AZRIELI GROUP

Azrieli Group LTD

Report Q3/2012

Dated 30th September 2012

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Board Report

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Dated September 30th 2012

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CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the quarterly report for Q3/2012 and the financial statements annexed thereto (the "**Report**") of Azrieli Group Limited. Please note that this document should not be regarded as a substitute for reading the original Hebrew version of the Report in full.

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

This translation was not carried out by the Company, nor checked by it, and accordingly, the Company does not undertake that the translation fully, correctly or accurately reflects the Report and its contents. The full and legal version of the Report, in Hebrew, was released by the Company on November 21, 2012 and may be inspected on the MAGNA website.

The translation of the financial statements annexed to the Report (the "Financial Statements") was not carried out by Brightman, Almagor, Zohar and Co., Accountants (the "Company's Auditors"), and was not checked by the Company's Auditors, and accordingly, they do not undertake that the translation of the financial statements fully, correctly or accurately reflects their contents, and the Company's Auditors' report on the financial statements relates solely to the Hebrew language Financial Statements of the Company. The full and legal version of the financial statements was released by the Company as part of the Report on November 21, 2012 and may be viewed on the MAGNA website.

PART A

BOARD REPORT

September 30, 2012

AZRIELI GROUP

Azrieli Group Ltd.

Board of Directors' Report on the State of the Company's Affairs for the nine and three months ended September 30, 2012

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the nine months and three months ended September 30, 2012 (the "**Report Period**", and the "**Quarter**", respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

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

Azrieli Group Ltd. (the "**Company**"; the Company jointly 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 companies held thereby mainly in the income-producing property in Israel segment, while most of the Group's business operation 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 overseas, and mainly office space for lease in the USA. Also, the Company engages, through its holding in Granite Hacarmel Investments Ltd. ("**Granite**") in another operating segment, which includes the energy, paint, water and environmental quality segments. The Company also holds minor holdings in financial corporations.

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

The 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 statements presented according to the IFRS standards, except for the Company's investment in Granite which is presented on the basis of the book value instead of the consolidation of its statements with the Company's statements (the other investments are presented with no change

the Company's statements (the other investments are presented with no change from the statement presented according to the IFRS standards). The Company's management believes that this Report adds a lot of information which helps in understanding the large contribution of the real estate activity to the total profit of the Company, while neutralizing material sections of the consolidated financial statements, deriving from the consolidation of Granite, such as clients, inventory, sales and more. The expanded standalone statement is attached hereto as Annex E. This annex is not audited or reviewed by the Company's auditors.

The Company included, in the emphases below, the main provisions hereof. With respect to forward-looking information, including in connection with the progress of the projects under construction, see Sections 1.1.2 and 1.12 below.

Main emphases for the Quarter ended on September 30, 2012

Net Profit

- **C. 48% profit increase (net of special effects) (see Section 1.10 of the Report).**
- **The reported net profit is c. NIS 211 million, compared with net profit of c. NIS 188 million in the same quarter last year.**
- **The reported comprehensive income is c. NIS 301 million compared with a comprehensive loss of c. NIS 25 million in the same quarter last year.**

NOI Growth

- **C. 10% additional growth in the NOI (Section 1.1.3 of the Report).**
- **C. 6% additional growth in the same property NOI (Section 1.1.3 of the Report).**

FFO from the real estate business

- **C. 10% growth in the FFO attributed to the income-producing property segment (see Section 1.1.6 of the Report).**

FFO yield from the real estate business

- **C. 11% FFO yield attributed to the income-producing property segment and derived from the Group's market value on the TASE (for calculation, see Section 1.1.6).**

Cap Rate

- **C. 7.7% weighted cap rate in the Company's reports from the income-producing property (for calculation, see Section 1.1.5).**

Financial Assets

- **Increase in the value of the holdings in Bank Leumi in the Quarter – in the sum of c. NIS 90 million after tax in the comprehensive income.**

Business Development

- **Acquisition of office buildings in Houston, Texas, USA (see Section 1.1.1).**
- **Investment of c. NIS 612 million in property acquisition and improvement of existing properties.**
- **Consummation of a full tender offer for Granite Hacarmel's shares.**

The data appearing in the Board of Director's Report are based on the consolidated financial statements as of September 30, 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 herein 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 hereof.

As stated in the Periodic Report for 2011, the operating segments of the Group that are reported as reportable operating segments in the Company's financial statements are the retail centers and malls in Israel segment, the office and other lease space in Israel segment, the income-producing property in the USA segment and the Granite segment. The attached financial statements are prepared according to the International Financial Reporting Standards (IFRS). For further details, see Note 2 to the financial statements as of September 30, 2012.

1. Explanations of the board of directors for the state of the Company's affairs

1.1 General

1.1.1 Main developments during the Report Period and thereafter, until soon before the Report Release Date

Transactions in respect of investment property

(a) **Winning a proceeding for the purchase of rights in a lot on Menachem Begin Road in the Northern Tel Aviv Central Business District**

On October 22, 2012, after the Date of the Statement of Financial Position, Clalit Health Services ("**Clalit**") notified the Company that it had decided to approve the Company's bid as the winning bid in the purchase of Clalit's rights in a lot on an area of c. 10 dunam located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for an amount of NIS 240 million (excluding VAT), linked to the consumer price index. The purchased lot is designated for the construction of a project of c. 75 thousand sqm, comprising office and retail space for lease of c. 58 thousand sqm (c. 48 thousand sqm offices and c. 10 thousand sqm retail), residential areas of c. 17 thousand sqm and c. 1,500 parking spaces. As of the Report Release Date, the agreement was signed and the Company paid the first installment on account of the consideration in the sum of NIS 48 million.

For further details, see the Company's immediate report dated October 22, 2012 (reference: 2012-01-261381) which is included herein by way of reference and Note 7 to the financial statements as of September 30, 2012.

(b) **Contingent agreement for the purchase of a power center in Beer Sheva**

On July 23, 2012, the Company engaged in a contingent sale agreement for the purchase of the full rights in the power center known as "One Plaza" in Beer Sheva, in consideration for a sum total of c. NIS 339.5 million (before V.A.T). The closing of the transaction is conditioned upon approval by the Antitrust Commissioner, and there is no certainty in the closing thereof. For details see Note 5 to the Financial Statements as of September 30, 2012 and the Company's immediate report dated July 24, 2012 (reference: 2012-01-192417) which is included herein by way of reference.

(c) **Closing of a transaction for the purchase of the additional 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 wholly owned by the Company ("**Otzma**"), engaged in an agreement whereby Otzma shall purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva, from third parties that are partners therewith in the said property, in consideration for the sum of NIS 48.8 million (plus V.A.T), Otzma closed the transaction on October 23, 2012 (after the Date of the Statement of Financial Position), and as of the Report Release 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: 2012-01-262644), which are included herein by way of reference, and Note 5 to the financial statements as of September 30, 2012.

(d) **Acquisition of an office building in Houston Texas, USA**

On January 10, 2012, AG Plaza at Enclave, LLC, an American corporation indirectly held by the Company at the rate of 100%, closed the acquisition of an office building of a total area of c. 31,986 sqm (344,296 sqf) and with an occupancy rate of 100% in Houston, Texas, USA, in consideration for a total sum of c. U.S. $107.5 million (in addition to transaction costs that amounted to the sum of c. U.S. $544 thousand). For further details regarding the property, the financing thereof and the agreement for the acquisition thereof, see Note 5 to the financial statements as of September 30, 2012 and the Company's reports dated January 1, 2012 (reference: 2012-01-000444) and dated January 11, 2012 (reference: 2012-01-012534), which is included herein by way of reference.

