the scope of the Company's assets, the diversity of its businesses, the nature of the transactions performed thereby and the level of effect thereof on the Company's business and results.

Note 38 - Related and interested parties (Cont.)

E. (Cont.)

Such rules and guidelines will serve on the one hand for examining the need to approve the transaction at the relevant institutions in the Company, and on the other hand, for examining the duty and/or scope of disclosure in the periodic report and the prospectus (including in shelf offer reports), and/or the provision of an immediate report in respect of such a transaction. It shall be clarified, that such procedure does not address transactions of public companies held by the Company, *inter alia*, due to their being reporting companies on their own merit, and the Company shall report according to the reports thereof, if and to the extent such will be required according to law.

The Company's BOD determined that a negligible transaction at the Company is a transaction which is not exceptional (i.e. – it is done within the ordinary course of business, to the benefit of the Company and under market conditions) with controlling shareholders or another person in which the controlling shareholder has personal interest, if it complies with the following criteria:

(1) In respect of the duty to provide and immediate report – a single negligible transaction in a company or a subsidiary controlled thereby, does not exceed the rate of 0.1% of the Company's consolidated equity according to the last financial statements; in case of ongoing transactions (including rent, leases and so forth), according to the monthly transaction amount, or the total sum of the transaction for the whole duration of the engagement, according to the shorter/lower between them. For the purpose of immediate report, the negligibility of a transaction will be examined on the basis of the specific single transaction, and to the extent such will pass the negligibility threshold, the Company will report such transaction through an immediate report.

(2) In respect of providing specification in the annual report – the total sum of all of the transactions of a certain type in the Company or a subsidiary controlled thereby, in a calendar year has not exceeded a rate of 0.5% of the Company's consolidated equity according to the last annual reports. The Company will include the types of transactions and aggregate amount thereof within its annual report only if the total amount exceeds the rate stated above. For the purpose of reporting within a periodic report, financial statements and a prospectus (including a shelf proposition report), the negligibility of the aggregate of all of the transactions of the same type of the Company with the interested party or with corporations controlled by the interested party, will be examined on an annual basis.

Upon the classification of transactions as negligible, each transaction will be examined in itself, however, the negligibility of integrated transactions, or such that are contingent upon each other or transactions of the same type, will be examined in the aggregate as one transaction. In respect of multiannual transactions (agreements for a period of several years), the scope of transaction will be calculated for examination of the negligibility threshold on an annual basis (i.e. – the total monetary amount deriving from the transaction exceeding the negligibility threshold as aforesaid). In insurance transactions, the premium will be examined as the transaction amount. Regardless of the insurance coverage provided, multiannual insurance transactions will be measured on the basis of the annual insurance fees paid or collected.

Note 38 - Related and interested parties (Cont.)

E. (Cont.)

The transactions classified as negligible by the Company's investees will be deemed as negligible at the Company level too, while those classified by them as non-negligible, will be examined on the Company level. In case that the Company does not have available information allowing the examination of the classification of transactions classified as non-negligible, as negligible transactions, then the aggregate of all of the transactions of the same type will be deemed as a negligible transaction, except if in light of the figures known to the Company one of the two conditions has been fulfilled: (1) According to the quantitative parameters above, the transaction in itself as a single transaction is not negligible; (2) the aggregate of the transactions is material to the Company.

Notwithstanding the aforesaid, the examination of the qualitative considerations of a negligible transaction from the quantitative aspect, may lead to the classification thereof as a transaction which is not negligible, if due to its nature, materiality and effect on the Company it is perceived as a significant event by the Company's management and serves as a basis for adoption of important managerial decisions or if within the context of the interested parties transaction, the interested parties are expected to receive benefits with regard to which there is significance in the reporting thereof to the investors' public. It is clarified that even if an interested party's transaction complied with the quantitative test below, it will not be deemed negligible if such qualitative considerations indicate a material aspect thereof.

The Approving Entity

Pursuant to Section 22.3 of the Company's articles of association, the board of directors determined that the examination of the classification of an interested parties' transaction as a negligible transaction will be done by the CFO and the Company's secretary in cooperation with legal consultation to the extent required, and in any approval of a transaction as negligible the examination and classification proceeding will be documented.

The BOD further authorizes the Company's CEO or the CFO to approve the performance of non-irregular transactions, including transactions which comply with the negligibility definition pursuant to this procedure (for so long as both of the do not have any personal interest in such transactions, as in such case, the transaction will be approved by the chairman of the audit committee, and for so long as the subject matter is not a transaction pertaining to the terms of office and employment of an officer).

Supervision and Audit

The audit committee shall review on an annual basis the manner of implementation of the provisions of this procedure by the Company and will also perform a sample examination of transactions classified as negligible transactions according to the provisions of the procedure. Within the context of the sample examination, the audit committee will examine, *inter alia*, the manners of determination of prices and the remaining terms of the transaction, according to the circumstances of the matter, and will examine the effect of the transaction on the business status of the Company and the results of the business thereof. Within the periodic report, the Company shall include disclosure regarding the performance of the review, manner of performance of the examination, results and conclusions thereof.

The Company's board of directors will examine the need for the update of this procedure from time to time, considering interested parties transactions in which the Company engages, material changes in the scope of business of the Company and the relevant financial figures and changes in the relevant provisions of law.

Note 38 - Related and interested parties (Cont.)

E. (Cont.)

After discussing the implementation of the provisions of the negligible transactions procedure and reviewing the consideration for the negligible transactions signed in 2012 and their other characteristics vis-à-vis the market conditions, that was held on dec 31, 2012, the audit committee and the board of directors determined that they were all made under accepted market conditions and they have no material effect on the Company's business position and results of operations. They further determined that all of the transactions examined as aforesaid were found to be transactions that meet the definition of "negligible transaction" in accordance with the Company's procedure in respect of negligible transactions, and that this procedure was adequately implemented by the Company.

Note 39 - Segmental reporting

A. General:

The Company applies IFRS 8, "Operating Segments" ("IFRS 8"). In accordance with the provisions of the standard, operating segments are identified on the basis of the internal reporting in respect of the components of the Group, which are reviewed on a regular basis by the Group's chief operational decision maker for the purpose of the allocation of resources and the evaluation of the performance of the operating segments.

The Company's business activities focus primarily on the income-producing property segment, where most of the Group's business activity is in the retail centers and malls segment, primarily in Israel and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA as aforesaid (primarily office space for lease). In addition, the Company is engaged, through its holding in Granite Hacarmel, in an additional operating segment, which covers the paints, energy, water and the environment segments.

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.
Segment B –Office and other space for lease in Israel.
Segment C – Income-producing property in the USA.
Segment D - Granite Hacarmel.

Note 39 - Segmental reporting (Cont.)

B. Operating segments:

	For the year ended in December 31, 2012					
	Retail centers and malls in Israel	**Office and other space for lease Israel**	**Income-producing propertyUSA**	**Granite Hacarmel**	**Adjust-ments**	**Con-solidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Income:						
Total external income	874,483	340,079	181,199	7,658,564	1,029	9,055,354
Total segmental expenses	172,599	58,367	78,351	7,367,843	77	7,677,237
Segmental profit (NOI)	701,884	281,712	102,848	290,721	952	1,378,117
Profit, net of adjustments of the fair value of investment property and investment property under construction	84,478	142,359	88,099	13,960	-	328,896
Un-attributed expenses						(87,176)
Financing expenses, net						(374,983)
Other income, net						25,596
The Company's share in the results of associates, net of tax						(12,033)
Income before taxes on income						1,258,417
Additional information:						
Segmental assets	9,601,137	4,751,465	1,570,099	5,978,628	-	21,901,329
Unallocated assets (*)						2,129,180
Total consolidated assets						24,030,509
Capital investments	85,124	340,531	411,596	123,312	-	960,563

(*) Mainly financial assets held for trade in the sum of NIS 422 million and available for sale financial assets in the sum of approx. NIS 1,414 million.

Note 39 - Segmental reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended in December 31, 2011					
	Retail centers and malls in Israel	**Office and other space for lease Israel**	**Income-producing property USA**	**Granite Hacarmel**	**Adjustments**	**Consolidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Income:						
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
Profit, net of adjustments of the fair value of investment property and investment property under construction	554,600	217,987	76,051	221	-	848,859
Un-attributed expenses						(73,185)
Financing expenses, net						(489,498)
Other income, net						47,104
The Company's share of the results of associates, net of tax						(17,512)
Income before taxes on income						1,499,093
Additional information:						
Segmental 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
Capital investments	323,786	727,402	682,641	-	-	1,733,829

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

Note 39 - Segmental reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended in December 31, 2010					
	Retail centers and malls in Israel	**Office and other space for lease Israel**	**Income-produc-property USA**	**Granite Hacarmel**	**Adjust-ments**	**Con-solidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Income:						
Total external income	754,137	301,641	35,032	5,252,470	642	6,343,922
Total segmental expenses	139,823	54,870	14,399	5,074,980	49	5,284,121
Segmental profit (NOI)	614,314	246,771	20,633	177,490	593	1,059,801
Profit (loss), net of adjustments of the fair value of investment property and investment property under construction	775,704	109,096	6,977	(1,080)	-	890,696
Un-attributed expenses						(71,297)
Financing expenses, net						(362,802)
Other income, net						52,243
The Company's share of the results of associates, net of tax						(21,378)
Income before taxes on income						1,547,263
Additional information:						
Segmental assets	8,445,171	3,437,387	281,321	4,921,319	-	17,085,198
Unallocated assets (*)						4,258,180
Total consolidated assets						21,343,378
Capital investments	420,290	42,618	4,441	-	-	467,349

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

Note 40 - Events in the Report Period

a. 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 during the Report Period, following which, on May 31, 2012, the Products and Services Price Control Order (Maximum Prices at Fuelling Stations), 5772-2012 was published, raising the marketing margin by approx. NIS 0.05, and reducing the full service supplement by approx. NIS 0.04. The effect on the results in the reported periods is immaterial.

b. On May 22, 2012, a full tender offer was accepted, which was released by Granite, to purchase all of the shares of Tambour Ltd. ("Tambour"), a public subsidiary of Granite, at the price of NIS 6 per Tambour share in cash (for a total consideration of approx. NIS 61,620 thousand), and all pursuant to the terms which Granite 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 holds (jointly with Tambour) the entire share capital and voting rights of Tambour, Tambour has become a private company pursuant to Section 339 of the Companies Law, and its shares have been delisted from the TASE.

The purchase of the shares was financed by a loan bearing Prime interest plus 1.2% and payable on December 31, 2012. Against the provision of such loan, Granite pledged in favor of the bank 49% of Tambour's shares.

The difference between the consideration paid and the change in the non-controlling interests in the sum of approx. NIS 265 thousand, was carried to a capital reserve as a debt balance.

c. On September 24, 2012, a full tender offer was accepted, which was released by the Company together with Canit Hashalom Investments Ltd., a company controlled by the Company, which held approx. 60.61% of Granite's issued and paid-up share capital, for the purchase of all of the shares not held by the offerors, 57,955,689 shares, constituting approx. 39.39% of Granite's issued and paid-up capital, in consideration for the sum of 549 Agorot per NIS 1 share of Granite's stock, for a total consideration of approx. NIS 318 million. Accordingly, as of the Report Date, the Company holds the full share capital and voting rights of Granite, which has become a private company pursuant to Section 339 of the Companies Law and whose shares have been delisted from the TASE**.**

The purchase of the shares was financed through internal financing of the Group.

The difference between the consideration paid and the change in the non-controlling interests in the sum of approx. NIS 22 million is carried to a capital reserve as a credit balance.

Note 41 - Material Event after the Date of the Financial Statements

Pursuant to a resolution of the Board of Directors dated March 19, 2013, it has been resolved to distribute a dividend in the total amount of NIS 265 million, which represents approx. 36% of the Company's net profit, to the Company's shareholders for 2012,net of real estate revaluations and linkage differentials accrued and unpaid and net of the tax effect thereon.

Note 42 - Entities in the Group

The following is a list of main investee companies:

	Holding and control rates of the holding company as of December 31, 2012
	%
Consolidated companies:	
Canit Hashalom Investments Ltd.	99.12
Gemel Tesua for Investments Ltd.	100.00
Otzma & Partners Maccabim Investments Ltd.	100.00
Otzem Entrepreneurship and Investments (1991) Ltd.	100.00
International Consultants (E-Consult) Ltd.	100.00
AG Plaza at Enclave LLC	100.00
Granite Hacarmel Investments Ltd.	100.00
Sonol Israel Ltd.	100.00
Tambour Ltd.	100.00
G.E.S. Global Environmental Solutions Ltd.	100.00
Via Maris Desalination (Holdings) Ltd.	100.00
Supergas – The Israeli Gas Distribution Company Ltd.	100.00
A partnership held by the Company - AG Galleria Office Buildings, LP	90.00

The Azrieli Group Ltd.

Separate Financial Information

For the Year 2012

Prepared pursuant to the provisions of Section 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

The Azrieli Group Ltd.
Separate Financial Information
For the Year 2012

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Deloitte.
Brightman Almagor Zohar

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

Dear Sir/Madam,

Re: Special Audit Report on separate financial information in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial information, which is presented in accordance with Regulation 9C' of the Securities Regulations (Periodic and Immediate Reports) – 1970, of **Azrieli Group Ltd.** (hereinafter- "the Company") as of December 31, 2012 and 2011 and for each of the three years, the last of which ended on December 31, 2012. The separate financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on the separate financial information based on our audit.

We did not audit the separate financial information from the financial statements of investee companies, the sum of the investments in which amounted to approximately NIS 88.8 million and approximately NIS 461 million as of December 31, 2012 and 2011, respectively, and the profit from such investee companies amounted to approximately NIS 98 million, approximately NIS 18 million and approximately NIS 31 million, for the years ended December 31, 2012, 2011 and 2010 respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us, and our report, in so far as it related to the amounts that have been included in respect of those companies, is based upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9 C' of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, March 19, 2013

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TEL AVIV - MAIN OFFICE	RAMAT GAN	JERUSALEM	HAIFA	BEER SHEVA	EILAT
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Azrieli Group Ltd.
Information on the Financial Position

	As of December 31	
	2012	2011
	NIS in thousands	NIS in thousands
Assets		
Current assets		
Cash and cash equivalents	57,413	109,398
Financial assets held for trade	421,847	1,322,083
Trade receivables	8,090	5,279
Other receivables	78,345	34,100
Current tax assets	1,077	-
Total current assets	566,772	1,470,860
Non-current assets		
Available for sale financial assets	1,412,114	1,256,346
Financial assets designated as at fair value through the statement of income	20,088	16,737
Investment property and investment property under construction	6,284,162	6,152,957
Investments in investee companies	5,106,678	4,401,133
Loans to investee companies	2,035,492	1,517,786
Fixed assets	4,816	5,276
Other receivables	7,196	25,129
Total non-current assets	14,870,546	13,375,364
Total assets	15,437,318	14,846,224
Liabilities and capital		
Current liabilities		
Credit from banking entities and other providers of credit	793,101	831,238
Trade payables	8,335	15,776
Other payables	41,380	38,713
Liabilities in respect of current taxes	-	2,646
Total current liabilities	842,816	888,373
Non-current liabilities		
Loans from banking entities	1,074,410	1,309,484
Bonds	616,843	651,359
Other liabilities	18,147	18,001
Deferred tax liabilities	990,386	927,399
Employee benefits	19,876	17,819
Total non-current liabilities	2,719,662	2,924,062
Capital		
Share capital	18,223	18,223
Premium	2,477,664	2,477,664
Capital reserves	285,805	143,029
Retained earnings	9,093,148	8,394,872
Total capital attributed to the holders of the Company	11,874,840	11,033,788
Total liabilities and capital	15,437,318	14,846,224

March 19, 2013			
Date of approval of the separate financial information	**David Azrieli Chairman of the Board of Directors**	**Shlomo Sherf CEO**	**Yuval Bronstein CFO**

Azrieli Group Ltd.
Information on the Comprehensive income

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Income			
From rental, management and maintenance fees	442,878	429,467	403,920
Net gain on the adjustment of the fair value of investment property and investment property under construction	26,600	188,839	429,078
Financing income	159,414	102,337	144,728
Other	7,793	44,855	25,970
Total income	636,685	765,498	1,003,696
Costs and expenses			
Cost of income from rental, management and maintenance fees	9,318	10,283	8,493
Selling and marketing	5,141	968	956
Administrative and general	54,179	53,910	57,662
Financing	132,068	212,601	180,138
Total costs and expenses	200,706	277,762	247,249
Income before Company's share of the profits of investee companies	435,979	487,736	756,447
Share of profits of investee companies, net of tax	599,733	444,675	611,295
Income before taxes on income	1,035,712	932,411	1,367,742
Tax on income expenses	(97,186)	(336,557)	(143,562)
Net income for the year	938,526	595,854	1,224,180
Other comprehensive income (loss), net of tax			
Change in fair value of available for sale financial assets, net of tax	129,280	(439,145)	83,071
Actuarial gain (loss) in respect of defined benefit plan, net of tax	(11)	(18)	135
Translation differences in respect of foreign operations	(7,471)	3,991	(1,139)
Share of other comprehensive income (loss) of investee companies, net of tax	(90)	12,416	(13,178)
Other comprehensive income (loss) for the year, net of tax	121,708	(422,756)	68,889
Total comprehensive income for the year attributed to the holders of the Company	1,060,234	173,098	1,293,069