(e) **Non-closing of an agreement for the acquisition of an office building in North Caroline, USA**

On June 13, 2012, the Company engaged in an agreement for the purchase of the full rights to an office building in Charlotte, North Carolina, USA. On July 25, 2012, the Company announced, in accordance with its right under the purchase agreement, that subsequent to the due diligence investigation for the property, the Company has decided not to consummate the acquisition of the office building. Accordingly, the agreement has been terminated and a U.S. $2 million deposit, which has been placed in escrow shortly after execution of the agreement, has been returned to the Company. For details see the Company's immediate reports dated July 14, 2012 and July 25, 2012 (references: 2012-01-155667 and 2012-01-194148,

respectively), which are included herein by way of reference.

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

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

Further Developments

Full Tender Offer for the Granite Shares

On September 24, 2012, a full tender offer was accepted, which was released by the Company together with Canit Hashalom Investments Ltd. ("**Canit Hashalom**"), a company controlled by the Company (the Company together with Canit Hashalom will be referred to below as the "**Offerors**"), for the purchase of all of the shares not held by the Offerors, in consideration for the sum of 549 Agorot per NIS 1 share of Granite, for a total consideration of c. NIS 318 million. Accordingly, as of the Report Release Date, the Company holds, through Canit Hashalom, the full share capital and voting rights of Granite, which had become a private company pursuant to Section 339 of the Companies Law, 5759-1999 (the "**Companies Law**") and whose shares were delisted from the TASE. For details see Note 5 to the Company's financial statements as of September 30, 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 herein by way of reference.

Tender offer by Granite to purchase all of the shares of Tambour Ltd.

On May 22, 2012, the tender offer that Granite had announced on April 24, 2012 (and an amendment thereto of May 16, 2012) to purchase all of the shares of Tambour Ltd. ("**Tambour**") had been accepted. Accordingly, at the Report Date, Granite holds (jointly with Tambour) the entire share capital and voting rights of Tambour, which became a private company according to Section 339 of the Companies Law, and its shares were delisted from the Tel Aviv Stock Exchange. For further details, see Note 5 to the financial statements as of September 30, 2012

and the Company's immediate reports of April 24, 2012 (reference: 2012-01-108060), May 16, 2012 (reference no.: 2012-01-126747) and May 23, 2012 (reference no.: 2012-01-133005).

Current Operations

The Company has been consistently operating in recent years for the creation of growth engines additional to those existing in the Group in the core business, in order for them to constitute potential for significant future growth of the NOI of the Group – both through the purchase of land for initiation and development of new properties in the future as well as through the purchase of existing properties with growth potential. As the Company had reported in the past, during the Report Period and until the date of release thereof, the Group has continued to review business opportunities in Israel and abroad, regarding the expansion of its activity especially in the real estate segment, including through acquisition of land reserves, acquisition of additional properties and improvement of the existing ones, some of which have been realized as stated in the Company's reports. In addition, the Company may review, from time to time, additional options for expanding its operating segments while utilizing market situations and/or crisis situations in leading and cash flow generating target companies in other segments. Furthermore, the Company reviews on a regular basis its holdings outside its core business of income-producing property business. On October 16, 2012, the Company released a presentation that was given at an investors conference in which it specified its strategic plan for the years 2013-2016 (see the Company's immediate report dated October 16, 2012 (reference no. 2012-01-256701), as amended on November 1, 2012, reference no.: 2012-01-270033).

As of the Report Date, the Company is conducting with several entities in Israel and overseas initial contacts only, with regard to which there is no certainty that they shall mature to negotiations. The Company shall report in the future, to the extent that there shall be developments which shall require reporting according to law.

For further details, see Chapter B (updates to the Description of the Corporation's Business chapter) and Chapter C (the financial statements) hereof.

1.1.2 Update of properties under initiation and development

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period stood at c. NIS 215 million (c. NIS 52 million in the Quarter). 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 this Report Date, the Company operates towards the development of several properties under construction, *inter alia*, as specified below.

Azrieli Sarona Center, Tel Aviv

The Company holds all of the lease rights in a lot of an area of c. 9.4 dunam in Southern Hakirya in Tel Aviv (the "**Lot**"), which is designated for the construction of an office and commerce project at a scope of c. 125 thousand sqm above-ground built-up (gross) area as well as c. 61 thousand sqm underground floors. In the tender documents the Company undertook to complete the construction of the project within 60 months, and part of the work within 36 months. On March 1, 2012 a building permit was received for the construction of basements. As of the Report Release Date, the Company has completed the obtaining of the approvals required in accordance with the requirements of the building permit for the construction of the basements and the Company received the building permit and has begun the excavation and shoring work. During the Report Period, an appeal was filed by a third party against receipt of the building permit for the construction of the basements in the property.

After the Date of the Statement of Financial Position, the local committee conditionally approved an application filed by the Company for rezoning under local jurisdiction for deposit for objections, *inter alia*, in connection with the building's height and the re-designation of areas therein.

For further details, see Note 14G to the financial statements for December 31, 2011 and the Company's reports of May 29, 2011 and May 30, 2011 (reference no.: 2011-01-165339 and 2011-01-167994 respectively), which are included herein by way of reference.

Azrieli Holon Center

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

Canit Hashalom will be entitled to receive 83% of the space built thereby in the Project, while the City of Holon will be entitled to receive 17% of such space. As of the Report Release Date, the excavation and shoring work have been completed, and the Group is continuing construction of the foundations of the buildings and construction of the basements and the buildings, in accordance with the

comprehensive building permit received for Stage A of the Project. For further details regarding the agreement and the terms and conditions thereof, see Note 34B(3) to the financial statements as of December 31, 2011.

During the Report Period, the Group begun the marketing of the project, and as of the Report Release Date, it signed an agreement for the lease of c. 8,000 sqm in the project's office areas and agreements for the lease of c. 1,500 sqm in the commercial space therein. The Group is also negotiating the lease of additional office and commercial areas.

Azrieli Ramla Mall

The Group, through Otzem Initiation and Investments (1991) Ltd. ("**Otzem**"), holds all of the lease rights in a lot of an area of c. 31,650 sqm in Ramla (the "**Lot**") and has begun the construction of Azrieli Ramla Mall of a gross area of 31,500 sqm (main areas and service areas).

As of the Report Release Date, Otzem has submitted documents that are required for the purpose of modification of a city zoning plan, mainly in connection with addition of service areas for parking and regulation of the loading and unloading area, and for this purpose the plan documents were deposited with the district committee for the hearing of the application. The Israel Antiquity Authority has completed its tests in the Lot, and released the Lot for performance of the work, and shall return for further testing upon demolition of the existing Shufersal building on the Lot and the relocation of the access road to the site. As of the Report Date, and according to the permit for the construction of the mall, including the supermarket building, the Company has begun the construction thereof. In addition, a conditional use variance permit for construction of the loading and unloading building was approved, and Company is acting for the fulfillment of the conditions. For further details, see the Company's immediate reports dated January 2, 2011 (reference: 2011-01-000081) and May 26, 2011 (reference: 2011-01-162048), which are included herein by way of reference.

Azrieli Rishonim Mall

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

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

On January 8, 2012, an administrative petition, which was filed against

the district committee, Canit Hashalom and others due to the approval of the plan under such conditions, was dismissed without prejudice for being premature, since the Israel Ministry of Transport had not yet given its response in connection with approval of the plan. To the best of the Company's knowledge, the petitioners have the right to re-petition against the approval of the plan upon its final approval. In February 2012, the district committee decided to approve the plan which applies to the project without additional conditions. The Company is awaiting receipt of the language for announcement of approval of the plan. The Company completed the construction of the temporary parking lot at the Site and as of the Report Release Date it received the final approvals and has started the operation thereof. In addition, a conditional permit for excavation and shoring in the Site was approved, and the Company is acting for fulfillment of the conditions.

Azrieli Kiryat Ata

After the completion and opening to the public of the Azrieli Kiryat Ata Mall, during the Report Period, the Group is acting for the construction of an additional building within the project, of a total leasable area of c. 4,000 sqm, which will be used mostly as office space and will also include a retail area that has been leased, as of the Report Release Date, to a food chain. As of the Report Release Date, the company received a permit for the construction of the additional building. After the Date of the Statement of Financial Position, an appeal was filed with the district zoning committee by residents living in proximity to the additional building, in connection with the Kiryat Ata local zoning committee's decision to approve the plan. The additional building is expected to be completed in 2013, and as of the Report Date, the Company has begun advancing the foundation, excavation and shoring work of the additional building, and has carried out various tasks on the land, in accordance with undertakings that were given thereby to the authorities, according to an agreement with the Israel Ministry of Environmental Protection.

Set forth below is a summary of the data regarding properties under construction[(2)(7)]

Name of property	Location	Date of purchase	Use	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of September 30, 2012[(1)] (NIS in millions)	Estimated cost of completion of construction and (NIS in millions)
Azrieli Sarona Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	2016	582	910-955
Azrieli Kiryat Ata (Phase B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	2013	12	42-52
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 (permit for construction of temporary parking)	2015[(3)]	78	420-450
Azrieli Center Holon [(4)]	Holon	Jun. 2008	Commerce	83%	34,000	5,000	Phase A[(5)] – 2010 Phase B[(5)] – not yet determined	Phase A – 2013 Phase B – by 2016	224	407-442
			Offices			115,000				
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500[(6)]	Not yet determined	18 months from date of commencement of construction[(6)]	5	120-150
Azrieli Ramla Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	2014	109	210-230
Total						325,000			1,010	2,109-2,279

(1) The figure reflects the value of the project on the books, as presented in the financial statements as of September 30, 2012, and not the cost that was actually invested in the project.
(2) Excluding service areas.
(3) Contingent upon approval of the city zoning plan.
(4) The figures are for 100%
(5) 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).
(6) As of the Report Date, a decision had not yet been made on the scope of the project.
(7) For details regarding the land of Clalit Health Services that was purchased and not included in the above table, see Section 1.1.1.

The Company's estimates stated in this section 1.1.2, inter alia with respect to the expected investments and costs for properties under construction, the manner of financing of the projects, the dates of completion of the construction, receipt of various regulatory approvals that are required for purposes of advancement of the projects under construction or the outcomes of administrative and legal proceedings are forward-looking information, as defined in the Securities Law, which is based on subjective estimates of the Company as of the 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, modifications of the Company's plans, the period of time that shall be required for approval of the building plan for performance and the construction input prices.

1.1.3 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2011[1], the (unaudited) NOI figure is one of the important parameters in the valuation of income-producing property companies. In addition, the NOI is used for measurement of the free cash flow available to service financial debt taken to finance the acquisition of the property. Current maintenance expenses for property preservation are offset against the total NOI.

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

NIS in millions	For the three months ended		For the nine months ended		For the year ended
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011	Dec. 31, 2011
Retail centers and malls in Israel	177	168	525	486	662
Growth rate	5%		8%		
Office and other space for lease in Israel	71	70	209	201	272
Growth rate	1%		4%		
Income-producing property in the USA	27	12	78	37	48
Growth Rate	125%		111%		
Total NOI	275	250	812	724	982
Growth Rate	10%		12%		
For explanations pertaining to the increase in NOI, see Sections 1.11.1, 1.11.2 and 1.11.3.					

[1] Details regarding the use made of this figure and the manner of calculation thereof were provided at length in the of the Company's Board of Directors' Report for December 31, 2011.

1.1.4 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 three months ended		For the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Retail centers and malls in Israel segment	169	162	497	480
Office and other space for lease in Israel segment	71	70	209	201
Income-producing property in the USA segment	19	12	18	16
Total	**259**	**244**	**724**	**697**
Increase rate	**6%**		**4%**	

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

	2012			2011	
	Q3	**Q2**	**Q1**	**Q4**	**Q3**
Same property NOI in all of the periods (*)	259	252	252	248	244
NOI from acquired properties	16	17	17	10	6
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**275**	**269**	**269**	**258**	**250**
(*) In all of the Company's operating segments					

1.1.5 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property of the Group as of September 30, 2012**:**

	NIS in millions
Total investment property in the "Extended Standalone" Statement (See Annex E) (*)	**15,545**
Net of value attributed to construction rights not utilized yet	**(1)**
Net of value attributed to investment property under construction	**(1,010)**
Net of the value attributed to land reserves	**(24)**
Total value of income-producing investment property (including fair value of vacant space)	**14,510**
Actual NOI for the quarter ended September 30, 2012	**275**
Addition to future quarterly NOI (**)	**5**
Total standardized NOI	**280**
Pro-forma annual NOI based on standardized NOI	**1,120**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.7%**

(*) The group carried out valuations for all of its properties in Israel as of June 30, 2012. As of the date of the Report, the valuations were not updated. The figure includes receivables which appear in the balance sheet item of "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure includes changes in rent that were renewed and signed until September 30, 2012 as well as the influence of the index as of September 30, 2012 which was not included in the actual NOI for Q3/2012. 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 June 30, 2012 and which have not yet been fully populated (mainly for Tower E in Herzliya) and the NOI in respect of the acquisition of the office building in Texas that was acquired during the Report Period was weighted to a full year.
This figure does not constitute a forecast of the Company of the NOI for 2012 and its sole purpose is to reflect the NOI assuming full population for an entire year of all of the income-producing property.

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

1.1.6 The FFO (Funds From Operations) index for the real estate segment

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 their entire operating segment focuses on the income-producing property, therefore an adjustment of that index is required in companies of its kind to better reflect the Group's income-producing property segment while neutralizing influences which are not from the real estate segment.

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

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

	For the three months ended		For the nine months ended	
NIS in millions	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Net profit for period attributed to shareholders	**194**	**180**	**569**	**725**
Discounting the net profit from Granite attributed to shareholders (including amortization of surplus costs)	**(22)**	**(7)**	**(44)**	**(22)**
Adjustments to profit (1):				
Increase in investment property value	(2)	(106)	(93)	(459)
Depreciation and amortizations	1	1	3	3
Net non-cash-flow finance expenses	22	23	59	100
Current tax expenses due to non-cash-flow finance expenses (2)	(5)	(6)	(14)	(24)
Deferred tax expenses	10	34	57	82
Adjustments for equity-investees	-	-	1	1
Interest and dividend from financial assets held for trade, net of tax (3)	(6)	(8)	(26)	(43)
Impairment of financial assets available for sale and held for trade, net	(20)	41	(8)	106
Plus benefit recorded for employee option plan	(7)	(4)	(6)	1
Net of dividend received from financial assets available for sale	-	-	(8)	(43)
Total adjustments to profit	**(7)**	**(25)**	**(35)**	**(276)**
Plus interest paid for real investments - (4)	**15**	**16**	**45**	**45**
Total FFO attributed to the income-producing property segment (5)	**180**	**164**	**535**	**472**
FFO return for income-producing property in proximity to the Report Date (November 15, 2012)				
Company's value on the TASE	10,436			
Net of the value of cash and marketable securities (according to book value as of September 30, 2012)	(563)			
Net of the value of the Company's holdings in Granite (according to TASE value in the books as of the Report Date – the Company is not traded)	(1,134)			
Net of the value of the Company's holdings in Bank Leumi (according to TASE value)	(891)			
Net of the value of the Company's holdings in Leumi Card (according to book value according to the last valuation as of December 31, 2011 - the company is not traded)	(483)			
Market value attributed to real estate alone	7,365			
Net of value of properties under construction and land – according to book value as of September 30, 2012	(1,034)			
Total market value of income-producing property	**6,331**			
Total quarterly real estate FFO	180			
Standardizing the quarterly FFO for a year	720			
Annual income-producing property FFO yield (6)	**11.4%**			

Comments and assumptions:

1. The adjustments to profit below do not include the adjustments in respect of Granite, since its profits have been fully discounted.
2. In order to adjust the FFO to the interpretation of the NARIET whereby it is required to discount the tax for items discounted from the FFO, then the Company discounted the tax deriving from the non-cash-flow financing expenses, for the first time in the preceding Quarter and in the comparison figures. Had the Company applied the FFO calculation method used thereby in previous quarters, then the FFO for the quarter ended September 30, 2012 would have been NIS 185 million, and in the nine months then ending, NIS 549 million (for the purpose of the comparison figures, the FFO previously announced by the Company for the three months ended September 30, 2011 was NIS 170 million, and for the nine months ended on such date – NIS 496 million).
3. Interest and dividends in respect of transactions and actions in securities which were deducted from the real estate activity were discounted.
4. Calculated according to weighted interest of the Group in respect of the real investments which include: Granite, Bank Leumi and Leumi Card, in respect of 65% of the cost of the investments.
5. Which is attributed to shareholders only.
6. The result obtained by dividing the FFO attributed to the income-producing property business only by the market value attributed to income-producing property business only.