Azrieli Group Ltd.
Information on Cash Flows

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Cash flows from operating activities			
Net income for the year	938,526	595,854	1,224,180
Depreciation and amortization	775	713	448
Capital gain on the disposal of fixed assets	-	(7)	-
Net gain on the adjustment of the fair value of investment property and investment property under construction	(26,600)	(188,839)	(429,078)
Financing and other revenues (expenses), net	(11,079)	(37,093)	41,478
Dividend received from available for sale financial assets	8,000	43,145	25,970
Interest and dividends received from financial assets that are held for trade	36,911	68,642	26,763
Share of profits of investee companies, net of tax	(599,733)	(444,675)	(611,295)
Taxes that have been recognized in the statement of income	97,186	336,557	143,562
Income tax received (paid), net	(58,354)	(67,768)	34,711
Change in financial assets that are held for trade	900,236	912,774	(2,234,678)
Change in trade receivables and other receivables	(40,118)	(12,525)	7,063
Change in trade and other payables	3,013	4,613	(18,722)
Change in provisions and employee benefits	376	2,709	1,740
Change in financial assets that have been designated as at fair value through the statement of income	254	1,443	5,454
Benefit share-based payment	1,938	2,587	6,350
Net cash generated (absorbed) by operating activities	1,251,331	1,218,130	(1,776,054)
Cash flows from investment activities			
Consideration from the disposal of fixed assets	-	460	-
Investment in investment property and investment property under construction	(102,767)	(622,322)	(345,809)
Purchase of fixed assets	(315)	(2,315)	(2,153)
Extension of long-term loans	-	(9,033)	-
Investments in investee companies	(374)	(1,306)	(1,853)
Consideration from realization of investments in available for sale financial assets	3,616	-	-
Repayment of investment (investment) in financial assets that have been designated as at fair value through the statement of income	(3,605)	(1,674)	396
Collection (extension) of long-term loans to investee companies	(465,501)	(213,676)	208,834
Investment in a company consolidated for the first time	(46,035)	(67,453)	-
Collection of long term loans and receivables, net	-	(8,187)	-
Interest received	1,816	-	-
Recovery of investment in investee company	4,666	-	-
Institutions due to real estate purchase	(8,245)	-	-
Net cash absorbed by investment activities	(616,744)	(925,506)	(140,585)
Cash flows from financing activities			
IPO proceeds	-	-	2,480,697
Dividend distribution to shareholders	(240,000)	(240,000)	-
Repayment of bonds	(43,475)	(42,764)	(41,054)
Receipt of long-term loans from banking entities	-	-	225,000
Repayment of long-term loans from banking corporations	(141,301)	(137,605)	(524,055)
Short-term credit from banking entities, net	(152,042)	277,667	(47,801)
Deposits from customers, net	(105)	(811)	1,067
Interest paid	(110,230)	(123,560)	(121,404)
Net cash generated by financing activities	(687,153)	(267,073)	1,972,450
Increase (decrease) in cash and cash equivalents	(52,566)	25,551	55,811
Cash and cash equivalents at the beginning of the year	109,398	83,105	31,727
Impact of changes in exchange rates on cash balances that are held in foreign currency	581	742	(4,433)
Cash and cash equivalents at the end of the year	57,413	109,398	83,105

Azrieli Group Ltd.

Additional information for the Separate Financial Statements

A. General

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, 2012.

B. The manner of the preparation of the financial data

The financial data, from the consolidated financial statements, which relate to the Company itself, as a parent company (hereinafter: "the financial data"), have been prepared in accordance with the provisions of Regulation 9 C of the Securities Regulations (Periodic and Immediate Reports) – 1970, including the details that are detailed in the Tenth Addition to the said regulations (hereinafter – "the Tenth Addition").

Moreover, disclosures are presented within the framework of the notes that are presented below, in respect of additional significant information, in accordance with the said disclosure requirements in the said Regulation and as detailed in the Tenth Addition, in so far as that information is not included in the consolidated financial statements in a manner that relates specifically to the Company itself as a parent company.

(1) The manner of the preparation of the financial data

The amounts are presented in respect of assets and liabilities, which are included in the consolidated financial statements, which relate to the Company itself as a parent company, and which have been detailed in accordance with the types of assets and liabilities, have been classified in the same manner as they were classified in the consolidated statements of financial position.

Moreover, these data reflect the mutual balances between the Company and the investee companies, which were eliminated within the framework of the consolidated financial statements. For this matter, those date have been presented in accordance with the provisions of International Accounting Standard 1, and according, in so far as is relevant, to the manner of the detail provided in the statement of financial position.

(2) Income and expenses that are included in the consolidated financial statements that relate to the Company itself as a parent company

Amounts are presented in respect of income and expenses, which are included in the consolidated financial statements, with a split between gain or loss, which relate to the Company itself as a parent company, and with details in accordance with the type of income and expenses. These data have been classified in the same manner as the manner in which they were classified in the consolidated statements of income.

Moreover, these data reflect the results of the activities between the Company and the investee companies, which were eliminated within the framework of the consolidated financial statements. For this matter, those date have been presented in accordance with the provisions of International Accounting Standard 1, and according, in so far as is relevant, to the manner of the details provided in the statements of income.

(3) Cash flows that are included in the consolidated financial statements that relate to the Company itself as a parent company

Amounts are presented in respect of cash flows, which are included in the consolidated financial statements, which relate to the Company itself as a parent company, have been taken from the consolidated statements of income, with a split between cash flows from operating activities, cash flows from investment activities and cash flows from financing activities and with details of the components thereof. These data have been classified in the same manner as the manner in which they were classified in the consolidated financial statements.

C. Financial assets and liabilities

(1) Analysis of groups of financial assets and liabilities according to the linkage base and the type of currency:

The Group's exposure to index and foreign currency risk, based on denoted values, is as follows:

	As of December 31, 2012					
	Israeli Currency		Foreign Currency			
	Unlinked	Index linked	Dollar	Other(*)	Others	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Current assets						
Cash and cash equivalents	29,336	-	22,350	5,727	-	57,413
Financial assets held for trade	182,511	152,886	9,369	77,081	-	421,847
Trade receivables	8,090	-	-	-	-	8,090
Other receivables	62,919	-	-	3,513	11,913	78,345
Current tax assets	-	-	-	-	1,077	1,077
Total current assets	282,856	152,886	31,719	86,321	12,990	566,772
Non-current assets						
Investments in investee companies	-	-	-	-	5,106,678	5,106,678
Loans to investee companies	198,104	1,749,103	88,285	-	-	2,035,492
Other receivables	-	-	-	-	7,196	7,196
Available for sale financial assets	1,409,301	-	-	2,813	-	1,412,114
Financial assets designated as at fair value through the statement of income	1,027	-	19,061	-	-	20,088
Investment property and investment property under construction	-	-	-	-	6,284,162	6,284,162
Fixed assets	-	-	-	-	4,816	4,816
Total non-current assets	1,608,432	1,749,103	107,346	2,813	11,402,852	14,870,546
Total assets	1,891,288	1,901,989	139,065	89,134	11,415,842	15,437,318
Current liabilities						
Credit from banking entities and other providers of credit	501,826	291,275	-	-	-	793,101
Trade payables	8,335	-	-	-	-	8,335
Other payables	36,021	-	-	-	5,359	41,380
Total current liabilities	546,182	291,275	-	-	5,359	842,816
Non-current liabilities						
Loans from banking entities	18,750	1,055,660	-	-	-	1,074,410
Employee benefits	-	-	-	-	19,876	19,876
Bonds	-	616,843	-	-	-	616,843
Other liabilities	-	17,968	-	-	179	18,147
Deferred tax liabilities	-	-	-	-	990,386	990,386
Total non-current liabilities	18,750	1,690,471	-	-	1,010,441	2,719,662
Total liabilities	564,932	1,981,746	-	-	1,015,800	3,562,478
Net balance sheet balances	1,326,356	(79,757)	139,065	89,134	10,400,042	11,874,840

(*) Mainly CAD.

The Group's exposure to index and foreign currency risk, based on denoted values, is as follows:

C. Financial assets and liabilities (Cont.)

(1) Analysis of groups of financial assets and liabilities according to the linkage base and the type of currency:

The Group's exposure to index and foreign currency risk, based on denoted values, is as follows:

	As of December 31, 2011					
	Israeli Currency		Foreign Currency			
	Unlinked	Index linked	Dollar	Other(*)	Others	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Current assets						
Cash and cash equivalents	103,129	-	3,333	2,936	-	109,398
Financial assets held for trade	760,979	470,232	11,048	79,824	-	1,322,083
Trade receivables	5,279	-	-	-	-	5,279
Other receivables	21,998	1,110	-	7,337	3,655	34,100
Total current assets	891,385	471,342	14,381	90,097	3,655	1,470,860
Non-current assets						
Investments in investee companies	-	-	-	-	4,401,133	4,401,133
Loans to investee companies	421,265	1,096,521	-	-	-	1,517,786
Other receivables	-	-	-	-	25,129	25,129
Available for sale financial assets	1,253,533	-	-	2,813	-	1,256,346
Financial assets designated as at fair value through the statement of income	1,364	-	15,373	-	-	16,737
Investment property and investment property under construction	-	-	-	-	6,152,957	6,152,957
Fixed assets	-	-	-	-	5,276	5,276
Total non-current assets	1,676,162	1,096,521	15,373	2,813	10,584,495	13,375,364
Total assets	2,567,547	1,567,863	29,754	92,910	10,588,150	14,846,224
Current liabilities						
Credit from banking entities and other providers of credit	653,868	177,370	-	-	-	831,238
Trade payables	15,776	-	-	-	-	15,776
Other payables	33,047	-	-	-	5,666	38,713
Current taxes	-	-	-	-	2,646	2,646
Total current liabilities	702,691	177,370	-	-	8,312	888,373
Non-current liabilities						
Loans from banking entities	25,000	1,284,484	-	-	-	1,309,484
Employee benefits	-	-	-	-	17,819	17,819
Bonds	-	651,359	-	-	-	651,359
Other liabilities	-	17,819	-	-	182	18,001
Deferred tax liabilities	-	-	-	-	927,399	927,399
Total non-current liabilities	25,000	1,953,662	-	-	945,400	2,924,062
Total liabilities	727,691	2,131,032	-	-	953,712	3,812,435
Net balance sheet balances	1,839,856	(563,169)	29,754	92,910	9,634,438	11,033,789

(*) Mainly CAD.

C. Financial assets and liabilities (Cont.)

(2) The management of liquidity risk

Tables in respect of interest and liquidity risk:

Financial liabilities that do not constitute derivative financial instruments:

The following tables detail the Company's remaining forecast repayment times in respect of financial liabilities, which do not constitute derivative financial instruments. The tables have been prepared on the basis of the undiscounted cash flows for the financial liabilities, based on the earliest times at which the Company could be required to repay them. The tables include cash flows both in respect of interest and also in respect of principal.

	As of December 31, 2012					
	Carrying value	Forecast cash flows	2013	2014	2015	2016 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial assets						
Cash and cash equivalents	57,413	57,413	57,413	-	-	-
Financial assets held for trade	421,847	421,847	421,847	-	-	-
Trade receivables	8,090	8,090	8,090	-	-	-
Other receivables	66,432	66,432	66,432	-	-	-
Available for sale financial assets	1,412,114	1,256,346	-	-	-	1,256,346
Financial assets designated as at fair value through the statement of income	20,088	20,088	-	-	-	20,088
Loans to investee companies	2,035,492	2,798,324	10,000	12,500	772	2,775,052
	4,021,476	4,628,540	563,782	12,500	772	4,051,486

	As of December 31, 2011					
	Carrying value	Forecast cash flows	2012	2013	2014	2015 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial assets						
Cash and cash equivalents	109,398	109,398	109,398	-	-	-
Financial assets held for trade	1,322,083	1,322,083	1,322,083	-	-	-
Trade receivables	5,279	5,279	5,279	-	-	-
Other receivables	31,628	31,628	31,628	-	-	-
Available for sale financial assets	1,256,346	1,256,346	-	-	-	1,256,346
Financial assets designated as at fair value through the statement of income	16,737	16,737	-	-	-	16,737
Loans to investee companies	1,517,786	1,847,431	-	-	-	1,847,431
	4,259,257	4,588,902	1,468,388	-	-	3,120,514

C. Financial assets and liabilities (Cont.)

(2) The management of liquidity risk (Cont.)

	As of December 31, 2012						
	Carrying value	Forecast cash flows	2013	2014	2015	2016	2017 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-derivative financial liabilities							
Credit from banking entities and other providers of credit(*)	495,576	495,576	495,576	-	-	-	-
Suppliers	8,335	8,335	8,335	-	-	-	-
Payables	29,165	29,165	29,165	-	-	-	-
Loans from banking entities(*)	1,333,326	1,790,649	332,518	170,673	165,414	394,470	727,574
Bonds(*)	660,765	661,699	74,087	60,352	58,576	56,800	411,884
Deposits from customers	17,968	17,968	-	-	-	17,968	-
Total	2,545,135	3,117,743	939,821	242,779	235,400	480,303	1,219,440

	As of December 31, 2011						
	Carrying value	Forecast cash flows	2012	2013	2014	2015	2016 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-derivative financial liabilities							
Credit from banking entities and other providers of credit(*)	647,618	647,618	647,618	-	-	-	-
Suppliers	15,776	15,776	15,776	-	-	-	-
Payables	25,801	25,801	25,801	-	-	-	-
Loans from banking entities(*)	1,455,833	2,068,965	225,056	328,210	168,649	163,454	1,183,596
Bonds(*)	694,653	838,641	75,118	73,031	70,944	68,858	550,690
Deposits from customers	17,819	17,819	-	-	-	17,819	-
Total	2,857,500	3,614,620	989,369	401,241	239,593	250,131	1,734,286

(*) The carrying value in the accounting records include current maturities and accumulated interest as of December 31, 2012 and 2011.

(3) Details in respect of investments in other companies:

Details in respect of available for sale financial assets

For details in respect of the Company's investments in Bank Leumi Le'Israel Ltd. and Leumi Card Ltd., see Note 11A(1) and (2) to the consolidated financial statements as of December 31, 2012.

D. Taxes on income

(1) Details in respect of the tax environment in which the Group operates:

For details in respect of the tax environment in which the Company operates, see Note 31A to the consolidated financial statements for the year ended December 31, 2012.

(2) Taxes on income benefits (expenses), which have been recognized in the statement of income:

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands	NIS in thousands	NIS in thousands
Current tax benefits (expenses):			
In respect of the current period	(55,304)	(56,630)	(49,300)
Adjustments in respect of previous years, net	(1,441)	1,278	(1,992)
	(54,745)	(55,352)	(51,292)
Deferred tax benefits (expenses)	(42,441)	(281,205)	(92,270)
Total taxes on income benefit (expenses)	(97,186)	(336,557)	(143,562)

(3) Tax assessments:

As of the date of approval of the financial statements, immaterial amounts were paid and final tax assessments closed for the Company up to and including the tax year 2010.

D. Taxes on income (Continued)

(4) Taxes on income in respect of the components of other comprehensive income (loss):

	2012			2011			2010		
	Amounts before taxation	Taxation benefit (expense) (1)	Amounts net of taxation	Amounts before taxation	Taxation benefit (expense)	Amounts net of taxation	Amounts before taxation	Taxation benefit (expense)	Amounts net of taxation
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Gain in respect of the re-measurement of available for sale financial assets	155,769	(26,489)	129,280	(528,013)	(2) 88,868	(439,145)	95,562	(12,491)	83,071
Actuarial gain(loss) in respect of defined benefit plan	(18)	7	(11)	(24)	6	(18)	165	(30)	135
Translation differences in respect of foreign operations	(7,471)	-	(7,471)	3,991	-	3,991	(1,139)	-	(1,139)
Share of other comprehensive income (loss) of investee companies, net of tax	1,559	(1,649)	(90)	14,653	(2,237)	12,416	(15,924)	2,746	(13,178)
Total other comprehensive income (loss)	149,839	(28,131)	121,708	(509,393)	86,637	(422,756)	78,664	(9,775)	68,889

(1) Including the impact of the change in the tax rates.

(2) The deferred taxes have been calculated in 2011 in accordance with a tax rate of 25% and in 2010 in accordance with a tax rate of 18%.

D. Taxes on income (Continued)

(5) Deferred taxes:

Deferred tax **assets and liabilities that have been recognized:**

The deferred taxes have been calculated in accordance with the tax rate that is expected to apply at the time of the reversal of the balances, as detailed above.