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

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

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

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

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

EPRA NAV (NIS in millions)	**As of**	
	September 30, 2012	**September 30, 2011**
Equity attributed to the Company's shareholders in the financial statements	**11,406**	**11,223**
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	**2,275**	**1,509**
EPRA NAV	**13,681**	**12,742**
EPRA NAV per share (NIS)	**113**	**105**

1.1.8 Main market trends regarding income-producing property segment

The Company's board of directors' estimates that no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report for December 31, 2011, other than as specified below, and as specified in the presentation given at an investors conference released by the Company on October 16, 2012 (reference no.: 2012-01-256701), as amended on November 1, 2012 (reference no.: 2012-01-270033).

In Israel – the CPI in Q3/2012 increased by a rate of 0.85%. The Bank of Israel interest for November 2012 decreased by 0.25% and is at the level of 2%. The indicators as of the Report Release Date indicate a continued decline in the growth rate in recent months, which is expected, according to the estimate of the Bank of Israel to be at 3.3% in the end of 2012. The integration of the monthly indicators in the composite index and the expectations from surveys point to a growth rate similar to that which was recorded in recent months. The composite index for the position of the economy in September 2012 rose by 0.2% and indicates a continued expansion of the activity in the economy, at a moderate rate (regarding all index components except for export of services) similarly to the past year. During Q3/2012, the NIS strengthened against the dollar by c. 0.3%, while against the Euro, the NIS weakened by c. 2.7%. In addition, the financing difficulties in non-bank credit had increased, while a certain relief is felt in obtaining bank credit. In Europe, a downturn was recorded along with additional signs of slowdown in the growth rate of the global economy.

The figures for same malls of the Group (same property) indicate continuation of the moderate increase in the revenues (single percentages) during the Report Period, compared with the same period last year.

However, the concerns in the market of a halt in the rate of the growth in the short/mid-term are expressed in a more challenging environment in negotiations vis-à-vis the tenants upon signing new lease agreements or renewal of existing contracts.

Despite the foregoing instability, as of the Report Release Date, the Group's results of operations in its operating segments were not materially affected, and this is, to the Company's estimation, mainly due to the financial soundness, its high liquidity, its status in the financial market and the stability and the growth in private consumption in Israel.

The Company's management estimates that the broad dispersion of the property portfolio owned thereby, the maintenance and the active current management of the properties, their being situated mainly in high-demand areas, the high business positioning of the properties, the high occupancy rates, the broad range of businesses in the malls and

retail centers and the capital structure contribute to reducing the exposure of the Group's business to the said crisis and/or instability, as such.

Notwithstanding, in view of the unclarity, both globally and in the Israeli economy, and the instability of the financial markets, the Company is unable to estimate, as of the date of approval of the financial statements, the expected effect of the above-described events, and the duration of the period in which such effects will occur.

In the USA - According to a publication of the CBRE Economic Snapshot, June 2012[2], during Q2/2012, the U.S. market provided mixed economic figures with a tendency toward weakness. During Q3 (September 2012) the Federal Reserve announced the third Quantitative Easing program which will include purchase of mortgage backed bonds at a rate of $40 billion a month. The Federal Reserve also committed to maintain the negligible interest rate until mid 2015, and thus extended its commitment.[3]

According to the figures released together with the transcript from the Federal Reserve meeting in September 2012, the Federal Reserve does not foresee that the unemployment, which had been for a long time in proximity to a rate of 8% will go down to a rate of 7% before 2014, but estimates now that the unemployment rate will decrease at a faster rate in the coming two years compared to its forecast from June 2012.

The Federal Reserve reduced its growth forecast for the USA economy for 2012 to 1.7%-2%, compared with a forecast from June 2012 for a growth of 1.9%-2.4% in the GDP. However, the bank increased its forecasts for the GDP growth for the years 2013 and 2014.

Despite the mixed figures which were released during the quarter, the local economy in Houston continued to present good figures, mainly due to the strong connection that the local economy has with the energy market. Houston is one of the only cities in which the employees' number as of the Report Release Date is higher than it was prior to the recession (Houston added 89,500 work places during the period between August 2011 and August 2012[4]).

According to the same publication of Cushman & Wakefield, the real estate market in Houston improved in most parameters: a decrease in the percentage of open areas, increase in rent and increase in the number of construction commencements in projects for office areas.

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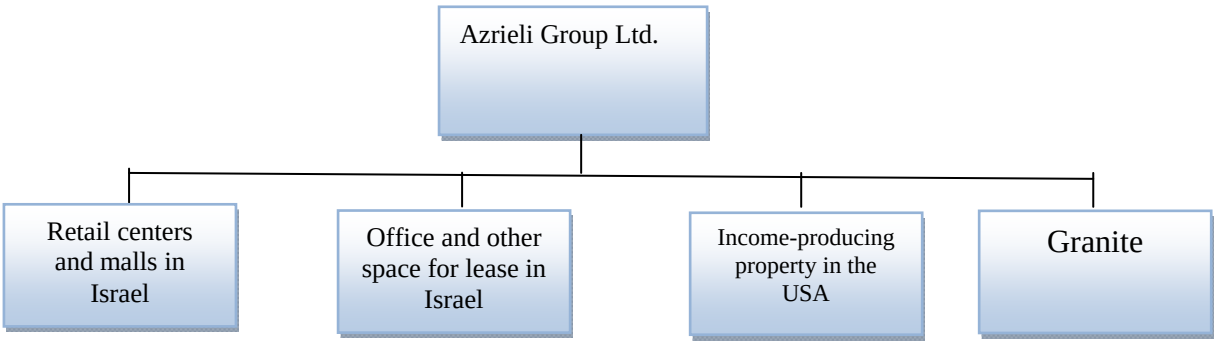
[2] http://www.cbre.us/AssetLibrary/Americas-Economic-Snapshot-June-2012.pdf
[3] FEDERAL RESERVE press release, September 13, 2012

[4] Cushman & Wakefield, MARKETBEAT, Office Snapshot, Houston TX, Q3 2012.

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

1.2.1 Background

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



The Company's business condition, results of operations, capital and cash flows, are affected mainly by the state of the leasable property industry. In addition, the Company's condition and results may be affected to a certain degree also by the business condition of Granite and changes in the value of the financial assets held for sale by the Company. In the Board of Directors' Report, explanations will be presented regarding these effects on the Company and its results for the Report Period.

The Company's soundness 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, for so long as the Company manages them. In addition, the Group's financial soundness derives, *inter alia*, from the scope of the cash flow from ongoing activity and the rate of the Group's financial liabilities relative to its total assets which is lower than customary in the income-producing property industry.

In Q3/2012, improvement occurred in the Group's main business activity in the income-producing property segments and growth in the Group's NOI figures compared with the same quarter last year, *inter alia*, due to the contribution of the new Azrieli Kiryat Ata Mall, Azrieli Akko Mall in Israel, and the office towers in Houston, USA, which the Company recently acquired.