The deferred tax assets and liabilities are attributed to the following items:

	Real estate property and fixed assets (3)	Employee benefits	Financial instruments (1), (3)	Deductions and losses carried forward for tax purposes	Others (2), (3)	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Deferred tax asset (liability) as of December 31, 2010	(670,044)	2,908	(117,594)	11,176	29,090	(744,464)
Changes carried to income statement	(37,886)	1,676	22,650	(408)	1,708	(12,260)
Changes carried to other comprehensive profit	-	(6)	94,593	-	-	94,587
Other Changes	-	-	-	-	9,408	9,408
Effect of the change in the tax rates, which has been reflected in the statement of income	(274,457)	360	1,782	3,363	7	(268,945)
Effect of the change in the tax rates, which has been reflected in other comprehensive profit	-	-	(5,725)	-	-	(5,725)
Deferred tax asset (liability) as of December 31, 2011	(982,387)	4,938	(4,294)	14,131	40,213	(927,399)
Changes carried to income statement	(21,661)	643	(14,976)	(374)	(6,075)	(36,211)
Changes carried to other comprehensive profit	-	7	(26,489)	-	-	(26,482)
Other Changes	-	-	-	-	5,936	5,936
Effect of the change in the tax rates, which has been reflected in the statement of income	-	-	-	-	-	-
Effect of the change in the tax rates, which has been reflected in other comprehensive profit	-	-	-	-	-	-
Deferred tax asset (liability) as of December 31, 2012	(1,004,048)	5,588	(45,759)	13,757	40,076	(990,386)

(1) Primarily in respect of available for sale financial assets.

(2) Primarily in respect of the capital reserve that has been created in respect of credit that has been extended to subsidiary companies other than on market terms.

(3) The deferred taxes as of December 31, 2011 have been calculated in accordance with a tax rate of 25% (As of December 31, 2010 – 18%).

E. Significant commitments and transactions with investee companies:

(1) See Note 9A to the consolidated financial statements as of December 31, 2012 in respect of investments in companies, which are held directly by the Company.

(2) a. Since April 1, 2012, Canit Hashalom Investments Ltd.("**Canit Hashalom**") issued to the Company bonds in the amount of NIS 420 million linked to the Consumer Price Index. Linkage differentials due to the loan shall not, in any event, fall under the interest determined for the purpose of Section 3[10] of the Income Tax Ordinance. The principal and the linkage differentials shall be repaid in one sum on December 31, 2012, and insofar as Canit Hashalom fails to repay the principal, interest and linkage differentials by the maturity date, the bonds shall be deemed to have been repaid and reissued on the day following the maturity date. The balance, as of December 31, 2012, amounts to NIS 433 million.

b. Since April 1 ,2012, Canit Hashalom issued to the Company bonds in the amount of NIS 1,080 million linked to the Consumer Price Index and bearing interest at a rate of 4.8% per year. The principal, the interest and the linkage differentials shall be repaid in one sum on December 31, 2012. Insofar as Canit Hashalom fails to repay the principal, interest and linkage differentials by the maturity date, the bonds shall be deemed to have been repaid and reissued on the day following the maturity date. As of December 31, 2012, the balance amounts to NIS 1,130 million.

The bonds stated in Sections (a) and (b) above replace a previous debt on similar terms of interest.

The Company has, in addition, provided loans without a maturity date to Canit Hashalom, whose balance as of December 31, 2012 is approx. NIS 355 million, which are not linked to the index and do bear interest according to the Income Tax Regulations.

The credit as of December 31, 2012 is presented and measured at fair value at the time of initial recognition in accordance with the present value of the forecast returns. The difference between the fair value, which was measured at the time of the initial recognition and the amount of the loan that was actually extended is reflected under a capital reserve on transactions with controlling interests and amounts to approximately NIS 169 million (December 31, 2011 - approximately NIS 163 million).

The following restrictions shall apply to the repayment of the bonds, as determined in the rating repot dated July 2009 by Midroog and approved by the Trustee:

1. An amount no less than NIS 130 million shall be repaid after the completion of repayment of Canit Hashalom's Series A Bonds.

2. An amount of approximately NIS 235 million shall be repaid from current cash surpluses of Canit Hashalom and shall be calculated as EBITDA net of payments on account of principal and interest and net of of tax payments.

E. Significant commitments and transactions with investee companies: (Cont.)

(3) **Significant arrangements between the Company and the investee companies**

a. Agreements exist between the Company and a number of companies that are held by it and other companies in the Group, according to which the Company is entitled to management fees at a fixed rate of the generality of the expenses of those companies. In the years 2012 and 2011 the company received management fees, as aforesaid, in overall amounts of approximately NIS 18,848 thousand and approximately NIS 18,886 thousand, respectively.

b. Agreements exist between the Company and a number of companies that are held by it, according to which the Company is entitled to amounts for a depreciation and replacement reserve for the replacement and/or comprehensive repair of facilities and equipment, which are used by the generality of the tenants on the Company's realty. In the years 2012 and 2011 the company received proceeds, as aforesaid, in overall amounts of approximately NIS 3,891 thousand and approximately NIS 6,684 thousand, respectively.

c. There are agreements between the Company and several investee companies thereof, whereby the Company is entitled to amounts for rent in respect of the companies' use of areas owned thereby. In 2012 and 2011, the Company received rent as aforesaid in the total sum of NIS 670 thousand and approx. NIS 670 thousand, respectively.

d. The Company has made loans available to a number of companies that are held by it. See Note 10A to the consolidated financial statements as of December 31, 2012 and section E(2) above. The interest and the linkage differentials that have accumulated in respect of these loans and which have been presented in the Company's statement of comprehensive income for the years ended December 31, 2012 and 2011, amount to the total sums of approximately NIS 87 million and approximately NIS 91 million, respectively.

e. The Company bears the office, insurance, salary and ancillary expenses of the senior employees in the Group (hereinafter – the Group expenses). Agreements exist between the Company and a number of companies that are held by it and other companies in the Group according to which the Company is entitled to a refund in respect of amounts that have been paid by it for the companies. In the years 2012 and 2011 the Company received proceeds, as aforesaid, in overall amounts of approximately 20,027 thousand and approximately NIS 20,055 thousand, respectively.

f. There is an agreement between the Company and investee companies thereof, whereby the investee companies are entitled to rent, management fees and parking fees in respect of areas owned thereby. In 2012 and 2011, the Company paid rent, management fees and parking fees as aforesaid in the total sum of NIS 3,209 thousand and approx. NIS 3,091 thousand, respectively

F. Guarantees:

(1) On June 1, 2009 the Company made a guarantee in an unlimited amount available in favor of Bank Hapoalim in respect of a loan that was taken by a subsidiary. As of December 31, 2012 the balance of the loan was approximately NIS 25.4 million.

(2) On March 30, 2011 the Company made a guarantee available in favor of Bank Mizrahi-Tefahot, in the amount of the loan, in respect of a loan that was taken by a limited partnership thereof. The balance of the loan was approximately NIS 28.9 million as of December 31, 2012.

(3) On February 4, 2011, the Company provided a guarantee in favor of a U.S. financial institution in the amount of a loan taken by a limited partnership thereof, which is exercisable only in several cases defined in the loan agreement. The balance of the loan as of December 31, 2012 is NIS 481 million.

(4) On January 1, 2012, the Company provided a guarantee in favor of a U.S. financial institution in the amount of a loan taken by a limited partnership thereof, which is exercisable only in several cases defined in the loan agreement. The balance of the loan as of December 31, 2012 is NIS 256 million.

G. Contractual restrictions and financial covenants:

See Notes 20B(1) and 20D to the consolidated financial statements as of December 31, 2012 for details in respect of contractual restrictions assumed by the Company.

H. Dividends from companies that are held directly by the Company:

The companies that are held directly by the Company do not have contractual restrictions on the distribution of dividends.

I. Charges:

(1) The Company has given an undertaking to banks not to create a floating charge on the generality of its assets. Moreover, the Company has given an undertaking to a banking entity that it has not created and that it will not create a floating charge over its assets, whether they are owned by it or whether they will be owned by it, including over its goodwill and share capital and it has also undertaken not to give a commitment in any way whatsoever to create a floating charge, as aforesaid, unless concurrently with its creation it will also create a floating charge in favor of the bank.

(2) As at December 31, 2012 the Company has real estate assets for investment and real estate for investment under construction which are not pledged of NIS 4,500 million and a balance of approx. NIS 1,735 million is charged under a fixed charge as collateral for loans from banks, whose balance was approximately NIS 855 million as of December 31, 2012.

(3) As at December 31, 2012 the Company has financial assets available for sale which are not pledged of NIS 1,414 million. See also Note 12 to the consolidated financial statements as at December 31, 2012.

J. Commitments with related parties and interested parties:

See Note 38 to the consolidated financial statements as of December 31, 2012 in respect of commitments with related parties and interested parties.

Part D

Further Details about the Corporation

Azrieli Group

Chapter D: Additional Details about the Corporation

Company Name: Azrieli Group Ltd.

Company Number in the Registrar of Companies: 51-096071-9

Address: 1 Azrieli Center, Tel Aviv, 67021

Facsimile: 03-6081380

Telephone: 03-6081400

Date of Report: March 19, 2013

Date of the Financial Position Statement: December 31, 2012

Regulation 10A - Summary of the Reports on Outcomes of the Company's Operations for Each Quarter of 2012 (in NIS thousands)

	1-3/2012	4-6/2012	7-9/2012	10-12/2012	1-12/2012
Income					
From sales, work and services	1,865,961	1,949,711	1,956,519	1,871,971	7,644,162
From rent, management and maintenance fees	343,701	349,782	362,382	355,327	1,411,192
Profit, net of fair value adjustment of investment properties and properties under construction	(8,369)	105,489	1,883	229,893	328,896
Financing income	50,823	12,688	53,788	4,701	122,000
Other	11,513	708	195	14,975	27,391
Total Income	2,263,629	2,418,378	2,374,767	2,476,867	9,533,641
Costs and Expenses					
Cost of income from sales, work and services	1,569,096	1,680,712	1,625,500	1,574,129	6,449,437
Cost of income from rent, management and maintenance fees	73,400	78,990	85,760	78,663	316,813
Sale and marketing	194,867	189,894	196,264	198,936	779,961
General and administrative	50,119	52,903	53,498	61,682	218,202
Portion of results of included companies, net of tax	2,755	3,919	4,103	1,256	12,033
Financing expenses	120,452	156,654	156,199	63,678	496,983
Other	19	447	1,263	66	1,795
Total Costs and Expenses	2,010,708	2,163,519	2,122,587	1,978,410	8,275,224
Profit before tax on income	252,921	254,859	252,180	498,457	1,258,417
Income (expenses) from tax on income	54,447	56,412	41,130	120,170	272,159
Net profit (loss) per period	198,474	198,447	211,050	378,287	986,258
Attributed to owners of the parent company	184,422	190,612	194,021	369,471	938,526
Non-controlling interests	14,052	7,835	17,029	8,816	47,732
	198,474	198,447	211,050	378,287	986,258

Regulation 10C - Use of Proceeds from Securities

Not relevant to the Report Period.

Regulation 11 - List of Investments in Material Subsidiaries and Related Companies as of the Statement of the Financial Position Date

See **Annex A** of this chapter.

Regulation 12 - Changes in Investments in Material Subsidiaries and Related Companies, Directly and Indirectly, in the Report Period

a. In September 2012, the Company, via Canit Hashalom Investments Ltd., completed the purchase of all of the shares of Granite Hacarmel, which were not held by Canit HaShalom at such time, through a tender offer. For details, see Section 1.3.1 of Chapter A of this Report.

b. In May 2012, Granite Hacarmel acquired all of the shares of the company Tambour Ltd. that had not been held by Granite Hacarmel at that time via a tender offer. For details, see Section 1.3.2 of Chapter A of this report.

Date of Change	Nature of Change	Name of Company	Name of Holder	Comments	
January 2012	Establishment of a new partnership for the purpose of a property purchase	AG Plaza at Enclave, LLC	Azrieli Group Ltd.	Units (LLC)	
September 2012	Purchase of the public's shares in accordance with a tender offer	Granite Hacarmel Investments Ltd.	Canit HaShalom Investments Ltd.	For details, see Section 1.3.1 of Chapter A of this Report	
May 2012	Purchase of the publicly-held shares in accordance with a tender offer	Tambour Ltd.	Granite Hacarmel Investments Ltd.	For details, see Section 1.3.1 of Chapter A of this Report	

Regulation 13 - Profit of Material Subsidiaries and Affiliates and the Company's Income therefrom as of the Statement of the Financial Position Date (NIS in Thousands)*

The held company	Main Business	Profit (loss) NIS in thousands		The Company's income from the affiliate		
		Before reserve for tax	After reserve for tax*	Dividend	Management fee	Interest and linkage differentials
Canit Hashalom Investments Ltd.	a. Development, management, construction, acquisition and lease of commercial and office buildings in Israel and in Texas, USA. b. Holding Granite Hacarmel.	456,360	348,026	---	---	**85,230
International Consultants (Iconsult) Ltd.	Development, construction and lease of offices and industrial buildings.	2,096	1,773	---	---	1,565

The held company	Main Business	Profit (loss) NIS in thousands		The Company's income from the affiliate		
		Before reserve for tax	After reserve for tax*	Dividend	Management fee	Interest and linkage differentials
Otzem Initiation & Investments 1991 Ltd.	Development, construction and lease of commercial buildings (Or Yehuda and Ramla).	6,400	6,400	---	---	113
AG Galleria Office Buildings, LP	Established for the purpose of holding 90% of the rights in office buildings situated in Houston, Texas, USA, which are known by the name of Galleria.	62,001	56,399	---	4,771	---
Gemel Tesua Investments Ltd.	Development, management, construction, acquisition and lease of commercial and office buildings in Israel.	107,138	79,578	---	420	610
Otzma & Co. Investments Maccabim Ltd.	Development, management, construction, acquisition and lease of office buildings in Israel	18,012	14,311	---	135	37
AG Plaza at Enclave	Established for the purpose of holding 100% of the rights in an office building situated in Houston, Texas, USA, which is known by the name of "Houston Dow Center".	29,072	20,542	---	---	9,049
Granite Hacarmel Investments Ltd.	See Section 11 of Chapter A.	169,919	135,902	---	---	---
Sonol Israel Ltd.	See Section 11.1.1 of Chapter A.	(12,989)	(13,282)	---	---	---
Tambour Ltd.	See Section 11.16 of Chapter A.	51,101	37,827	---	---	---
GES Global Environmental Solutions Ltd.	See Section 11.26 of Chapter A.	53,252	38,559	---	---	---

The held company	Main Business	Profit (loss) NIS in thousands		The Company's income from the affiliate		
		Before reserve for tax	After reserve for tax*	Dividend	Management fee	Interest and linkage differentials
Supergas Israel Gas Distribution Company Ltd.	See Section 11.13.1 of Chapter A.	28,992	21,654	---	---	---
Via Maris Desalination (Holdings) Ltd.	Planning, financing, construction, operation and maintenance of the desalination facility in Palmachim.	50,318	37,823	---	---	---

* Before results on the basis of the balance sheet value.

** Including capital fund

Regulation 20 - Trading on the Stock Exchange - Securities Registered for Trading/ Suspension of Trading - Dates and Reasons

a. Securities / Shares
No securities issued by the Company were listed for trade on TASE in the Report Period.

b. Suspension of Trading
During the Report Period, there were no suspensions of trading in the securities issued by the Company, other than suspensions of trading customary at the time of issuance of financial statements.

Regulation 21 - Payments to Senior Officers

For a specification of the compensation granted in the year of the Report, as specified in Schedule 6 of the Reports Regulations, see Section 1 of Chapter E of this Report – Corporate Governance.

Regulation 21A - Control of the Company

As of the Report Date, the controlling shareholder of the Company is Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company incorporated under Canadian law, which holds all of the share capital of Nadav Investments Inc., ("**Nadav Investments**"), which is the direct controlling shareholder of the Company. Azrieli Holdings is wholly owned and controlled by members of the Azrieli family: Mr. David Azrieli, the Chairman of the Board of Directors of the Company, holds, directly and indirectly, approximately 38.9% of the issued and paid-up share capital of Azrieli Holdings, and his four children hold, directly and indirectly, the remainder of the share capital of Azrieli Holdings, as follows: Naomi Azrieli, Sharon Azrieli and Danna Azrieli: approx. 15.7% each, and David Azrieli in trust for Rafi Azrieli: approx. 13.9%. According to the agreement regulating the relationship between the shareholders of Azrieli Holdings, Mr. David Azrieli was granted all of the voting

rights in Azrieli Holdings, in trust also for his Children, so that his voting in Azrieli Holdings shall be made at its sole discretion, including in connection with the sale of the shares of the Company.

Regulation 22 - Transactions with Controlling Shareholders

For details with respect to transactions with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest, in which the Company or a corporation controlled thereby or an affiliate thereof engaged, from the date of the Company's IPO or which are still in effect on the Report Date, see Section 2 of the Company's Corporate Governance Report, which is attached as Chapter E hereof.