The Company from time to time looks into business opportunities in Israel and abroad in connection with expansion of its business, mainly in the retail centers and malls segment and in the commercial property for office and other space segment, including through the acquisition of

land reserves designated to development, the purchase of additional properties and improvement of existing properties. In addition, the Company from time to time looks into other possibilities for expansion of its operating segments whilst taking advantage of market situations and/or crisis situations in leading cash flow-generating target companies in other segments. Furthermore, the Company is reviewing on an ongoing basis the holdings that are not in its core business of income-producing property. On October 16, 2012 the Company released a presentation that was given at an investors conference , in which it specified its strategic plan for the years 2013-2016 (see the Company's immediate report dated October 16, 2012 (reference no.: 2012-01-256701), as amended on November 1, 2012, (reference no.: 2012-01-270033).

The Company's management is acting with the intention of continuing to lead the income-producing property market, *inter alia*, through completion and population of projects in the income-producing property segments, the acquisition of land reserves and the purchase of additional similar properties as aforesaid, which will cause further growth in the operating cash flow of the Company in the future, insofar as the Company's board of directors shall deem fit.

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

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

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

1.2.2 Summary of the Group's operating segments

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

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

☒ **Retail centers and Malls in Israel Segment** – The Company has 13 malls and retail centers in Israel of a total leasable area of c.

256 thousand sqm (consolidated) and 255 thousand sqm (the Company's share), which are leased to c. 1,750 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 9 income-producing properties in this segment in Israel, of a total leasable area of c. 283 thousand sqm (consolidated) and 281 thousand sqm (the Company's share) leased to c. 500 tenants;

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

- **Granite segment**; (management of sub-segments of energy, paint, water and environmental quality);

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

Thus, in light of the business opportunity that was created, the Company purchased during 2008 c. 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 carried directly to the comprehensive income. 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 nine months ended on September 30, 2012	Total investment as of September 30, 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 September 30, 2012	Change in the fair value during the Report Period	Dividend received during the Report Period
Investment in Bank Leumi Le-Israel Ltd. (*)	**771**	**-**	**771**	**774**	**3**	**-**
Investment in Leumi Card Ltd. (**)	**483**	**-**	**483**	**483**	**-**	**8**
Total	**1,254**	**-**	**1,254**	**1,257**	**3**	**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 September 30, 2012;

** The fair value of the investment in Leumi Card Ltd. ("**Leumi Card**") was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2011.

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

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

	Segment profit in the three months ended:		Segment profit in the nine months ended:		Rate of the segment's profit from the total consolidated net profit in the three months ended:		Rate of the segment's profit from the total consolidated net profit in the nine months ended:	
	Sep. 30, 2012	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**
Retail centers and malls in Israel	**177**	**168**	**525**	**486**	**84%**	**90%**	**86%**	**64%**
Office and other space for lease in Israel	**71**	**70**	**209**	**201**	**34%**	**37%**	**34%**	**26%**
Income-producing property in the USA	**27**	**12**	**78**	**37**	**13%**	**6%**	**13%**	**5%**
Granite	**100**	**47**	**223**	**172**	**47%**	**25%**	**37%**	**23%**
Total attributed profit	**375**	**297**	**1,035**	**896**	**178%**	**158%**	**170%**	**118%**
Changes in fair value	**2**	**106**	**99**	**462**	**1%**	**56%**	**16%**	**61%**
Net financing expenses	**(102)**	**(135)**	**(316)**	**(428)**	**(48%)**	**(72%)**	**(52%)**	**(56%)**
Tax expenses	**(41)**	**(64)**	**(152)**	**(161)**	**(19%)**	**(34%)**	**(25%)**	**(21%)**
G&A expenses, net	**(23)**	**(16)**	**(58)**	**(11)**	**(12%)**	**(8%)**	**(9%)**	**(2%)**
Net profit for the period	**211**	**188**	**608**	**758**	**100%**	**100%**	**100%**	**100%**

The Group's revenues for the Report Period amounted to c. NIS 6,828 million, compared with c. NIS 5,543 million in the same period last year, an increase of c. NIS 1,285 million, deriving mainly from an increase in the income-producing property segment for retail centers and malls in Israel in the sum of c. NIS 59 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 c. NIS 13 million (mainly from the increase in revenues from existing properties), from growth in the income-producing property in the USA segment in the amount of c. NIS 63 million (mainly due to the purchase of additional office buildings in February 2011 and in January 2012) and an increase in the Granite segment in the sum of c. NIS 1,150 million (due to an increase in all of the operating segments of

Granite).

The Group's revenues for the three months ended on June 30, 3012, amounted to c. NIS 2,319 million, compared with c. NIS 1,931 million in the same period last year, an increase of c. NIS 388 million, deriving mainly from an increase in the income-producing property segment for retail centers and malls in Israel in the sum of c. NIS 15 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 c. NIS 4 million (mainly from the increase in revenues from existing properties), from growth in the income-producing property in the USA segment in the sum of c. NIS 20 million (mainly due to the purchase of an office building in January 2012) and an increase in the Granite segment in the sum of c. NIS 348 million (due to an increase in all of the operating segments of Granite).

As of September 30, 2012, the total assets on the balance sheet were c. NIS 23.5 billion, compared with c. NIS 23.2 billion as of December 31, 2011.

Following is the share of the assets of the operating segments out of 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	
	September 30, 2012	**Dec. 31, 2011**	**September 30, 2012**	**Dec. 31, 2011**
Retail centers and malls in Israel	**9,525**	**9,424**	**41%**	**41%**
Office and other space for lease in Israel	**4,475**	**4,280**	**19%**	**18%**
Income-producing property in the USA	**1,544**	**1,092**	**7%**	**5%**
Granite	**5,957**	**5,497**	**25%**	**24%**
Others	**2,001**	**2,887**	**8%**	**12%**
Total	**23,502**	**23,180**	**100%**	**100%**

1.4 Summary of balance sheet data from the Consolidated Statement: (NIS in millions)

	As of September 30, 2012	As of September 30, 2011	As of Dec. 31, 2011
Current assets	**3,377**	**3,988**	**4,072**
Non-current assets	**20,125**	**18,679**	**19,108**
Current liabilities	**4,932**	**3,680**	**3,863**
Non-current liabilities	**7,088**	**7,284**	**7,852**
Capital attributed to the Company's shareholders	**11,406**	**11,233**	**11,034**
Capital attributed to the Company's shareholders from the total balance sheet (in percents)	**49%**	**50%**	**48%**

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

1.5 Financial position, liquidity and financing sources

(a) Liquid Means in the Group

As of September 30, 2012, the aggregate scope of the liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to c. NIS 770 million[5]. The Company regards its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of c. NIS 9.8 billion in addition to NIS c. 770 million specified above), as important to its financial soundness, great financial flexibility, due to its independence from the availability of outside sources also for the purpose of repayment of debts and the ability to take advantage of investment opportunities in different periods.[6] With respect to additional possible liquid sources, the Company estimates that the Group is able to raise financing under convenient terms, also in the current economic conditions.

[5] For details in regard to a sum of c. NIS 200 million which the Company undertook to reserve within the framework of ratings renewal of CP issued thereby, see Section 1.5 hereof.

[6] In Chapter D of the Periodic Report for 2011, the Company reported that since the IPO and until the date of the Periodic Report for 2011, the Company had used the IPO's proceeds in accordance with the targets and in accordance with the policy set forth in the Company's prospectus. In Section 17 of the Description of the Corporation's Business chapter in Chapter A of the Periodic Report for 2011, the Company specified additional issues in connection with the financing activity at the Group.

Following is a table of the non-pledged assets, which are available to serve as collateral against receipt of credit[7]:

Assets	Value of assets as of September 30, 2012 (NIS in millions) as presented in the financial statements
Property in retail centers and malls in Israel segment	**5,526**
Property in the office and other space for lease in Israel segment	**1,777**
Income-producing property in the USA and in England	**86**
Company's holdings in Leumi Card	**483**
Company's holdings in Granite	**1,134**
Company's holdings in Bank Leumi	**774**
Total	**9,780**

In addition, the Company holds pledged income-producing properties, the loan rate for which is considerably lower than their fair value. (Such as the Azrieli Center project, which was appraised by an independent appraiser as of June 30, 2012 (Without the square tower which was included in the non-pledged assets) at c. NIS 3.6 billion, whereas the loans for it, as of September 30, 2012 (without the square tower), amounted to c. NIS 799 million).