Regulation 24 - Holdings of Interested Parties and Senior Officers

Following are shares and other securities held by interested parties of the Corporation, in the Corporation or in companies held by the Corporation whose activity is material to the activity of the Corporation, as of March 20, 2013:

Name of interest holder	ID or passport no. or no. at the registrar	Company Name	Security name	Security no. in the stock exchange	Par value held and/or amount of convertible securities	Holding rate in %		Holding rate on a fully diluted basis in %(1)	
						of the capital	of voting	of the capital	of voting
Azrieli Holdings Inc.		Azrieli Group Ltd.	Ordinary shares par value 0.1	1119478	86,608,386	71.42	71.42	71.42	71.42
Menachem Einan	008995383	Azrieli Group Ltd.	Ordinary shares par value 0.1	1119478	10,810	00.01	00.01	00.01	00.01
Yosef Chechnover	5991468	Azrieli Group Ltd.	Ordinary shares par value 0.1	1119478	790	00.00	00.00	00.00	00.00
Yossi Kucik	51008035	Azrieli Group Ltd.	Ordinary shares par value 0.1	1119478	70	00.00	00.00	00.00	00.00

* Azrieli Holdings Inc. ("**Azrieli Holdings**") is a private company incorporated under Canadian law. For more details, see Regulation 21A above.

**For holdings in negligible rates of Mr. David Azrieli and/or companies which are controlled by him in private subsidiaries of the Group, see Section 1.2 of Chapter A of this Report.

Holdings of senior officers								
Name of Officer	ID no.	Security name	Security no. in the stock exchange	Par value held and/or amount of convertible securities	Holding rate in %		Holding rate on a fully diluted basis in %	
					of the capital	of voting	of the capital	of voting
Israel Keren	3105657	Ordinary shares par value 0.1	1119478	1,200	0	0	0	0

Regulation 24A - Registered Capital, Issued Capital and Convertible Securities

As of December 31, 2012, the registered share capital of the Company is 127,501,500 ordinary shares par value NIS 0.1 each, and the issued share capital of the Company is 121,272,760 ordinary shares par value NIS 0.1.

Regulation 24B -The Company's Register of Shareholders

Name of shareholder	Company/ ID number	Address	Shares' type	Shares' amount	Par value
Registration Co. of Bank Hapoalim Ltd.	510356603	62 Yehuda Halevi, Tel Aviv	Ordinary shares par value NIS 0.1	121,272,760	NIS 0.1

Regulation 25A - Registered Address

The registered address of the Company is 1 Azrieli Center, Tel Aviv, 67021

Telephone: 03-6081400; Facsimile: 03-6081380

Electronic mail: michalk@azrieli.com

Regulation 26 - The Directors of the Corporation (As of the Report Date)

Below are personal and professional details concerning the Directors of the Company:

(1)	Director Name:	David Azrieli, Chairman of the Board
	Passport No.:	BA412456
	Date of birth:	May 10, 1922
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Canada
	Service on Board of Directors Committees:	Employee phantom plan management committee
	Outside Director/Independent Director:	No

Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	Chairman of the Board of Directors of the Company and the subsidiaries, with the exception of Granite Hacarmel Investments Ltd.
Starting date of term in office as a Director:	August 23, 1990
Education:	B.A. from the Thomas More Institute, University of Montreal, Canada; M.Arch. from the University of Carlton, Ottawa, Canada; architectural studies at the Technion – Israel Institute of Technology.
Occupation in the last five years and other corporations wherein he serves as director :	Director of all of the companies in the Azrieli Group, with the exception of Granite Hacarmel Investments Ltd. and companies under its control. Owner and manager of a number of foreign private companies engaged in different fields.
Family relation to an interested party:	Yes. Mr. Azrieli's four children indirectly hold shares in the Company; for details, see Regulation 21A above.
Has expertise in finance and accounting or professional qualification:	Professional qualification.

(2)	**Director Name:**	**Menachem Einan, Active Deputy Chairman of the Board**
	I.D. card no.:	008995383
	Date of birth:	June 17, 1939
	Address for Service of Process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Israeli
	Service on Board of Directors Committees:	Employee phantom plan management committee
	Outside Director/Independent Director:	No
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	Until March 31, 2011, served as CEO of the Company. As of April 1, 2011, serves as Active Deputy Chairman of the Board; CEO of Canit Hashalom Investments Ltd.; Chairman of the Board of Directors of Granite Hacarmel Investments Ltd.; Director at Tambour Ltd. and GES Global Environmental Solutions Co. Ltd.; Director at Leumi Card Ltd.
	Starting date of term in office as a Director:	June 1, 2010

Education:	BA in Humanities from Bar-Ilan University; degree in Business Administration from UCLA
Occupation in the last five years and other corporations wherein he serves as director details of directorships in additional corporations:	Active Deputy Chairman of the Company's Board, previously the Company's CEO, and CEO of Canit Hashalom Investments Ld. Serves as Chairman of the Board of Directors of Granite Hacarmel Investments Ltd. and a director at Tambour Ltd., Sonol Israel Ltd., Supergas Israel Gas Distribution Company. Ltd. and GES Global Environmental Solutions Co. Ltd. Serves as a Director of Leumi Card Ltd.
Family relation to an interested party:	No
Has expertise in finance and accounting or professional qualification:	Professional qualification

(3)	**Director Name:**	**Danna Azrieli, Active Vice Chairman of the Board**
	I.D. no.:	321657744
	Date of birth:	June 3, 1967
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Israeli
	Service on Board of Directors Committees:	No
	Outside Director/ Independent Director:	No
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	Active Vice Chairman of the Board.
	Starting date of term in office as a Director:	June 1, 2010
	Education:	BA in Sociology and Anthropology from Swarthmore College; Juris Doctor of Law from Vermont Law School; member of the Massachusetts State Bar Association in the U.S. and the Israel Bar Association
	Occupation in the last five years and other corporations wherein he serves as director:	Active Vice Chairman of the Board of the Company; Chairman of the Board of Trustees of Shenkar College; serves as a director of the companies: Nadav Investments Inc., Azrieli Holdings Inc., Candan Residences Ltd. (a company under her control), Dan Squared Ltd., Candan Constructions'

	Maintenance and Management Ltd., Candan Management Services Ltd. and Candan Holdings Ltd.. Member of the boards of directors of the University of Tel Aviv and the Herzliya Interdisciplinary Center. Chair of the Azrieli Foundation, Israel, Registered Association and director of the Azrieli Foundation, Canada.
Family relation to an interested party:	Daughter of Mr. David Azrieli, the controlling shareholder of the Company and Chairman of the Board of Directors, and sister of Naomi, Sharon and Rafi Azrieli, who indirectly hold shares in the Company. For details, see Regulation 21A above.
Has expertise in finance and accounting or professional qualification:	Professional qualification

(4)	Director Name:	Sharon Azrieli
	Passport no.:	QI550845
	Date of birth:	August 4, 1960
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Canadian
	Service on Board of Directors Committees:	No
	Outside Director/Independent Director:	No
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
	Starting date of term in office as a Director:	June 1, 2010
	Education:	PhD in Music from the University of Montreal; MA in Music from the University of Montreal; BA in Art from Vassar College; Certificate from the Juliard School of Music; degree in A.A.S. from the Parsons School of Design.
	Occupation in the last five years and other corporations wherein he serves as director:	Opera singer, cantor and artist; Conductor at several congregations Director of the Canadian body, Camp Kinneret Biluim, and of the Azrieli Foundation, Israel, Registered Association. Serves as a Board Director of the Mcgill Chamber Orchestra and the Ocean Grove Music Festival.
	Family relation to an	Daughter of Mr. David Azrieli, the controlling

interested party:	shareholder of the Company and Chairman of the Board of Directors, and sister of Danna (Deputy Chairman of the Board of Directors), Naomi, and Rafi Azrieli, who indirectly hold shares in the Company. For details, see Regulation 21A above.
Has expertise in finance and accounting or professional qualification:	No

(5)	**Director Name:**	**Naomi Azrieli**
	Passport no.:	QK259711
	Date of birth:	September 26, 1965
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Canadian
	Service on Board of Directors Committees:	No
	Outside Director/Independent Director:	No
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
	Starting date of term in office as a Director:	June 1, 2010
	Education:	PhD (D. Phil) in International History from Oxford University, England; M.I.A. in International Relations, Financing and Economics from Columbia University, New York; BA from the University of Pennsylvania in Political Science and Russian Studies
	Occupation in the last five years and other corporations wherein he serves as director:	CEO and Director of the Azrieli Foundation (Canada), a non-profit Canadian association. Owner and manager of foreign private companies. Director of the corporations: Canpro Investments Ltd., Banff Technologies Ltd., Omico Investments Ltd.
	Family relation to an interested party:	Daughter of Mr. David Azrieli, the controlling shareholder of the Company and Chairman of the Board of Directors, and sister of Danna (Deputy Chairman of the Board of Directors), Sharon, and Rafi Azrieli, who indirectly hold shares in the Company. For details, see Regulation 21A above.
	Has expertise in finance and accounting or professional	Professional qualification

qualification:	

(6)	**Director Name:**	**Yosef Ciecanover**
	I.D. card no.:	5991468
	Date of birth:	October 1, 1933
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Israeli
	Service on Board of Directors Committees:	Audit Committee, Finance Committee (serving also as the Financial Statements Review Committee), Internal Enforcement Committee, Compensation Committee.
	Outside Director/Independent Director:	Independent Director (Expert)
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
	Starting date of term in office as a Director:	May 6, 2010
	Education:	PhD in Philosophy from Boston University; LLM from the Hebrew University; Completed his studies towards an MBA at the Hebrew University (missing final paper); LLM from the University of Berkeley California.
	Occupation in the last five years and other corporations wherein he serves as director:	2000 to date: Consultant for Etgar 2 Fund by way of the Atidim Funds Management Co. Ltd. Director at the Israel Discount Bank, Harel Investments, Insurance and Financial Services Ltd., the Israel Museum and G.Y.N. Financial Consulting and Management Ltd.. Chairman and CEO of Atidim Funds Management and I.Y.Z Ltd. Member of the associations: the Rashi Foundation, the Jacob Isler Foundation, the Dayan Center – Tel Aviv University, the Elie Wiesel Foundation, RA.
	Family relation to an interested party:	No
	Has expertise in finance and accounting or professional qualification:	Has expertise in finance and accounting

(7)	**Director Name:**	**Yossi Kucik**
	I.D. No.:	51008035

	Date of birth:	November 14, 1951
	Address for service of process:	1 Azrieli Center, Tel Aviv
	Citizenship:	Israeli
	Service on Board of Directors Committees:	Finance Committee (serving also as the Financial Statements Review Committee)
	Outside Director/Independent Director:	No
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
	Starting date of term in office as a Director:	June 1, 2010
	Education:	1979-1983: MA in Public Administration, the Hebrew University; 1975-1978: BA in Political Science and International Relations, the Hebrew University.
	Occupation in the last five years and other corporations wherein he serves as director:	Vice Chairman Direct Insurance Financial Investments Ltd. Owner of Yossi Kucik-Merav Parsi Zadok, Strategy and Communication Ltd.; Owner of Kucik – Development Management and Consulting Services Ltd.; Chairman of Zur Shamir Holdings Ltd.; Director atDirect I.D.I Insurance Company Ltd.; Chairman of the board of governors – Rabin Center; Director at Meitav Investment House; Director of Direct Financing; Chairman of the executive board of the Yigal Allon House (*Bet Alon*).
	Family relation to an interested party:	None
	Has expertise in finance and accounting or professional qualification:	Professional qualification
(8)	**Director Name:**	**Efraim Halevy, Outside Director**
	I.D. No.:	49871718
	Date of birth:	December 2, 1934
	Address for service of process:	1 Azrieli Tower, Tel Aviv
	Citizenship:	Israeli
	Service on Board of Directors Committees:	Chairman of the Audit Committee, Finance Committee (which also sits as the Financial Statements Review Committee), Chairman of the Internal Enforcement Committee, Chairman of the

	Compensation Committee.
Outside Director/Independent Director:	Yes
Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
Starting date of term in office as a Director:	August 24, 2010
Education:	LL.M. - The Hebrew University in Jerusalem.
Occupation in the last five years and other corporations wherein he serves as director:	2003-2011: Head of the Shasha Center for Strategic Studies in the Hebrew University. 2004-2006: Outside Director of Makhteshim Agan Industries Ltd.
Family relation to an interested party:	None
Has expertise in finance and accounting or professional qualification:	Professional qualification

(9)	**Director Name:**	**Niv Ahituv, Outside Director**
	I.D. No.:	008115693
	Date of birth:	August 16, 1943
	Address for service of process:	1 Azrieli Tower, Tel Aviv
	Citizenship:	Israeli and Canadian
	Service on Board of Directors Committees:	Audit Committee, Chairman of the Finance Committee (serving also as the Financial Statements Review Committee), Internal Enforcement Committee, Compensation Committee.
	Outside Director/Independent Director:	Outside Director (Expert)
	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party of the Company:	None
	Starting date of term in office as a Director:	August 24, 2010
	Education:	BA in Mathematics and Physics from the Hebrew University. MA in Business Administration from Tel Aviv University MA in Information Systems from Tel Aviv University.

	PhD in Management (specialization in Information Systems) from Tel Aviv University.
Occupation in the last five years and other corporations wherein he serves as director:	2011 to date: President of the Dan Academic Center 2003to 2011: Academic Director of the Institute for Internet Studies, Tel Aviv University; 2008 to 2012: Director of the Henry Crown Institute of Business Research in Israel, Tel Aviv University; 2010 to date: Member of the Investments Committee in Migdal Insurance; 2008 to 2012: Outside Director of Ace Auto Depot Ltd.; 2007 to date: Outside Director of Rapac Communication & Infrastructure Ltd.; 2007 to date: Outside Director of Discount Investments; 2003 to 2009: Outside Director of Harel Investments; 1981to 2011- management professor at the Tel Aviv University; Since 2011 – professor emeritus at the Tel Aviv University; Member of the Management at Beit Lessin Theatre.
Family relation to an interested party:	None
Has expertise in finance and accounting or professional qualification:	Has expertise in finance and accounting

Regulation 26A - Senior Officers (as of the Report Date)

(1)	**Name of Officer:**	**Shlomo Sherf**
	I.D. No.:	030223549
	Date of birth:	September 10, 1949
	Starting date of term in office:	**April 1, 2011**
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Mechanical Engineering, Ben Gurion University
	Position held in the Company:	**CEO**
	Position in a subsidiary, in an affiliate of the Company or of an interested party thereof:	Serves as CEO of Canit Hashalom Investments Ltd.
	Occupation in the last five years:	CEO of Electra Real Estate for 7 years. CEO and Director of Electra Ltd. and Director of subsidiaries of Electra for 15 years.
(2)	**Name of Officer:**	**Yuval Bronstein**
	I.D. No.:	024297996
	Date of birth:	March 24, 1969

	Starting date of term in office:	March 1, 2007
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Economics and Accounting, Hebrew University; MBA, major in Finance and Accounting, Hebrew University; Licensed as a CPA (Israel)
	Position held in the Company:	**CFO and in charge of market risk management in the Company**
	Occupation in the last five years:	2007 to date: CFO, Azrieli Group Ltd. 2005–2007: Deputy Comptroller General, Ministry of Finance
(3)	**Name of Officer:**	**Peer Nadir**
	I.D. No.:	054097290
	Date of birth:	March 26, 1956
	Starting date of term in office:	December 1, 2009
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Economics and Accounting, Tel Aviv University; MBA, major in Finance and Accounting, Tel Aviv University; Licensed as a CPA (Israel)
	Position held in the Company:	**CEO, Azrieli Malls**
	Occupation in the last five years:	CEO of Azrieli Malls. Chairman of a municipal company- Tel Aviv National Sports Center Ltd. - until April 2012. Member of the board of directors of the Ramat Hasharon Economic Development Company Ltd. Member of the board of directors of a municipal company – Sport Palaces Ltd.
(4)	**Name of Officer:**	**Arnon Toren**
	I.D. No.:	054121678
	Date of birth:	July 14, 1957
	Starting date of term in office:	January 1, 1998
	Interested party in the Corporation or a family	No

	member of an interested party or another senior Officer in the Corporation:	
	Education:	B.A. in Economics and Sociology, Hebrew University
	Position held in the Company:	**Manager of office segment and CEO, Azrieli Center Tel Aviv**
	Occupation in the last five years:	Chief Marketing Officer in the Company and Manager, Azrieli Center Tel Aviv, holds office as director of Vardinon Real Estate and Investments Ltd.
(5)	**Name of Officer:**	**Michal Kamir**
	I.D. No.:	022802110
	Date of birth:	June 29, 1967
	Starting date of term in office:	June 20, 2010
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	LLB in Law, Tel Aviv University MA in Business Law, Management and Marketing, Middlesex University, London
	Position held in the Company:	**General Counsel,Company Secretary Internal Enforcement Officer.**
	Occupation in the last five years:	2006-2010: Attorney, Herzog, Fox, Neeman, Attorneys at Law Outside Director of Rimoni Industries Ltd. until November 2010
(6)	**Name of Officer:**	**Israel Keren**
	I.D. No.:	003105657
	Date of birth:	September 17, 1947
	Starting date of term in office:	July 1, 2002
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in General History, Tel Aviv University
	Position held in the Company:	**Holds office as CEO of the Group's private companies: Gemel Tesua Investments Ltd.,**

		Otzma & Co. Investments- Maccabim Ltd., Urban A.A.R. Ltd., Herzliya Business Park Operations Ltd.
	Occupation in the last five years:	July 2007 to date: Holds office as CEO of the following companies: Gemel Tesua Investments Ltd., Urban A.A.R. Ltd. and Otzma & Co. Investments- Maccabim Ltd. In addition, until 2012, served as the manager of the E Tower Construction Project in Herzliya Business Park. July 2002 to date: CEO, Herzliya Business Park Operations Management Co. Ltd.

(7)	**Name of Officer:**	**Avraham Jacoby**
	I.D. No.:	052253747
	Date of birth:	March 31, 1954
	Starting date of term in office:	July 1, 1987
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Accounting and Economics, Bar Ilan University; Licensed as a CPA (Israel)
	Position held in the Company:	**Comptroller, Azrieli Group Ltd.**
	Occupation in the last five years:	1987 to date: Holds office as managing comptroller, Azrieli Group Ltd.

(8)	**Name of Officer:**	**Eyal Iohan**
	I.D. No.:	025523531
	Date of birth:	May 7, 1973
	Starting date of term in office:	June 21, 2010
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	LLB in Law and BA in Business Administration, The International Disciplinary Center in Herzliya
	Position held in the Company:	**Construction Manager**
	Position in a subsidiary, in an affiliate of the Company or of an interested party thereof:	Holds office as a director the companies Via Maris Desalination Ltd., Via Maris Desalination (Holdings) Ltd. and a member of the executive board of Via Maris Construction Partnership.
	Occupation in the last five	2005-2010: Assistant to the President of the Azrieli

	years:	Group, Secretary of the Company.
(9)	**Name of Officer:**	**Rafi Wunsh**
	I.D. No.:	028145738
	Date of birth:	February 15, 1971
	Starting date of term in office:	October 15, 2010
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Economics and Accounting, Hebrew University of Jerusalem
	Position held in the Company:	**Business Development Manager**
	Occupation in the last five years:	October 2010 to date: Business Development Manager at the Company. Until October 2010: VP Quebec region, Elad Group Canada Inc. (for three years). CFO, Elad Group Canada Inc. (for two years).

(10)	**Name of Officer:**	**Gali Gana**
	I.D. No.:	059674770
	Date of birth:	June 2,1965
	Starting date of term in office:	September 20, 2009
	Interested party in the Corporation or a family member of an interested party or another senior Officer in the Corporation:	No
	Education:	B.A. in Business Administration, Israel College of Administration; M.A. in Internal Auditing and Public Administration, Bar Ilan University; Certified Internal Auditor (CIA) since 2002; Certified Systems Auditor (SCA) since 2001, Certified in risk and information systems control (CRISC).
	Position held in the Company:	**The Internal Auditor**
	Occupation in the last five years:	Partner in Rosenblum Holtzman CPA Offices since 1997

Regulation 27 - The Company's Accountants

The Company's auditors are Brightman Almagor Zohar & Co., CPA, 1 Azrieli Center, Tel Aviv.

Regulation 29 - Resolutions and Recommendations of the Board of Directors

See Section 4 of Chapter E of this Report - Corporate Governance.

Regulation 29A -The Company's Resolutions

See Section 5 of Chapter E of this Report - Corporate Governance.

Exemption, Indemnification and Insurance of Officers

For a description of the applicable arrangements with regard to exemption, indemnification and insurance for Directors and Officers in the Company, see Note 38D of the Financial Statements as of December 31, 2012.

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

Date: March 19, 2013.

Annex A – Regulation 11

List of Investments in Material Subsidiaries and Related Companies as of the Statement of the Financial Position Date (Not Including Inactive Companies)

					Rate in %			NIS in thousands						
Company name	**Shares' class**	**Total par value of shares in NIS**	**Total par value of held shares in NIS**		**Of the capital**	**Of voting**	**Authority to appoint Directors**	**Cost of the held shares**	**book value of investment (*)**	**Balance of the loans from the Company**	**Manner of presentation in the financial statements**	**Company's country of incorporation**	**Securities exercisable into capital rights or voting rights in the Company's investee company**	**Guarantees the Company provided to the investee company**
Directly held companies														
Canit Hashalom Investments Ltd.	ordinary	114	113		99.1%	99.1%	99.1%	-	4,736,685	(1 (**) 1,749,103	Consolidated company	Israel	-	-
International Consultants (Iconsult) Ltd.	ordinary	3,900	3,900		100%	100%	100%	30,307	43,139	(2 26,161	Consolidated company	Israel	-	unlimited amount for loan whose balance on the Report Date is approx. NIS 25 million
Otzem Initiation & Investments (1991) Ltd.	management	80	80				100%	-	86,110	(3 117,224	Consolidated company	Israel	-	-
	ordinary A	21,330,220	21,330,220											
	ordinary B	4,999	4,999											
		21,335,299	21,335,299		100%	100%	100%	-						

(4)AG Galleria Office Buildings, LP		-	-		100%	100%	-	71,064	130,034	-	Consolidated company	USA	-	Guaranty in several cases which were defined in the loan agreement
(4)AG Plaza at Enclave,LLC		-	-		100%	100%	-	140,090	76,702	88,285	Consolidated company	USA	-	Guaranty in several cases which were defined in the loan agreement

					Rate in %			NIS in thousands						
Company name	**Shares' class**	**Total par value of shares in NIS**	**Total par value of held shares in NIS**		**Of the capital**	**Of voting**	**Authority to appoint Directors**	**Cost of the held shares**	**book value of investment (*)**	**Balance of the loans from the Company**	**Manner of presentation in the financial statements**	**Company's country of incorporation**	**Securities exercisable into capital rights or voting rights in the Company's investee company**	**Guaranties the Company provided to the investee company**
Companies held by Canit Hashalom														
Granite Hacarmel Investments Ltd.	ordinary	147,146,834			100%	100%		1,059,192	-	-	Consolidated company	Israel	-	-
Gemel Tesua Investments Ltd.	ordinary	53,750,000	53,696,250		99.9%	99.9%		100	-	-	Consolidated company	Israel	-	-
Otzma & Co. Investments Maccabim Ltd.	ordinary	16,100,000	16,083,000		99.9%	99.9%		100	-	(3) 48,000	Consolidated company	Israel	-	-
Companies held by Granite Hacarmel Investments Ltd.														
Sonol Israel Ltd.	ordinary	9,055	9,055		100%	100%	100%	287,730	-	-	Consolidated company	Israel	-	-
Tambour Ltd.	ordinary	64,842,261	64,902,261		100%	100%	100%	300,690	-	-	Consolidated company	Israel	-	-
GES Global Environmental Solutions Ltd.	ordinary	17,304,169	17,304,169		100%	100%	100%	57,078	-	-	Consolidated company	Israel	-	-

					Rate in %			NIS in thousands						
Company name	**Shares' class**	**Total par value of shares in NIS**	**Total par value of held shares in NIS**		**Of the capital**	**Of voting**	**Authority to appoint Directors**	**Cost of the held shares**	**book value of investment (*)**	**Balance of the loans from the Company**	**Manner of presentation in the financial statements**	**Company's country of incorporation**	**Securities exercisable into capital rights or voting rights in the Company's investee company**	**Guaranties the Company provided to the investee company**
Supergas Israel Gas Distribution Co. Ltd.	ordinary	252	252		100%	100%	100%	32,289	-	-	Consolidated company	Israel	-	-
Via Maris Desalination (Holdings) Ltd.	ordinary	53,498,000	53,498,000		100%	100%	100%	87,089	-	-	Consolidated company	Israel	-	-

(*) The data refers solely to the companies directly held by the Company.
(1) Deducting capital fund
(2) Deducting capital fund
(3) Capital bills deducting capital fund
(4) Foreign partnership
(**) **Additional details regarding the Company's loan to Canit Hashalom:**

In the rating report for Canit Hashalom's Series A bonds, Midroog rated Canit Hashalom's Series A bonds Aa2, considering also compliance with the following conditions:

a. The loan from the Company, in the amount which shall be no less than NIS 130 million, shall be an inferior loan, the date of payment of which, including in respect of principal, interest and linkage, shall be subsequent to the completion of the bond payment;

b. Canit Hashalom shall borrow additional amounts at a level of seniority identical to all of the debts thereof, whether from the Company or from third parties, in scopes which shall not exceed NIS 345 million. In the event that the Company will transfer such amounts, the aforesaid shall rank equally to all of the other debts of Canit Hashalom and the repayment thereof shall not be subject to the payment mechanism which was set forth in the indenture, whereby Canit Hashalom's balance of debt to the Company shall be paid from current cash surpluses of Canit Hashalom, other than if the trustee shall have approved otherwise. In this regard "cash surpluses" – EBITDA

which shall be calculated according to accepted accounting principles, less payments on account of principal and interest of bonds or bank debts, and after tax payments (the "**EBITDA Mechanism**").

c. The financing balance in the amount of NIS 235 million shall be transferred from the Company as a loan which is subject to the EBITDA Mechanism and such amount shall be added to the debt balance which is subject to the EBITDA Mechanism.

d. From the cash flow deriving from the exercise of Granite Hacarmel's shares (including exercise, refinancing etc.), the loans shall be repaid according to the following order of preference: First, debts which are not subject to the EBITDA Mechanism, then debts which are subject to the EBITDA Mechanism and finally, the inferior loans.

Part E

Corporate Governance

Azrieli Group

Chapter E – Corporate Governance Report

Part A – Aspects of Corporate Governance

Following are details regarding corporate governance processes in the Company for 2012, which include both issues relating to corporate governance in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and a corporate governance questionnaire in accordance with the directive of the Israel Securities Authority on this issue.

1. **Regulation 21 - Payments to Senior Officers – 2012**

The compensation granted during the year preceding the Report Date to the five highest paid individuals among the senior officers of the corporation or a corporation controlled thereby, which was granted to them in connection with their office at the corporation or a corporation controlled thereby, are as follows (in terms of annual costs to the corporation, NIS in thousands) for the twelve-month period that ended on December 31, 2012 (as specified in the Sixth Schedule of the Reports Regulations):

Details of the Compensation Recipient				**Compensation**				
Name	**Position**	**Position Percentage**	**Rate of Holding in the Corporation's Capital**	**Management Fees***	**Bonus**	**Shares-based Payment ****	**Other**	**Total**
David Azrieli (1)	Chairman of the Board of the Company	100%	71.42%	8,708	14,364	---	---	23,072
Menachem Einan (2)	Active Deputy Chairman of the Board	100%	0.01%	***5,156	---	1,223	666(a)	7,045
Shlomo Sherf (3)	Company CEO	100%	---	***4,443	---	770	53(b)	5,266
Yuval Bronstein (4)	CFO	100%	---	2,744	---	255	186(c)	3,185

Peer Nadir (5)	CEO of Azrieli Malls	100%	---	2,808	---	75	108(d)		2,991

*The management fees component includes the following components: cost of monthly management fees, social rights, social and related benefits as customary, car maintenance and reimbursement of communication and other expenses.
**Reflects the expense recorded by the relevant company in 2012 due to granting of phantom units. For details on the phantom units see Note 23 of the financial statements.
***Includes a fixed annual component in the amount of NIS 1 million (index linked).

a. Reflects compensation for office as Chairman of Granite Hacarmel and as a director of its subsidiaries, and an update of the capitalization of a component recorded as an expense due to months of adjustment upon retirement. Mr. Einan waived receipt of compensation for his office at Granite Hacarmel, beginning from January 2013.
b. Reflects a component recorded as an expense due to months of adjustment upon retirement.
c. Reflects compensation for office as director of Granite Hacarmel and its subsidiaries, and an update of an expense in 2012 due to updated months of adjustment upon retirement.
d. Reflects compensation for office as a director of Granite Hacarmel and its subsidiaries. As of October 2012, no officers of the Company serve as directors of Granite Hacarmel, apart from Mr. Menachem Einan, who holds office as chairman of Granite's board of directors. Subsequent to the balance sheet date, Mr. Einan announced his waiver of receipt of compensation for his office at Granite Hacarmel beginning from January 2013.

1) Mr. David Azrieli – serves as the Company's active Chairman of the Board. For details with respect to the management agreement with Mr. David Azrieli, which was signed prior to the Company's IPO in May 2010, see Note 38C(1) of the financial statements and Regulation 22 below. For details with respect to expenses reimbursement in accordance with the resolution of the Company's audit committee dated March 27, 2011, see Regulation 22 below. In view of Amendment 16 to the Companies Law, the management agreement is effective until June 2, 2013.
2) Mr. Menachem Einan – serves as Active Deputy Chairman of the Board of the Company, Active Chairman of Granite Hacarmel and director of the subsidiaries thereof. In January 2013 Mr. Einan announced that he is waiving the compensation which was paid to him for his office as Chairman of Granite. For details pertaining to the management agreement with Mr. Einan and the compensation to which he is entitled see Note 38C(6) of the financial statements.
3) Shlomo Sherf - Mr. Sherf holds office as the Company's CEO since April 1, 2011. For details on the management agreement with Mr. Sherf see Note 37C(7) of the financial statements.
4) Mr. Yuval Bronstein - serves as CFO of the Company, through a company owned by him, in consideration of monthly management fees, linked to the index, which on December 31, 2012, amounted to approx. NIS 216 thousand, and customary related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursement, advance notice of 3 months and a 6 month adjustment period for any reason whatsoever. The Company bears the

full cost of all the benefits (including the cost of use and gross-up of the tax value).

With respect to his term in office as a Director of Granite Hacarmel and the subsidiaries thereof, Mr. Bronstein was entitled to annual compensation and participation compensation as well as to reimbursement of expenses, in accordance with the maximum amounts which were established in the Compensation Regulations, prior to the amendment thereof in March 2008, according to the ranking of Granite Hacarmel. As of October 2012, Mr. Bronstein has ceased to serve as a director at Granite Hacarmel and the subsidiaries thereof.

On June 10, 2010, 82,454 phantom units were allocated to Mr. Bronstein, as part of the phantom unit allocation plan in the Company, as specified in Note 23 of the financial statements, which have not yet been exercised, as of the Report Date.

5) Mr. Peer Nadir – holds office as CEO of Azrieli malls through a company held by him, in consideration for index linked, fixed, monthly management fees which, as of December 31, 2012, amounted to approx. NIS 225 thousand and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value). For his office as a director with Granite Hacarmel and the subsidiaries thereof, Mr. Nadir was entitled to annual compensation, and participation compensation, and expense reimbursement, in accordance with the maximum amounts which were set forth in the Compensation Regulations prior to the amendment of such regulations in March 2008, according to Granite Hacarmel's ranking. As of October 2012, Mr. Nadir has ceased to serve as a director at Granite Hacarmel. On June 10, 2010, 82,454 phantom units were allotted to Mr. Nadir in the context of the Company's phantom unit allotment plan as specified in Note 23 of the financial statements, two thirds of which have been exercised as of the Report Date.

Compensation for Ms. Danna Azrieli, Active Vice Chairman of the Board (not included in the five most highly compensated persons):

Ms. Danna Azrieli serves as Active Vice Chairman of the Board of the Company. For details on the management agreement with Ms. Danna Azrieli see Note 38C(8) of the financial statements. In view of Amendment 16 of the Companies Law, the management agreement shall be effective until June 2, 2013.

Name of recipient of compensation				**Compensation in 2012**				
Name	**Position**	**Scope of position**	**% holding[1]**	**Bonus**	**Share-based payment****	**Management fees(*)**	**Other**	**Total**
Danna Azrieli	Active Vice Chairman of the Board of Directors	80%	71.42%	---	---	2,319	124	2,443

* The management fee component includes the following components: cost of monthly management fee, standard social and related rights and benefits, car maintenance and communication and other expense reimbursement.

** For her office as director in Granite Hacarmel and GES, plus updated provision for adjustment upon retirement. Beginning from October 2012 Ms. Danna Azrieli is no longer holding office as a director at Granite Hacarmel and GES.

[1] Together with her father, Mr. David Azrieli, and her brother, as specified in the Company's immediate report on interested party holdings of January 7, 2013 reference 2013-01-006597.