(b) Dividends:

The Company:

On March 21, 2012, the Company's board of directors approved, after accepting the recommendation of the finance committee, a cash distribution at an overall amount of NIS 240 million (NIS 1.979 per share) which constitutes c. 48% of the net profit for the shareholders in 2011 after discounting revaluation profits, discounting unusual effect of changing the rate of the corporate tax (following the Trachtenberg Committee) and discounting the tax effect thereon and c. 36% of the FFO for the real estate business as specified in Section 1.1.6 above. On April 30, 2012, the Company paid the dividend to its shareholders.

According to the Company's financial statements as of September 30, 2012, the Company has retained earnings of c. NIS 8.7 billion.

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

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

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

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

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

(c) Cash flows

Net cash flows generated for the Group from current operations in the nine months ended September 30, 2012, amounted to the sum of c. NIS 1,450 million, compared with the sum of c. NIS 1,323 million which derived from current operations in the same period last year (an increase of c. NIS 127 million).

The said increase resulted mainly from the Granite segment in which an increase of c. NIS 99 million was recorded, deriving mainly from changes in working capital as follows:

(1) Increase in trade receivables and inventory, net of increase in trade accounts payable 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.

(2) Increase in receivables in respect of a franchise arrangement for the desalination of water which derives from the expansion of the desalination plant of Via Maris. According to the accounting standardization, the capitalized amount of the supplementary income in respect of the fixed component of the price of the water, which derives from this expansion, is presented as a financial asset – receivables in respect of a franchise arrangement and therefore is presented as current operations. The costs which derive from the expansion amount to c. NIS 209 million. This effect will continue throughout the period of the expansion of the desalination plant and is due to end in mid-2013.

(3) Increase in the receivables balance in respect of a franchise arrangement which derives from the costs of construction of the infrastructure of the mid-size solar facilities at Supergas, which are presented as a financial asset, in the sum of c. NIS 24 million. This effect will continue during 2013-2014.

From an increase in cash flow deriving from an increase in the operating profit of the income-producing property (c. NIS 88 million), compared with the same period last year; and from an increase in cash flow in the sum of c. NIS 45 million from the sale of financial assets held for trade in the sum of c. NIS 914 million in the Report Period versus the sale of financial assets held for trade in the sum of c. NIS 869 million in the same period last year.

Net cash flows generated to the Group from current operations in the three months ended on September 30, 2012, amounted to the sum of c. NIS 556 million, compared with the sum of c. NIS 55 million that generated from ongoing activity in the same period last year (an increase of c. NIS 501 million).

The main increase in cash flows from current operations in the three months ended on September 30, 2012, compared with the same period last year resulted mainly from the sale of financial assets held for trade in the sum of c. NIS 298 million in the Report Period, compared with the purchase of financial assets held for trade in the sum of c. NIS 21 million in the same period last year. In addition, in the Granite segment an increase of c. NIS 192 million was recorded (mainly due to the desalination plant and the cost of installation of the solar facilities specified above), and on the other hand am increase occurred in the cash flow resulting from an increase in the operating profit of the income-producing property (c. NIS 25 million) compared with the same period last year.

Cash flows used by the Group for investment activity in the nine months ended September 30, 2012, amounted to c. NIS 744 million, compared with c. NIS 1,727 million in the same period last year.

The decrease in the sum of c. NIS 983 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 c. NIS 623 million compared with c. NIS 1,627 million in the same period last year.

Net cash flows used by the Group for investment activity in the three months ended September 30, 2012, amounted to c. NIS 68 million, compared with c. NIS 71 million used for investment activity in the same period last year.

The decrease in the sum of c. NIS 3 million in the Quarter resulted mainly from the purchase of, and investment in investment properties and investment properties under construction in the sum of c. NIS 53

million compared with c. NIS 72 million in the same period last year.

Cash flows used by the Group for financing activity in the nine months ended September 30, 2012, amounted to the sum of c. NIS 744 million, compared with net cash flows deriving from financing activity in the sum of c. NIS 366 million in the same period last year. The decrease in the sum of c. NIS 1,110 million mainly resulted from the purchase of non-controlling interests in the Report Period in the sum of c. NIS 344 million compared with c. NIS 3 million in the same period last year, from a decrease in short- and long-term loans/bonds received (net of loans and interest repaid), consolidated (without Granite), in the sum of c. NIS 711 million compared with the same period last year. The decrease derives mainly due to lower credit which the Company took for the purpose of the acquisition of the office building in Texas during the Report Period versus the loan amount taken for the acquisition of office buildings in Texas during the same period last year, as well as from an increase in the payments of short-term loans.

In the Granite segment, a decrease in loans was recorded in the sum of c. NIS 56 million in the Report Period versus the same period last year.

Net cash flows used by the Group for financing activity in the three months ended September 30, 2012, amounted to c. NIS 460 million, compared with c. NIS 17 million used for financing activity in the same period last year. The increase in the sum of c. NIS 443 million resulted mainly from the purchase of non-controlling interests in the Quarter in the sum of c. NIS 282 million and from a decrease in short- and long-term loans/bonds received (net of loans and interest repaid) in the sum of c. NIS 159 million, compared with the same period last year.

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

	September 30, 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	3,488	14.8%	2,445	10.5%
Long-term credit from banks and other credit providers	3,102	13.2%	3,758	16.2%
Bonds	1,584	6.7%	1,707	7.4%
Total	8,174	34.7%	7,910	34.1%

The increase in the sum of c. NIS 264 million in the Report Period results mainly from an increase in credit from banks and other credit providers in the Granite segment in the sum of c. NIS 421 million, which resulted mainly from the additional working capital required for financing the increase in trade receivables and inventory in light of the increases in the oil distillates prices and in light of the expansion of the

business in all of the operating segments of Granite. On the other hand, in the real estate segments, the Group's main operating segment, loans were repaid during the Report Period in a higher amount than the amount of the loan that was taken to finance the acquisition of the office building in Texas.

As of the Report Date, the Company has a deficit in working capital in the sum of c. NIS 1.5 billion. The deficit results mainly from long-term loans with maturities of less than one year, and from the decision of the Group's management, at this time, to finance its business through short-term credit, in light of the business opportunity presented by the low interest rates for such credit.

The Company estimates that if it decides to convert any such credit into long-term credit at any time, it will be able to do so, and therefore the said deficit in working capital does not affect its ability to pay its liabilities as they become due.

Bonds and CP and the rating thereof

The Company's bonds are rated by Maalot, the Israeli Securities Rating Corporation Ltd. ("Maalot") and Midroog Ltd. ("Midroog"). On June 28 Midroog reapproved the rating of the Company's bonds to Aa2 with a stable outlook. As of the Report Date, the rating was as follows: the rating of Midroog: Aa2 with a stable outlook; the rating of Maalot: stable AA-. To review Midroog's annual monitoring report see the Company's report of June 28, 2012 (reference no. 2012-01-170247). To review Maalot's annual follow-up report and the raise in the rating, see the Company's report of November 23, 2011 (reference 2011-01-336291).

On June 28, 2012, Midroog extended the rating of the commercial papers (the "**CP**") issued by the Company until June 30, 2013, at a P-1 rating. To secure sufficient liquidity for payment of the CP, the Company undertook to reserve a liquidity balance and signed and unused credit facilities in a sum total of at least NIS 200 million. For details see immediate report of June 28, 2012 (reference 2012-01-170271). On January 12, 2012, Midroog expanded the rating frame of CP of the Company from NIS 135 million to NIS 200 million. For details see immediate report dated January 12, 2012 (reference: 2012-01-013743).