Compensation of Company Directors

a. Compensation to Mr. Joseph Ciechanover, independent director: On May 25, 2011, the audit committee and board of directors of the Company approved the classification of Mr. Joseph Ciechanover, who is a director with accounting and financial expertise, as an independent director, and approved, pursuant to the provisions of Section 1A(2) of the Companies Regulations (Relief for Transactions with Interested Parties), 5760-2000 (the "**Relief Regulations**"), the update of the compensation terms for Mr. Ciechanover and determined that pursuant to the provisions of Sections 244 and 249C of the Companies Law, 5759-1999 (the "**Companies Law**") and the Compensation Regulations, the compensation to Mr. Joseph Ciechanover as an independent director shall be identical to the compensation which is paid to an expert outside director who holds office with the Company in accordance with the approval of the general meeting of the shareholders of the Company dated August 24, 2010. In other words - the annual compensation and the participation compensation shall be paid in accordance with the maximum amount determined in the Compensation Regulations in respect of an expert outside director, in accordance with the Company's capital rating, as being from time to time. As of the date of this Report , the Company's capital rating is E. Such compensation amounts shall be linked to the consumer price index in accordance with the provisions of the Compensation Regulations. In addition, pursuant to the approval of the general meeting of the shareholders of the Company dated May 10, 2010, Mr. Ciechanover is entitled to an expense reimbursement which is identical to the expense reimbursement of all of the directors who are holding office with the Company (including Outside Directors), and in accordance with the Compensation Regulations. For details see an immediate report which was released by the Company on May 26, 2011, reference no: 2011-01-162051, which is included in this Report by way of reference.

b. Compensation to the outside directors: Pursuant to resolutions of the Board of Directors and the General Meeting of May 10, 2010, and on August 24, 2010, the compensation of Outside Directors is in accordance with the maximum amount pursuant to the Compensation Regulations, in correspondence to the Company’s capital rating, as determined periodically (Prof. Niv Ahituv being paid compensation as an expert director).

In 2012, the compensation which the Company paid to all of the independent directors (two outside directors and one independent director) amounted to approx. NIS 935 thousand.

c. Compensation to additional directors of the Company (including directors who are controlling shareholders): Pursuant to the resolution of the board of directors and general meeting of May 6, 2010, the payment to the other directors of the Company (Yossi Kucik ,Naomi Azrieli and Sharon Azrieli), shall be annual compensation in the amount of NIS 65,000 and meeting participation compensation in the amount of NIS 2,300, such amounts being linked to the consumer price index in accordance with the provisions of the Compensation Regulations. In addition, the provisions of Sections 5(b) and

6(a) of the Compensation Regulations pertaining to reimbursement of expenses to directors, including flights, *per diems* and hospitality, shall apply also with regard to such directors, *mutatis mutandis*. The audit committee and board of directors approved a framework for such expenses which is examined from time to time. In 2012, the compensation paid by the Company to the aforesaid directors amounted to a total of approx. NIS 341 thousand, out of which the amount of approx. NIS 206 thousand were paid to Naomi Azrieli and Sharon Azrieli. On June 2, 2013, the aforesaid resolution regarding payment of director compensation to Dr. Naomi Azrieli and Dr. Sharon Azrieli will expire

2. **Transactions with Controlling Parties – Regulation 22**

Following are the details with regard to transactions with the controlling party or in the approval of which the controlling party has a personal interest, in which the Company or a corporation controlled by it or a company related to it engaged as of the date of the issue of the Company's share to the public, or which are still in force as of the Report Date:

Transactions listed in Section 270(4) of the Companies Law, 5759–1999 (the "Companies Law")

Engagement in a Management Agreement with a Management Company Owned and Controlled by Mr. David Azrieli

- Mr. David Azrieli serves as Chairman of the Board of Directors of the Company since the founding of the Company. Commencing from April 1, 2010, the Company engaged with two Canadian companies which are wholly owned and fully controlled by Mr. David Azrieli, for the purpose of the rendering of management services to the Group, through Mr. David Azrieli. For details regarding the main terms of the management agreement, see Note 38C(1) of the financial statements. In accordance with the provisions of Section 275(a1)(1) of the Companies Law, 5759-1999, the effect of the management agreement is until June 2, 2013.

- Management Fees and Compensation for Ms. Danna Azrieli

  For details with respect to the management agreement via which Ms. Danna Azrieli provides management services to the Company, see Note 38C(8) of the financial statements for 2012. In accordance with the provisions of Section 275(a1)(1) of the Companies Law, the effect of the management agreement is until June 2, 2013.

- Compensation for additional directors who are controlling shareholders of the Company

  Ms. Sharon Azrieli and Ms. Naomi Azrieli, daughters of Mr. David Azrieli, are entitled to directors' compensation as paid to the other directors in the Company who are not outside directors or who are not engaged in a separate management fee agreement with the Company, as specified in Regulation 21 above. In accordance with the provisions of Section 275(a1)(1) of the Companies Law, such

compensation is in force and effect until June 2, 2013.

- Insurance, Exemption and Indemnification of Controlling Shareholders

  In the Company:

  David Azrieli, Chairperson of the Board of Directors, Ms. Danna Azrieli, Deputy Chairperson of the Board of Directors, Ms. Naomi Azrieli, a Director, and Ms. Sharon Azrieli, a Director, have been granted exemption, insurance and indemnification in accordance with the arrangements which apply to exemption, indemnification and insurance of all of the Directors and Officers of the Company, including the Officers who are controlling parties of the Company, as they were updated at the Company's general meeting dated August 15, 2011. For details, see Regulation 29A below. In accordance with the provisions of Section 265(a1)(1) of the Companies Law, such arrangements are in force and effect until August 2014.

  Granite Hacarmel:

  Ms. Danna Azrieli, daughter of Mr. David Azrieli, the indirect controlling party of the Company and Granite Hacarmel, who served, until October 2012, as a Director of Granite Hacarmel, was granted a letter of indemnification under the same conditions as those granted by Granite Hacarmel to the remaining Directors and Officers of Granite Hacarmel and its subsidiaries, other than the exemption clause which shall not apply with regard to Ms. Danna Azrieli. The granting of the indemnification is pursuant to a resolution by the General Meeting of Granite Hacarmel, dated March 13, 2012.

  In addition, Ms. Danna Azrieli was insured under a policy which covers the liability of Officers in the Granite Hacarmel Group, pursuant to the approval of the Audit Committee and the Board of Directors of Granite Hacarmel on May 26, 2009 and July 8, 2009, which approved the coverage of Ms. Danna Azrieli's liability in her office as a director under the aforesaid policy pursuant to Regulation 1B(5) of the Companies Regulations (Concessions for Transactions with Principal Shareholders), 5760-2000.

- Contributions to the Azrieli Foundation (Israel), a Registered Association

  See Note 38C(9) of the financial statements and see the Company's immediate reports dated March 30, 2011 (Reference no.: 2011-01-098874) and February 20, 2012 (Reference no. 2012-01-046971), which are incorporated in this section by reference. On March 14, 2013, the Company's audit committee determined that the length of time which was originally set forth by the general meeting of the Company in respect of the Company's contributions to the Azrieli Foundation (Israel) Registered Association, in other words, 5 years, is reasonable under the circumstances of the case. For details see the Company's immediate report dated March 14, 2013 (Reference Number: 2013-01-005851).

Negligible Transactions

In the Report Period, the Group performed negligible transactions with the controlling

parties thereof, or that the controlling parties thereof had an interest in their approval, of the kinds and characteristics in accordance with a negligible transactions procedure approved by the Board of Directors of the Company, as specified in Note 38E of the financial statements, including:

- Lease Agreements with Related Parties: the Company, companies controlled by the Company and its related companies, have engaged in lease agreements with lessees, in the engagement with whom the controlling party and/or one or more of the senior Officers of the Company have a personal interest, pursuant to which the aforesaid companies lease out and/or leased out during 2012, in the ordinary course of business and at market conditions, areas in some of the income producing properties of the Company. The income with respect to the aforesaid rentals in the year ending on December 31, 2012, totaled approx. NIS 2 million (about eight lessees, including the Foundation). The Audit Committee and the Board of Directors of the Company examined in their meetings on December 31, 2012, that these engagements are negligible transactions which are carried out in the ordinary course of business of the Company and at market conditions.

- Employees of the Group who are Related to Interested Parties: the Group employs five employees who are related to controlling parties of the Company (and do not amount to the definition of "relative" in the Securities Law) in employment agreements which are not irregular and also negligible, in a total cumulative annual amount of approx. NIS 1.7 million.

- Ties with the community – From time to time the Company makes contributions, either itself or through companies which are among the members of the Group, and to the Company's best knowledge, the Foundation donates to the community and to bodies or entities which require assistance, including bodies to which interested parties of the Company may have a link, or in which interested parties of the Company are volunteer members.

3. Additional issues in relation to the control of the Company

3.1. Restructuring

In the context of a process of restructuring of the companies in the Group and primarily, steps for the consolidation of similar activities of the Group which were performed in fellow subsidiaries, and streamlining of the Group's current operation, the Company engaged, in November 2008, in an agreement with Nadav Investments whereby Nadav Investments transferred its shares in some of the Group's companies to the Company, as is, in consideration for an allotment of shares of the Company (the "**Restructuring Agreement**"). As of the Report Date, the restriction period by virtue of Section 104A of the Income Tax Ordinance (New Version), 5721-1961, pertaining to the sale of shares which have been transferred, has expired.

Due to it being a company which is incorporated under Canadian law, Nadav Investments is governed, *inter alia*, in connection with its operations or investments in Israel, by the rules of taxation which are set forth in the treaty between the State of Israel and Canada pertaining to the prevention of double taxation and tax evasion with regard to taxes on income and capital (the

"**Treaty**"), including with regard to the sale of shares in companies whose assets are mainly real properties. For purposes of clarification and interpretation of the sections of the Treaty which contemplate this issue, various tax ramifications and provisions regarding the sale of the Company's shares were set forth in the context of an agreement between the Israel Tax Authority and the Company, Canit Hashalom and Nadav Investments, dated November 2008, in accordance with the rate of the Company's holdings in real properties in Israel. In addition, the aforesaid agreement set forth provisions whereby Nadav Investments shall not act towards receiving any tax benefits in Canada which are not in accordance with the provisions of the law in Canada or the Treaty, provisions pertaining to the possibility to terminate the agreement if in the future the provisions of the Treaty and/or Chapter E of the Ordinance will be materially modified in the manner which has an effect on the manner of taxation of the sale, and additional provisions whereby in any event where there will be a tax liability in Canada due to the sale of the shares, the same shall have no effect on the tax liability which is set forth in the agreement.

Any restructuring in accordance with the provisions of the second part of the Ordinance which addresses the Company's shares and/or the shares of Canit Hashalom shall be performed solely after the receipt of the advance consent of the Mergers and Splits Department of the Tax Authority.

3.2. <u>Delineation of business</u>

In the context of the management agreements with the controlling shareholders of the Company which are specified in Regulation 21 above, Messrs. David Azrieli and Danna Azrieli undertook that so long as they are providing management services to the Company and/or companies of the Group, and during an additional period of six (6) months from the date of termination of the provision of the management services, and so long as no other resolution shall have been adopted by the Company's board of directors, they shall not operate in the Company's Business Segments, as defined below, through acquisition, investment, consultation, management and/or rendering of services, either directly or indirectly.

For purposes of this section the "**Company's Business Segments**", shall mean – (1) Development, maintenance and/or management of a commercial center and/or shopping mall in Israel, the area of which exceeds 12,000 sqm of commercial space for rent; and/or (2) Development, maintenance and/or management of office space for rent in Israel, the area of which exceeds 8,000 sqm of commercial space for rent; and/or (3) Development, maintenance and/or management of income-producing property in Israel, which incorporates commercial and office space, the area of which exceeds 10,000 sqm of commercial space for rent.

The aforesaid notwithstanding, the transactions and/or properties and/or projects which are specified below shall not be deemed as the use of business opportunities of the Company by such controlling shareholders: (a) Holding of properties and/or projects which are owned and/or controlled by Messrs. David Azrieli and Danna Azrieli, directly and/or indirectly, as of the date of

the Company's Prospectus; (b) Purchasing up to 10% of properties which are in the Company's Business Segments, as aforesaid, and/or purchasing up to 10% of a corporation which holds properties as aforesaid, provided that the controlling shareholders shall have no active involvement in the management of such property; (c) Purchasing holdings in a corporation, the scope of the properties of which in the Company's Business Segments does not exceed 10% of the total scope of the assets thereof, and the scope of its income from activity in the Company's Business Segments in the year prior to the purchase date does not exceed 10% of the total scope of the income thereof; (d) Holding a corporation as provided in Subsection (c) above, also if after the purchase, which shall have been performed in accordance with the provisions of Subsection (c) above, the scope of the properties in the Company's Business Segments and/or the scope of its income from activity in the Company's Business Segments exceed 10% of the total scope of its income; and/or (e) Performing transactions and/or purchasing properties and/or projects and/or operations in the field of residential real estate in Israel. The controlling shareholders have operations in the field of real estate overseas and their aforesaid undertaking applies only with regard to the operations in Israel.

At the same time it shall be clarified that if and insofar as Messrs. David Azrieli and Danna Azrieli will seek to act in one or more of the Company's Business Segments, which are not part of the transactions which are described above, such that a business or legal or other impediment may be created to performance of specific transactions and activities by the Company and/or companies of the Group, they undertake to present the outline of the proposed transaction to the Company's audit committee. In such a case, in the event that the Company's audit committee will decide that the Company is not interested in the proposed transaction, then they shall be entitled to perform the proposed transaction, either by themselves or through companies which are owned by them, without the same being deemed as the use of a business opportunity of the Company.

The aforesaid does not derogate from the fiduciary duty of any director in the Company, pursuant to Section 254 of the Companies Law.

4. **Recommendations and resolutions of the board of directors – Regulation 29 and Regulation 29A**

For details on resolutions of the board of directors with regard to dividend distributions see Section 4 of Chapter A of this Report and Notes 22 and 41 of the financial statements.

On March 14, 2013, the Company's audit committee determined that the length of time which was originally set forth by the general meeting of the Company in respect of the Company's contributions to the Azrieli Foundation (Israel) Registered Association, in other words, 5 years, is reasonable under the circumstances of the case. For details see the Company's immediate report dated March 14, 2013 (Reference Number: 2013-01-005851).

Resolutions of the Company – Regulation 29A

Below is a specification of resolutions of the Company's board of directors which were not specified in Regulation 29 above:

Approval of acts under Section 255 of the Companies Law: none.

Acts under Section 254(a) of the Companies Law: none.

Irregular transactions requiring special approvals under Section 270(1) of the Companies Law:

Agreements with officers:

On February 22, 2012, the audit committee and board of directors of the Company approved and ratified the granting of one-time grants to four officers at the Company. For details see the Company's immediate report dated February 23, 2012 (reference: 2012-01-049929).

5. **Compensation of Senior Officers**

In the audit committee meeting of March 14, 2013 and the board meeting of March 19, 2013, a discussion was held regarding the employment terms and remuneration granted to the senior officers and interested parties in the Company specified in Regulation 21 of the Reports Regulations, regarding each of the said senior officers and interested parties separately. On December 12, Amendment 20 of the Companies Law took effect. As of the date of this Report, the Company has yet to adopt a compensation policy. Hence, the Company's board of directors is deliberating the connection between the compensation which was given to senior officers of the Company and their contribution to the Company, *inter alia*, while taking into account the considerations listed in First Schedule A of the Companies Law.

The board was presented with the full relevant data regarding each officer and interested party pursuant to the board resolution, and criteria which were set forth by the Company's board of directors in advance within its meetings in March 2012 and in view of the recommendations of the remuneration committee from February 2013, according to which the board of directors must examine the employment terms of each senior officer in the Company in respect of existing agreements which were duly approved in the past and which are valid as of the date of examination; the cost of the consideration paid in 2012 to each such officer; the compliance of the officer with the requirements of the position which he holds, and with the provisions of the agreement with him; the value of the benefits and remuneration paid to such officers in the report year; review of the responsibilities of the officers in 2012 and data regarding the remuneration ratio versus compensation for employees in the Company and figures on the remuneration customary in the market in respect of remuneration receivers in similar positions in companies at a scope of business and/or in a field of business similar to those of the Company. According to the specified parameters, within the discussion, the board of directors examined the employment terms of each of the senior officers and

interested parties separately, and the relation between the remuneration amounts granted in 2012 and their contribution to the Company and the responsibilities of the officers in 2012.

Among their other considerations, the audit committee and the board of directors addressed the fact that the business volume and the gravity of decisions required from the officers deviated in 2012 compared with the same last year, that the business this year was carried out under unstable conditions in the entire market, which caused several leading companies to encounter material difficulties, while the Company presents this year as well respectable results and exceptional financial strength.

Thus the Company's board of directors determined, *inter alia*, that **Mr. David Azrieli**, **Chairman of the Group**, extensively contributes his experience and knowledge for the success of the Company, strength and reputation thereof, and he is the founder and has been head thereof for many years. In recent years, and especially in 2012 the scope of services provided by the chairman of the board had increased, both in view of the Company's business development and in view of the increase in income-producing properties and development and architectural projects, and his contribution has a considerable effect on the real business results of the Company. It shall be stated that the management agreement with Mr. David Azrieli expires in June 2013.

Mr. Menachem Einan, Active Deputy Chairman of the Board – since April 2011, Mr. Einan serves as an active deputy chairman of the board, a position in the context of which he is responsible for the strategic fields related to the continued business development of the Group and the realization of its long term vision. In the report year, which was significant and intensive, he made a significant contribution in the strategic field and the continued expansion of the scope of the Company's business, in the initiation of new projects, promotion of existing projects and conduct vis-à-vis the toughening regulation.

Mr. Shlomo Sherf, CEO of the Company – has been serving as the Company's CEO since April 2011 concurrently with material changes in the condition of the markets and the toughening regulation, concurrently with the continued growth of the business volume and the complex responsibilities of the CEO of the largest real estate company in Israel and he continued to contribute greatly through the knowledge and experience accumulated by him during his many years of work as CEO.

Mr. Yuval Bronstein, **CFO of the Company** – manages all of the financial and accounting reporting system of the Group, according to the changing regulation, oversees the issue of raising financing sources for the Group, management of its available funds and market risks, supervises the effectiveness of the internal controls in the Company and is also involved in the purchase and financing of properties and of the development operation.

Mr. Peer Nadir, CEO of Azrieli Malls – manages the Group's income-producing properties in the retails centers and malls segment, an overall of 254,416 sqm leasable area, while maintaining an occupancy rate of approx.

100% also during a difficult economic period and toughening regulation, and his contribution to the achievements and objectives of the segment is significant.

Ms. **Danna Azrieli, Active Vice Chairman of the Board** (is not included in the five highest paid individuals in the Company) – serves as active vice chairman and has made a significant contribution to the success of the Group's business and the maximization of its results, including through involvement and leadership of strategic and managerial processes, promotion of community relations and image and social accountability.

Dr. Naomi Azrieli and Dr. Sharon Azrieli, who serve as directors of the Company are paid directors' remuneration pursuant to the Company's decision, which is lower than the remuneration paid to the other directors in the Company, who are not the controlling shareholder in the Company and/or his relative (with the exception of one director who receives remuneration equal to theirs), who are paid remuneration according to the amount prescribed by the Companies Regulations (Rules Regarding Remuneration and Expenses to an Outside Director), 5760-2000, according to the Company's equity and the definition of an "expert outside director", as the case may be.

According to the aforesaid, in the estimation of the Company's board, the remuneration given as specified in Regulation 21 and to the other interested parties in the Company is fair and reasonable consideration, *inter alia*, considering the financial condition and financial results of the Company, its objectives and considering the experience and contribution of the senior officers and interested parties of the Company in the context of fulfillment of their duties.

6. Internal Auditing

In 2010 the Company adopted an internal audit procedure (the "**Internal Audit Procedure**"), whose purpose is to define the status and scope of activity of the internal auditing of the Company, as well as the methods and means for fulfillment of its tasks. This Procedure was approved by the audit committee in its meeting of November 15, 2010 and by the Company's board of directors in its meeting of November 24, 2010.

Identity of the internal auditor: Mr. Gali Gana, CPA, was appointed for the position of the internal auditor of the Company and the Group's companies (excluding Granite Hacarmel) and began his service at the Company in November 2009. Until the end of 2012, CPA Ofer Orlitski held office as the internal auditor of Granite HaCarmel. Beginning in 2013, and subsequent to Granite Hacarmel being turned into a private company, no separate internal auditor holds office therein. In addition, an outside internal auditor who is separate from the company's internal auditor holds office in each of the material subsidiaries of Granite Hacarmel.

Compliance of the Internal Auditor with legal requirements: To the best of the knowledge of the Company's management, according to the Internal Auditor's statement, he complies with the requirements of Section 146 (b) of the

Companies Law and the provisions of Section 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

Holding securities of the Company or of a body related thereto: To the best of the knowledge of the Company's management, as the internal auditor informed the Company, the internal auditor has no material business relations or other material relations with the Company and other business relations of the internal auditor do not create a conflict of interest with his position as an internal auditor of the Company.

Further Positions of the Internal Auditor in the Company: The internal auditor is an external service provider to the Company on behalf of Rosenblum-Holtzman., CPA's. According to the Internal Audit Procedure, the auditor and the audit workers will not hold a position in the Company in addition to the internal audit. As of the Report Date, except for his position as the Company's internal auditor, the internal auditor is neither employed by the Company nor provides any other external services thereto.

Other positions of the Internal Auditor outside the Company: Mr. Gali Gana is a partner at Rosenblum-Holtzman & Co., CPAs.

The Method of Appointment of the Internal Auditor: Mr. Gali Gana was appointed to serve as the internal auditor of the Company by the Company's CEO in November 2009 and was approved by the Company's audit committee on November 15, 2010, after an in-depth review of his education, qualifications and experience of many years in internal auditing while considering the obligations, authorities and duties imposed on the internal auditor according to law.

Mr. Gana was found suitable to serve as the internal auditor of the Company, *inter alia* considering the scope of business and complexity of the company. Within the framework of the Internal Audit Procedure which was approved by the audit committee and board of directors of the Company in November 2010, the Company's board of directors shall appoint the internal auditor and determine his status and compensation terms.

The Identity of the Supervisor of the Internal Auditor: The organizational supervisor of the internal auditor is, as of the Report Date, the chairman of the Company's board of directors, in coordination with the Company's audit committee.

The Audit Plans: According to the Internal Audit Procedure, the internal auditor submits a proposal for an annual work plan, in coordination with the chairman of the board and the Company's CEO. The audit committee must discuss the plan and approve it, and thereafter the plan is forwarded for the board's approval. In August 2012 the audit committee adopted the internal auditor's report regarding a multi-annual risk survey, according to which the audit committee laid down a multi-annual plan for determination of the audit objectives, which will serve as an outline for laying down the annual work plan of the internal audit. The audit plan of the internal auditor is an annual plan, derived from a multi-annual work plan, *inter alia*, according to the

following considerations: potential for streamlining and saving, risks inherent to the Company's business, rules and regulations applicable to the Company and weaknesses which the Company's board of directors, management or internal auditor observe on an ongoing basis.

The annual work plan of the internal audit includes also the performance of an audit of the follow up on implementation of the internal auditor and audit committee's recommendations by the Company's management. The audit is carried out according to the plan under the supervision of the internal auditor and is adapted, according to developments and findings which are discovered during the audit. The work plan leaves discretion with the auditor for change in the audited issues, after a discussion on the subject with the relevant parties.

At the meeting of the Company's board of directors of March 21, 2012, the audit plan for 2012 was approved, after having been presented by the internal auditor to the Company's board of directors, following the audit committee's recommendation to approve the plan and in accordance with the multi-annual plan.

At the meeting of the Company's board of directors of March 19, 2013, the audit plan for 2013 was approved, after having been presented by the internal auditor to the Company's board of directors, following the audit committee's recommendation of December 2012, to approve the plan and according to the multi-annual plan.

Material Transactions: The internal auditor receives an invitation, including background material for meetings of the Company's audit committee in which transactions are examined and approved, as specified in Section 270 of the Companies Law, 5759-1999. According to his choice, after receiving proper details, he is present at the meetings or is updated in respect thereof. Also, the internal auditor receives, upon his request, minutes of the Company's board meetings in which such transactions had been approved.

Audit of investee corporations: The internal auditor serves also as the internal auditor of the subsidiaries in the Group, excluding the Granite HaCarmel Group. The audit plan also refers to material investee corporations of the Company in which no internal auditor had been appointed, including abroad.

Scope of Retaining of the Internal Auditor: The scope of retaining of the internal auditor had been approved by the audit committee according to the audit plan which was approved thereby. In 2012 the hours of the internal audit in the Company and in its investee companies (excluding Granite HaCarmel) amounted to approx. 1,100 hours (all in respect of business in Israel) by the internal auditor Mr. Gali Gana on behalf of the accounting firm of Rosenblum-Holtzman, CPAs. The management has the option to expand the scope of retaining according to circumstances.

In the Company's estimate, the scope of the internal auditor's work for 2012 is appropriate.

The scope of hours for the audit work in the Company and in the subsidiaries is determined according to the audit plan proposed by the internal auditor in coordination with the management and is approved by the audit committees of the various boards of directors. The annual scope of the audit plan in Granite HaCarmel Group is approx. 4,000 working hours.

According to the Internal Audit Procedure, the period of office of an internal auditor in the Company will not exceed six years, unless the audit committee and the board of directors have decided otherwise.

Guideline Professional Standards in the Performance of the Audit: The internal auditor and the team of employees reporting to him perform the audit work in meticulous compliance with necessary standards for the performance of professional, reliable, autonomous audit, independent of the auditee. Pursuant to information provided to the Company's management by the internal auditor, the audit reports rely on the audit findings and the facts recorded in the audit are carried out according to accepted professional standards according to professional guidelines on internal auditing, including standards of the IIA in Israel, and in accordance with the Internal Audit Law, 5752-1992 and the Companies Law. The board of directors relied on the reports of the internal auditor regarding his compliance with the professional standards according to which he performs the audit.

Free Access to the Internal Auditor: The internal auditor of the Company has free, unlimited and direct access, in coordination, to documents, information and the relevant information systems of the Company, and of investee companies, including financial data, as well as an independent status. In respect of investee companies abroad, the Company's internal auditor carries out an audit in reliance on reports he receives from the auditors of the subsidiaries abroad. The internal auditor undertakes to keep in confidence, not to provide to others and not to make any use for his own use or for the use of others, of any information pertaining to the Company.

The Report of the Internal Auditor: The internal audit reports are submitted in writing and discussed on an ongoing basis with the Company's management and the CEO.

The dates on which a report had been submitted regarding the findings of the internal auditor to the CEO are: February 15, 2012 (two reports) March 4, 2012, August 14, 2012, August 23, 2012 and November 5, 2012.

The dates on which a discussion was held at the audit committee regarding the findings of the internal auditor are as follows: February 22, 2012, March 19, 2012, May 21, 2012, August 22, 2012 and November 18, 2012.

The evaluation by the Company's Board of Directors of the Activity of the Internal Auditor: According to the evaluation of the board of directors, the qualifications of the internal auditor and his team, the scope, nature and continuity of the activity of the internal auditor and his work plan are reasonable in the circumstances of the matter, and fulfill the purposes of the internal audit at the Company. On December 31, 2012, the audit committee

held a meeting with the internal auditor of the Company, in the absence of the Company's management, for discussion of the internal auditor's work and found that there are no restrictions on his work, as aforesaid.

Compensation of the internal auditor: The payment to the internal auditor of the Company and of subsidiaries in Israel is done according to actual working hours and according to the work plan approved by the audit committee and the progress in the audit work of each and every subject. In the beginning of each year the auditor submits a proposal for an annual audit plan which will include a planned hourly framework.

The audit committee determines the audit plan and the hour quota. The auditor will not deviate from the hour quota without the approval of the audit committee. In case that further tasks will be imposed on the auditor during the audit year – the audit committee will determine the hour quota for the further tasks.

In 2012 the payment to the internal auditor and his team amounted to a total of approx. NIS 218 thousands (plus VAT). The cost of the internal audit in the Granite HaCarmel Group for 2012, including the cost of external entities, amounted to a total of approx. NIS 1,079 thousands.

According to the Company's estimation, due to the fact that the remuneration is based on working hours, the aforesaid remuneration cannot affect the exercise of the internal auditor's professional discretion. The Company determined as a matter of essential policy the independence of the internal audit, and therefore, the internal auditor is not dependant at all upon the Company and the management thereof.

7. The External Auditor

The identity of the auditor

The primary external auditors of the Company and of the investee companies (excluding Granite HaCarmel) are the accounting firm of Brightman Almagor Zohar (the "**Auditor**").

It shall be stated that the firm leases offices from the Company at the Azrieli Center in Tel Aviv for amounts which are immaterial to the firm. However, in order to ensure the independence thereof is not prejudiced, the external auditor assumed (within the framework of an agreement with the Israel Securities Authority) upon himself parameters which will be examined from time to time in respect of the engagement, including with respect to the specificity of the terms of the lease agreement and non-modification thereof; written – at arm's length fee agreements; separation between the identity of the service providers and the decision makers in respect of the lease agreement; restrictions regarding the settling of accounts between the lease agreement and the services and agreement that in case of dispute the auditor shall act for termination of his office. The Company confirms with the auditor the fulfillment of such parameters and the validity thereof on an annual basis.

The External Auditor's Fee

In the years 2011 and 2012 the external auditors' fee for audit services, services related to the audit and tax services, and for consulting services, totaled as follows:

2012:		**Audit services, services related to audit and tax services**		**Other Services**		**Total**	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar	1,325	8,065	70	350	1,395	8,415
Granite HaCarmel	Somekh Chaikin KPMG (external auditors)	2,400	16,000	1,000	2,500	3,400	18,500
Granite HaCarmel	Other accountants	-	-	170	1,275	170	1,275
2011:		**Audit services, services related to audit and tax services**		**Other Services**		**Total**	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar	1,100	7,820	155	550	1,255	8,370
Azrieli Group Ltd.	Other accountants	-	-	205	850	205	850
Granite HaCarmel	Somekh Chaikin KPMG (external auditors)	2,600	17,500	850	3,000	3,450	20,500
Granite HaCarmel	Other accountants	300	2,250	10	25	310	2,275

Determination of the External Auditor's Fee

The Company's board of directors, after receiving the recommendation of the Company's audit committee, was authorized in the Company's articles of association to determine the fee of the external auditor. The fee is determined based on the work required and past experience, while adjusting such to changes in regulation and scope of work, development of the Company and events which occurred during the passing year. Accordingly, the Company's board of directors approved on March 19, 2013 the external auditor's fee for 2012 and 2013, after receiving the recommendation of the audit committee.

8. **Independent Signatory**

As of the Report Date, Mr. David Azrieli is an independent signatory of the Company and his signature alone can bind the Company.

9. Contributions

The Company has a deep commitment to the improvement and promotion of the community in Israel. The social accountability, the integration and giving to the community are strategic objectives which constitute an integral part of the Company's business work plan, which allocates financial resources to the matter, in the annual work plan. The activity for the community is done while involving the workers and implementing values of social accountability and environmental protection.

Furthermore, the Company has for many years assisted public corporations and institutions whose purposes include activities for welfare, charity, sports, medical aid for the needy, education etc. In 2012 the Company made contributions, itself and through consolidated companies (excluding Granite Carmel), in money and in finished products, at a total value of approx. NIS 8.6 million.

For decisions made by the Company made in respect of its contribution policy, through the Azrieli Foundation (Israel) (Registered Association), see Regulation 22 above, Section 4 above and Note 38C(9) of the financial statements.

10. Internal Enforcement Plan in the Company

As of the Report Release Date, the Company has adopted an internal enforcement plan. Within the framework of the internal enforcement plan, the Company's board of directors appointed a board committee designated for the issue of internal enforcement in the Company (the "**Enforcement Committee**") which held a series of discussions regarding required adjustments for an enforcement outline and an enforcement system procedure for the needs of the Company, the unique structure of the Company and its field of business. The Enforcement Committee convened and discussed the outline of the plan and the procedures derived therefrom, and approved on August 22, 2012 the principles of the enforcement plan and an enforcement system procedure. On the same day the Company's board of directors approved the recommendation of the enforcement committee, the principles of the enforcement plan and the enforcement system procedure. On March 19, 2012, the Company's board of directors appointed, after receiving the recommendation of the enforcement committee, Adv. Michal Kamir, the Company's General Counsel and Secretary, as the supervisor of internal enforcement in the Company.

In the context of the enforcement plan, the Company updated and adopted several procedures regarding corporate governance in the Company, which constitute part of the overall enforcement system in the Company, including: (a) Procedure for the work of the board and its committees; (b) Procedure for identifying transactions with interested parties; (c) Immediate reports procedure (for examination of the materiality and the need for submitting an immediate report upon the occurrence of various events); (d) Negligent transactions classification procedure; (e) Insider information procedure; (f)

Whistleblower employees procedure; (g) Ethical code; (h) Officer holdings procedure; (i) Cluster of companies procedure; and other procedures designated to support and regulate the work of the different organs in the Company and its management.

Part B - Corporate Governance Questionnaire

For avoidance of doubt it shall be clarified that the questionnaire is not intended to exhaust all corporate governance aspects relevant to the Company, but only addresses several aspects; for receipt of further information, please inspect the Company's reports, including in this periodic report.