(d) Liabilities and Financing

Financial liabilities of the Group (except for Granite) as of September 30, 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	-	-	-	26	395	-	421	421
Long Term Loans	3,415	968	27	-	-	4,410	-	4,410
Total	**3,415**	**968**	**27**	**26**	**395**	**4,410**	**421**	**4,831**

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 September 30, 2012, short-term loans accounted for c. 9% of the Group's total financial liabilities (except for Granite). According to the Company's estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

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

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

- The Group has a positive cash flow from ongoing activity over many years (excluding consideration or investment in financial assets that are listed for trade). This cash flow amounted to the sum of c. NIS 537 million in the nine months ended September 30, 2012, compared with the sum of c. NIS 454 million in the same period last year (an increase in the sum of c. NIS 100 million is attributed to Granite – see explanation regarding the cash flows, above, while the balance of the decrease in the sum of c. NIS 17 million is attributed mainly to the increase in the tax that was paid and to the decrease in dividends from

available for sale properties).

- The liquid means and non-pledged assets as specified in Section 1.5(a) above.

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

1.6 **Quality of profit**

No changes have occurred, during the Report Period, in the description that the Company included in the Board of Directors' Report for December 31, 2011.

1.7 **Marketing, general and administrative expenses**

The Company's consolidated marketing, general and administrative expenses (without Granite) amounted to c. NIS 58 million in the Report Period (NIS 17 million in the Quarter) compared to c. NIS 50 million in the same period last year (NIS 13 million in the same quarter last year).

1.8 **Net financing expenses**

The Group’s net financing expenses during the Report Period amounted to the sum of c. NIS 316 million, compared with c. NIS 428 million in the same period last year, and c. NIS 102 million in the Quarter, compared with NIS 135 million in the same quarter last year. The decrease in the financing expenses during the Report Period derives mainly from profit from marketable securities (plus interest and dividend thereon) in the amount of c. NIS 42 million, compared with a loss of c. NIS 51 million in the same period last year, as well as a change from an increase of c. 2.11% in the rate of the rise of the known index during the Report Period, compared with an increase of c. 2.75% in the same period last year.

The decrease in the financing expenses in the Quarter derives mainly from profit from marketable securities (plus interest and dividend thereon) in the amount of c. NIS 27 million, compared with a loss of c. NIS 31 million in the same period last year

1.9 **Taxes on income**

The Group’s income tax expenses during the Report Period amounted to the sum of c. NIS 152 million, compared with tax expenses in the sum of c. NIS 161 million in the same period last year.

1.10 **Summary of the Company's results (consolidated) – NIS in millions**

	For the period of three months ended		For the period of nine months ended		For the year ended
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	Dec. 31, 2011
Net profit for the period attributed to the Shareholders	**194**	**179**	**569**	**725**	**596**
Net profit attributed to the Shareholders and non-controlling interests	**211**	**188**	**608**	**758**	**623**
Basic profit per share (NIS)	**1.6**	**1.48**	**4.7**	**5.98**	**4.91**
Comprehensive income (loss) for Shareholders and non-controlling interests	**301**	**(25)**	**635**	**409**	**204**

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 available for sale financial assets.

The comprehensive income for the nine months ended September 30, 2012 amounted to the sum of c. NIS 635 million, compared with a net profit (including non-controlling interests) in the sum of c. NIS 608 million in the same period. The aforesaid difference results mainly from profit in the sum of c. NIS 14 million due to a change in the fair value of available for sale financial assets, net of tax, and c. NIS 13 million in respect of translation differences due to foreign operations.

The comprehensive income for the three months ended September 30, 2012 amounted to the sum of c. NIS 301 million, compared with a net profit (including non-controlling interests) in the sum of c. NIS 211 million in the same period. The aforesaid difference results mainly from profit in the sum of c. NIS 91 million due to a rise in the fair value of available for sale financial assets, net of tax.

Main causes for the change in the net profit (NIS millions)

	For the period of the three months ended on		For the period of the nine months ended on	
	September 30, 2012	**September 30, 2011**	**September 30 , 2012**	**September 30, 2011**
Consolidated net profit	**211**	**188**	**608**	**758**
Profit from real estate revaluation after tax	**(1)**	**(87)**	**(74)**	**(379)**
Loss (profit) from marketable securities after tax	**(16)**	**33**	**(9)**	**82**
Interest and dividend revenues from marketable securities after tax	**(5)**	**(6)**	**(26)**	**(42)**
Dividend from assets available for sale	**-**	**-**	**(8)**	**(43)**
Total change factors	**(22)**	**(60)**	**(117)**	**(382)**
Total profit, net of change factors	**189**	**128**	**491**	**376**
Rate of increase in profit, net of change factors	**48%**		**31%**	

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 (IFRS 8). 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, 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-month period ended		For the nine-month period ended		For the year ended
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011	Dec. 31, 2011
NIS in millions					
Revenues	224	209	654	595	814
% change	7%		10%		
NOI	177	168	525	486	662
% change	5%		8%		

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

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 completion of the construction and population thereof during 2011 (Azrieli Akko Mall and Azrieli Kiryat Ata Mall).

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

	For the three-month period ended		For the nine-month period ended	
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011
For the segment's properties owned by the Company as of the beginning of the period[8]	169	162	497	480
For properties whose construction was completed in 2011	8	6	28	6
For properties that were purchased or whose construction was completed in 2012	-	-	-	-
Total	177	168	525	486

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

During the Report Period, the NOI increased compared with the same period last year, resulting mainly from the increase in revenues from existing properties and from the opening of Azrieli Akko and Kiryat Ata Malls.

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

- Most lease contracts are linked to the CPI (the known index in the period from September 2011 to September 2012 rose by c. 1.92%).
- 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.
- Population of areas that were vacated in the same period last year in order to perform changes in the tenant mix.

The balance of the assets of retail centers and malls in Israel segment – amounted as of September 30, 2012, to the sum of c. NIS 9.5 billion, compared with c. NIS 9.4 billion on December 31, 2011. The change derives mainly from an increase in value of properties following the update of appraisals for properties in Israel that were made as of June 30, 2012 as well as from investments in properties.

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 c. NIS 38 million, compared with a profit of c. NIS 377 million in the same period last year. The properties are presented according to the valuations that were made by an independent appraiser as of June 30, 2012. Most of the increase in the valuation resulted from the increase in rent income.

1.11.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three-month period ended		For the nine-month period ended		For the year ended
	Sep. 30, 2012	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**	**Dec. 31, 2011**
NIS in millions					
Revenues	**88**	**83**	**254**	**241**	**325**
% change	**6%**		**5%**		
NOI	**71**	**70**	**209**	**201**	**272**
% change	**1%**		**4%**		

The increase in revenues derives mainly from an improvement in revenues from existing office space for lease, and the lease of vacant space.

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

	For the three-month period ended on		For the nine-month period ended on	
	Sep. 30, 2012	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[9]	**71**	**70**	**209**	**201**
Due to assets which were purchased or whose construction was completed in 2011	**-**	**-**	**-**	**-**
Due to assets which were purchased or whose construction was completed in 2012	**-**	**-**	**-**	**-**
Total	**71**	**70**	**209**	**201**

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

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

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

- Most lease contracts are linked to the CPI (the known index in the period from September 2011 to September 2012 rose by c. 1.92%).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new contracts).
- Continuation of population of Tower E in Herzliya Business Park.
- Completion of construction of an additional office floor over the Givatayim Mall.
- Operational streamlining of the management companies.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on September 30, 2012 to the sum of c. NIS 4.5 billion, compared with c. NIS 4.3 billion on December 31, 2011.

The change derives mainly from an increase in value of properties following the update of appraisals for properties in Israel that were made as of June 30, 2012 as well as from investments in properties.

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 the investment property and investment property under construction, amounted in the Report Period in the sum of c. NIS 55 million, compared with profit of c. NIS 68 million in the same period last year. The properties are presented according to the valuations that were made by an independent appraiser as of June 30, 2012.

1.11.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three- months period ended on		For the nine- months period ended o		For the year ended on
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011	December 31, 2011
	NIS millions				
Revenues	47	27	136	73	102
Percentage of change	74%		86%		
NOI	27	12	78	37	48
Percentage of change	125%		111%		

The increase in revenues derives mainly from revenues of office space for lease which were added to the Group due to the acquisition, during the Report Period, of an office building in Houston, Texas (Plaza) in January 2012 as well as due to the acquisition of office buildings in Texas in February 2011 (the three office buildings at Galleria).