Independence of the Board of Directors

				Correct	Incorrect
1.			Throughout the whole report year, two or more outside directors held office in the corporation. Director A: Prof. Niv Ahituv Director B: Mr. Efraim HaLevy Number of outside directors holding office in the corporation as of the date of release of this Questionnaire: 2.	✓	
2.		a.	The number of independent directors holding office in the corporation as of the date of release of this Questionnaire: 3 (together with the outside directors)	———	———
		b.	As of the date of release of this Questionnaire - - In a corporation which has a controlling shareholder – a third of the board members, at least, are independent. - In a corporation which has no controlling shareholder – most of the board members are independent.	✓	
		c.	The corporation determined in the articles of association that a rate[2]/minimal number of independent directors shall hold office therein.		☒ In practice, this is how the Company acts, and 3 independent directors hold office

[2] In this Questionnaire "**rate**" – certain number out of all of the directors, thus, for example, in a corporation which a third had been determined as the rate of independent directors, it shall be stated 1/3.

					therein, constituting a third of the board members)
3.		In the report year, an examination was held vis-à-vis the outside directors (and the independent directors) and it had been found that in the report year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a link of the outside (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an outside (or independent) director. If your answer is "correct", the entity conducting the aforesaid examination shall be stated: The General Counsel.		✓	
4.		All of the directors who held office in the corporation during the report year do <u>not</u>, directly or indirectly, report[3] to the CEO (excluding a director who is a workers' representative, if there is a workers' representative body in the corporation). If your answer is "incorrect", (i.e., the director reports to the CEO as aforesaid) - the number of directors <u>not</u> complying with the aforesaid restriction shall be stated: _____.		✓	
5.		Prior to the commencement of each board meeting, the corporation requested each of the directors participating in the discussion and/or vote as aforesaid, the disclosure of existence of a personal interest and/or conflict of interest regarding an issue on the meeting's agenda, as applicable.[4] In addition, it shall be stated whether directors who notified of the existence of a personal interest and/or conflict of interest participated in the discussion and/or vote as aforesaid (excluding a discussion and/or vote in which the majority of the board had a personal interest as stated in Section 278(b) of the Companies Law): ☐ Yes. The rate of such directors who participated in the discussion and/or vote: _____. (*Additional rows must be added according to the number of discussions/votes which took place during the report year).* ☐ No.			
6.		In the report year, the board <u>did not refuse</u> to provide professional consulting services at the expense of the corporation, in accordance with a director's request pursuant to Section 266(a) of the Companies law, insofar as it was requested to do the same.		✓	

[3] The mere holding of office in a held corporation shall not be deemed as "reporting" for purposes of this question.
[4] In the first year of application, a corporation is entitled not to answer this question.

		If your answer is "incorrect" (i.e., the board refused as aforesaid) - the director's reasons for the request and the board's reasons for not granting the request shall be specified, or alternatively, reference to the immediate report in which such disclosure was specified shall be given: _____. ☐ *Irrelevant (the board has not been requested as aforesaid).*		
7.		The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or a senior officer of the corporation, was not present in the board meetings held in the report year. If your answer is "incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of the additional person in such board meetings shall be stated: Identity: Ms. Stephanie Azrieli, wife of Mr. David Azrieli . Position: None. Specification of the link to the controlling shareholder (if the person present is not the controlling shareholder himself): Spouse. Was it for the purpose of presentation of a certain matter: ☐ Yes ☒ No *(Please mark x in the appropriate box)* The rate of his attendance at board meetings held in the report year: Ms. Stephanie Azrieli accompanies her husband, chairman of the board, Mr. David Azrieli, from time to time, to the board meetings however, she neither takes part therein nor participates in the deliberations. ☐ Irrelevant (the corporation does not have a controlling shareholder).		✓

Directors' Qualifications and Skills

			Correct	Incorrect
8.		In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation who are not outside directors *(in this regard - a determination by a regular majority is **not** deemed a limitation).* If your answer is "incorrect" (i.e., such limitation exists), the following shall be stated -	✓	
		a. The time period prescribed in the articles of association for the office of a director: _____.		
		b. The required majority prescribed in the articles of association for the termination of office of the directors: _____.		
		c. The legal quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: _____.		
		d. The majority required for amending these provisions in the articles of association: _____.		
9.		All of the directors who held office in the corporation in the report year, prior to the date of convening of the general meeting whose agenda included their appointment, stated that they have the required qualifications (while specifying the same) and the ability to dedicate the appropriate time for carrying out their duties, and that the restrictions specified in Sections 226 and 227 of the Companies Law are not fulfilled in their regard, and with regard to an independent director, also that they comply with the provisions of Paragraphs (1) and (2) of the definition of an "independent director" in Section 1 of the Companies Law. If your answer is d (2) of the definition of an directors with regard to whom the aforesaid was not fulfilled shall be stated: _____.	✓	
10.		The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of incumbent directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "correct" - state whether the plan was implemented in the report year: □ Yes □ No *(Please mark x in the* appropriate *box)*		☒ (The Company arranges to periodically update the board members on the relevant issues)
11.		The chairman of the board (or another person appointed by the board) is responsible for the integration of the corporate governance provisions applicable to the corporation and acted to keep the directors up to date on issues related to corporate governance during the report year. If the board of directors appointed another person to be responsible (*in lieu of* the chairman of the board), please state their name and position: Adv. Michal	✓	

		Kamir, the General Counsel.			
12.		a.	The corporation prescribed a required minimal number of directors on the board who must have accounting and financial expertise. If your answer is unting and financial expertise.ber of ar.orporation and acted to keep the directors in the field of the law applicable to th.	✓	
		b.	Throughout the entire report year, in addition to the outside director with the accounting and financial expertise, additional directors with accounting and financial expertise held office in the corporation in a number prescribed by the board.	✓	
		c.	Number of directors holding office in the corporation during the report year: Having accounting and financial qualification: 2. Having professional qualification: 6.	_____	_____
13.		a.	On the date of appointment of an outside director in the report year, the provision of Section 239(d) of the Companies Law regarding the diversification of the composition of the board of both genders was fulfilled. ☐ *Irrelevant (no outside director was appointed in the report year).*	Irrelevant	
		b.	Throughout the report year, the composition of the board included members of both genders. If your answer is "incorrect" - the time period (in days) in which the aforesaid was not met shall be stated: _____. *In this question, you may answer "correct" if the time period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), state the time period (in days) in which directors of both genders did not hold office in the corporation:* _____.	✓	
		c.	Number of directors of each gender holding office on the board of the corporation as of the release date of this questionnaire: Men: 6 Women: 3.	_____	_____

Board Meetings (and Convening of a General Meeting)

				Correct	Incorrect
14.			Number of board meetings (excluding board committee meetings, but including resolutions through means of communication or in writing) held during each quarter in the report year (2012): Q1:4. Q2:3 Q3:6 Q4:3	_____	_____
		b.	Alongside each of the names of the directors holding office in the corporation during the report year, state their participation rate in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the report year (in reference to his term of office):	_____	_____

Name of the Director	Participation Rate in the Board Meetings (16 meetings)	Participation Rate in the Audit Committee meetings (in respect of a director who is a member of this committee) (11 meetings)	Participation Rate in the meetings of the Financial Statements Review Committee (in respect of a director who is a member of this committee) (4 meetings)	Participation rate in meetings of other board committees of which he is a member (while stating the name of the committee)
David Azrieli	16	----	----	
Danna Azrieli	16	----	----	

			Naomi Azrieli	16	----	----			
			Sharon Azrieli	16	----	----			
			Menachem Einan	16	----	----			
			Joseph Ciechanover	15/16	9/11	4	2/3(Enforcement Committee)		
			Yossi Kucik	16	----	4	----		
			Niv Ahituv	15/16	11	4	3 (Enforcement Committee)		
			Efraim HaLevy	16	11	3/4	3 (Enforcement Committee)		
15.		In the report year, the board held at least one discussion regarding the management of the corporation's business by the CEO and the officers reporting to him, in their absence, after they were given opportunity to express their position.						✓	
16.		In the report year, an annual meeting was convened (and no later than the expiration of fifteen months following the last annual meeting).						✓	

Separation between the Positions of the CEO and the Chairman of the Board				
			Correct	**Incorrect**
17.		Throughout the entire report year, a chairman of the board held office in the corporation. *In this question, you may answer "correct" if the time period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as stated in Section 363A(2) of the Companies Law). However, in any (correct/incorrect) answer, state the time period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid: _____.*	✓	
18.		Throughout the entire report year, a CEO held office in the corporation. *In this question, you may answer ear, a CEO , state the time period (in days) man of the board did not onld office in the corporation does not exceed 60 days, as stated in Section 363A(2) of the Companies Law). However, in any (correct/incorrect) answerriod (in days) during which there was no CEO holding office in the corporation as aforesaid: _____.* _____	✓	
19.		In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law. If your answer is "correct" - please include a reference to the immediate report regarding the general meeting approving the dual office and/or exercise of powers as aforesaid: _____. □ Irrelevant (insofar as such dual office does not exist in the corporation).	Irrelevant	
20.		The CEO is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board) -	✓	
	a.	State the family relation between the parties: _____.	Irrelevant	———
	b.	The office was approved in accordance with Section 121(c) of the Companies Law:	Irrelevant	———
21.		The controlling shareholder or his relative does <u>not</u> serve as the CEO or as a senior officer in the corporation, other than as a director. ☐ Irrelevant (the corporation does not have a controlling shareholder).	✓	

The Audit Committee					
				Correct	**Incorrect**
22.		All of the outside directors were members of the audit committee during the report year.		✓	
23.		The chairman of the audit committee is an outside director.		✓	
24.		The following did not hold office in the audit committee during the report year -			
		a.	The controlling shareholder or his relative. ☐ Irrelevant (the corporation does not have a controlling shareholder).	✓	____
		b.	The chairman of the board.	✓	
		c.	A director who is employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him.	✓	
		d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him.	✓	
		e.	A director whose primary livelihood depends on the controlling shareholder.	✓	
25.		No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		✓	
26.		The Legal quorum for discussion and adoption of resolutions in all of the audit committee's meetings held during the report year was a majority of the committee members, where the majority of attendees were independent directors and at least one of them was an outside director. If your answer is "incorrect" - state the rate of the meetings in which the said requirement was not met: _____.		✓	

27.		In the report year the audit committee held at least one meeting in the presence of the internal auditor and the external auditor, as the case may be, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the Corporation.	✓	
28.		In all of the audit committee's meetings in which a person who is not entitled to be a member of the committee was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his relative).	✓	
29.		In the report year, arrangements prescribed by the audit committee were in effect regarding the manner of handling of complaints of the Corporation's employees in relation to deficiencies in the management of the business thereof, and regarding the protection to be provided to employees who complained as aforesaid.	✓	

The Duties of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work for the Approval of the Financial Statements					
				Correct	**Incorrect**
30.		a.	The recommendations of the FSRC regarding the financial statements submitted during the report year were brought before the board of directors, reasonable time prior to the discussion at the board, and the FSRC reported to the board of any deficiency or problem discovered during the review.	✓	
		b.	State the time period (in days) prescribed by the board of directors as reasonable time for delivery of recommendations in contemplation of the board meeting in which the periodic or quarterly reports will be approved: 2 business days.	_____	_____
		c.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of approval of the financial statements in 2012: Q1 statement: 3 business days. Q2 statement: 3 business days. Q3 statement: 2 business days. Annual statement: 4 business days.	_____	_____
31.		The Corporation's external auditor was invited to all of the FSRC and board meetings, and the internal auditor received notices of the holding of such meetings, in which the financial statements of the corporation referring to periods included in the report year were discussed.		✓	
32.		All of the conditions specified below were fulfilled at the FSRC throughout the entire report year:			
		a.	The number of its members was not less than three (on the date of the discussion at the FSRC and approval of the reports as aforesaid).	✓	_____
		b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were met thereby.	✓	

		c.	The chairman of the FSRC is an outside director.	✓	
		d.	All of its members are directors and most of its members are independent directors.	✓	
		e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
		f.	The members of the FSRC provided a statement prior to their appointment.	✓	
		g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	✓	
		If your answer is "incorrect" in respect of one or more of the subsections of this question, specify which of the aforesaid conditions had not been fulfilled: _____		_____	_____

External Auditor

			Correct	Incorrect
33.		The audit committee (and/or the Financial Statements Review Committee) was satisfied that the scope of work of the external auditor due to auditing services in the report year, and his fees relative to the scope of the audit hours in the report year, are appropriate for the performance of proper audit work.	✓	
34.		Prior to the appointment of the external auditor, the audit committee (and/or the Financial Statements Review Committee) delivered its recommendations to the relevant organ in the Corporation, in connection with the scope of work and fees of the external auditor. □ Irrelevant (no external auditor was appointed in the report year). If your answer is "correct" - state whether the relevant organ in the Corporation acted according to the recommendations of the audit committee (and/or the Financial Statements Review Committee). √Yes □ No (if the answer is "No" please specify in endnotes to this questionnaire how the relevant organ (while stating the identity thereof) was satisfied in connection with the scope of work and fees of the external auditor).	✓	
35.		The audit committee (and/or the Financial Statements Review Committee) examined during the report year that there was not restriction on the external auditor's work.	✓	
36.		During the report year, the audit committee (and/or the Financial Statements Review Committee) discussed the audit findings and the ramifications thereof with the external auditor.	✓	
37.		The audit committee (and/or the Financial Statements Review Committee) was satisfied, prior to the appointment of the external auditor, regarding the suitability of his qualifications for the performance of the audit in the corporation in view of the corporation's nature of business and complexity. ☐ Irrelevant (no external auditor was appointed during the report year).	✓	
38.		Please specify the number of years in which the attending partner at the external auditor's firm has held his position (as external auditor of the corporation): 3.		
39.		The external auditor participated during the report year in all of the meetings of the Financial Statements Review Committee to which he was invited.	✓	

Transactions with Interested Parties				
			Correct	Incorrect
40.		The corporation adopted a procedure, which was approved by the audit committee, pertaining to transactions with interested parties, in order to ensure that such transactions will be duly approved.	✓	
41.		The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto.		✓
		If you answer is "incorrect" (i.e. the controlling shareholder or his relative is employed by the Corporation or provides management services thereto) the following shall be stated: – The number of those employed by the corporation out of the controlling shareholders therein and/or the relative thereof (including companies controlled by them): 2 (Active chairman of the board, Active vice chairman of the board. In addition, 2 other directors serve on the Company's board who are deemed by the Company as controlling shareholders who do not provide services to the Company other than in their office as directors, according to the compensation conditions, as specified in Regulation 21 of Chapter D of the Periodic Report) – Have the agreements for such employment and/or management services been approved by the organs specified in the law: ✓ Yes (the management agreements with the chairman of the board and the vice chairman of the board are expected to be brought for renewed approval of the general meeting in the end of May 2013). □ No. □ Irrelevant (the corporation does not have a controlling shareholder) _____.		
42.		To the best knowledge of the corporation, the controlling shareholder does not have other businesses in the operating segment of the corporation (in one or more segments). If your answer is “incorrect” - state whether an arrangement was prescribed to delineate activities between the corporation and the controlling shareholder thereof: √Yes (the activity delineating arrangement is specified in Chapter D of the Company's periodic report, Regulation 21a). □ No □ Irrelevant (the corporation does not have a controlling shareholder).		✓

Chairman of the Board: _____

Chairman of the Audit Committee: _____

Chairman of the FSRC _____

Date of signature: _____

Part F

Annual Report on the Effectiveness of Internal Controls on financial Reporting and Disclosure

Azrieli Group

Attached hereto is an annual report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to regulation 9B(a), for 2012:

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, the members of management are:

1. Shlomo Sherf, CEO;
2. Yuval Bronstein, CFO;
3. Michal Kamir, General Counsel and Company Secretary;
4. Irit Sekler-Pilosof, 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 level of 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.

The management, under the supervision of the board of directors, carried out an inspection and evaluation of the internal control over the financial reporting and disclosure in the corporation and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management under the supervision of the board of directors included:

- ✓ Mapping and recording of the controls and identification of the very material processes in the Company and in the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as applicable.

  The processes which were defined as very material are: <u>In the Company</u>: revenues from rent from investment properties, investment properties; <u>in</u>

Sonol: the processes of sales revenues and receivables; in Tambour: the processes of sales revenues and receivables, stock and cost of sales; in Via Maris: long-term receivables in respect of a franchise arrangement.

- ✓ Inspection of the actual performance and recording of the controls defined in the control procedures on the organization level (ELC), the information systems (ITGC), the financial statements preparation procedure and procedures which were identified as very material for the financial reporting and disclosure.

- ✓ An overall evaluation of the effectiveness of internal control.

Based on the effectiveness evaluation performed by the management under the supervision of the board of directors, as specified above, the board of directors and the corporation's management reached the conclusion that the internal control over the financial reporting and disclosure in the corporation as of December 31, 2012 is effective.

Attached hereto are the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 19, 2013

Statement of Managers:

Statement of CEO pursuant to Regulation9B(d)(1):

I, Shlomo Sherf, represent that:

(1) I have reviewed the periodic report of Azrieli Group Ltd. (the "Corporation") for 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, of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others 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 of controls and procedures under my supervision, 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 evaluated the effectiveness of the internal control over the financial reporting the disclosure and presented in this report the conclusion of the board of directors and the management in respect of the effectiveness of the internal control as aforesaid, as of the date of the reports..

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

March 19, 2013

_____

Shlomo Sherf, CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Yuval Bronstein, represent that:

(1) I have reviewed the Financial Statements and other financial information included in the reports of Azrieli Group Ltd. (the "Corporation") for 2012 (the "Reports");

(2) To my knowledge, the Financial Statements and the other financial information included in the 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 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 insofar as it relates to the Financial Statements and the other information included in the 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 of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, 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 of controls and procedures under my supervision, 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 evaluated the effectiveness of the internal control over the financial reporting and the disclosure, insofar as it refers to the financial reports and the other financial information included in the Reports as of the date of the Reports. My conclusions regarding my aforesaid evaluation were brought before the board of directors and the management and are incorporated in this Report.

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

March 19, 2013

_____

Yuval Bronstein, CFO