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

	For the three-month period ended on		For the nine-month period ended on	
	Sep. 30, 2012	**Sep. 30, 2011**	**Sep. 30, 2012**	**Sep. 30, 2011**
Due to the segment's assets owned by the Company at the beginning of the period[10]	**19**	**12**	**18**	**16**
Due to assets which were purchased or whose construction was completed in 2011	**-**	**-**	**38**	**21**
Due to assets which were purchased or whose construction was completed in 2012	**8**	**-**	**22**	**-**
Total	**27**	**12**	**78**	**37**

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

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

- Increase in the American exchange rate (which rose during the period between September 30, 2011 and September 30, 2012 by c. 5.39%).
- Increase in revenues from tenants.

The investment property balance of the Group in the segment – amounted, on September 30, 2012, to the sum of c. NIS 1.5 billion compared with c. NIS 1.1 billion on December 31, 2011. The increase mainly derives from the purchase of an office building (Plaza) in Houston, Texas, USA.

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

There has been no change from the adjustment of fair value of investment properties of the segment, during the Report Period, compared with a profit of c. NIS 18 million, in the same period last year.

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

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

For details regarding transactions pertaining to real estate properties during the Report Period, see Note 5 to the financial statement for September 30, 2012.

1.11.4 Granite segment

For details regarding the Full Tender Offer see details in Section 1.1.1

The Company's share (without non-controlling interests) in the Granite segment results amounted, in the Report Period, to a profit of c. NIS 44 million (in the Quarter – NIS 22 million), compared with a profit of c. NIS 22 million in the same period last year (in the Quarter – a profit of c. NIS 7 million).

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

	For the three-months ended		Increase/ Decrease	For the nine-months ended		Increase/ Decrease	For the year ended
	Sep. 30, 2012	Sep. 30, 2011		Sep. 30, 2012	Sep. 30, 2011		December 31, 2011
	NIS in millions		%	NIS in millions		%	NIS in millions
Revenues	**1,960**	**1,612**	**22%**	**5,783**	**4,633**	**25%**	6,305
Operating Profit	**98**	**48**	**104%**	**230**	**183**	**26%**	208
Net Profit	**38**	**16**	**138%**	**82**	**58**	**41%**	39

Summary of Granite's business results:

The main rise in Granite's revenues during the Report Period and the Quarter compared with the same periods last year derived from an increase in revenues in all of Granite's operating segments, and mainly from Sonol due to the increase in the quantities of the fuels and the rise in the prices of the oil distillates and at GES, mainly due to the desalination plant expansion work and due to an increase in the quantities of the water that was desalinated at the plant.

Gross profit

Granite's gross profit amounted, in the Report Period, to a sum of c. NIS 903 million, compared with c. NIS 846 million in the same period last year. The rise mainly derives from Sonol, GES and Supergas.

The gross profit in Q3 amounted to c. NIS 333 million, compared with c. NIS 278 million in the same period last year. The rise mainly derives from Sonol and GES.

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

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 Sections 1.1 through 1.5 of the Board of Directors' Report, *inter alia*, in connection with taking advantage of business opportunities and expansion of the activity, liquidity, sources of financing, progress of the projects under construction, the effects of the economic situation on the Company's business segments 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 aggravation of the economic situation in Israel or the USA and entering 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

In the quarter ended on September 30, 2012, no material changes occurred in the risk factors, in the Company's policy on the management of the market risks, in the means of supervision and in the implementation of policy, versus the description in the Board of Directors' Report on the State of the Company's Affairs for the year ended December 31, 2011 and in the notes to the financial statements for such year.

2.2 Positions in derivatives

For details see Annex B of the Board of Directors' Report below.

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

In the quarter ended on September 30, 2012, no material changes occurred in the analysis of sensitivity tests and fair value effects versus the description in the Board of Directors' Report on the State of the Company's Affairs for the year ended December 31, 2011, with the exception of an analysis of the sensitivity to changes in the fair value of the rates of the marketable securities and changes in the rates of index-linked and nominal securities as specified in Annex C to the Board of Directors' Report below.

2.4 Linkage bases table

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

3. Corporate Governance Aspects

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

As of the Report Date, no change has occurred in the structure of the Finance Committee sitting as the Financial Statements Review Committee (the "**Committee**"), and its members are as published in the Periodic Report for 2011.

Process of approval of the financial statements

The Committee convened on November 18, 2012, to review the financial statements as of September 30, 2012 and to form its recommendations to the board of directors regarding approval of the statements. An advanced draft of the quarterly report, with all parts thereof including the Company's financial statements, as well as the Company's presentation on the main financial results and material issues for discussion were delivered to the Committee members several days prior to the date scheduled for the committee meeting.

At the committee meeting of November 18, 2012, all of the committee members participated. Also attended the meeting, according to the committee chairman's request, Mr. Shlomo Sherf, the Company CEO, Mr. Yuval Bronstein, the CFO, the Internal Auditor, Mr. Gali Gana, the General Counsel, Ms. Michal Kamir, representatives of the Company's auditor as well as relevant office holders at the Company, such as the Company's comptrollers, PA to the CEO, as well as an external attorney of the Company. During the meeting, the Company CEO and CFO reviewed the reports and additional issues and answered questions of the committee members, to the extent such was required.

At the meeting the Committee discussed, *inter alia*, the financial results, including estimates and assessments made in connection with the financial statements, internal controls related to financial reporting, the completeness and fairness of the disclosure in the financial statements, and the manner of presentation of figures and the comparison thereof to parallel figures in the previous reporting year. The Committee further discussed the accounting policy adopted in the financial statements and whether there were any changes thereto, the accounting treatment applied to material issues of the corporation on which figures in the financial statements are based, including in connection with converting Granite Hacarmel into a private company.

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

After a deliberation, as specified above, was held at the committee, the committee chairman put to the vote the committee's recommendation to the board and asked whether any of the committee members still had questions or issues regarding which no answer was provided. At that meeting, the committee decided to recommend to the board of directors to approve the

Company's financial statements as of September 30, 2012. The recommendations of the Committee were forwarded to the members of the board of directors on November 18, 2012, according to the timeframe determined as "reasonable" by the board of directors (c. 2 business day) in light of the scope and complexity of the recommendations, in preparation for the board meeting held on November 20, 2012.

On November 20, 2012, the Company's board of directors, which is the corporate organ in charge of governance, the Company's financial statements as of September 30, 2012. For details regarding the board members see article 26 of Chapter D in the Company's Periodic Report for 2011. Advanced drafts of the financial statements, the notes thereto, the Board of Director's Report and annexes thereto, and any report and presentation related thereto are sent to the board members several days prior to the date scheduled for the board meeting.

The board meeting of November 20, 2012 was also attended by the persons invited to the meeting of the Committee as specified above. The members of the board of directors who were present at the aforesaid meeting (including via any media) were: Mr. David Azrieli, Chairman of the Board, Ms. Danna Azrieli, Active Vice Chairman of the Board, Mr. Menachem Einan, Active Deputy Chairman of the Board, Ms. Sharon Azrieli, director, Ms. Naomi Azrieli, director, Mr. Josef Ciechanover, independent director, Mr. Yossi Kucik, director, Prof. Niv Ahituv (outside director) and Mr. Efraim Halevy (outside director). The representatives of the Company's auditor commented and responded, insofar as required, to questions which were addressed to them by the members of the board pertaining to material issues which derived from the figures presented in the financial statements contemplated in the deliberation. In the context of presentation of the statements to the board of directors, the material developments in the period and the financial results were reviewed, in comparison to previous periods, during which questions were answered. At the end of the deliberation by the board of directors, a vote was held in which the financial statements of the Company for September 30, 2012 were approved.

3.2 Internal Enforcement Program at the Company

As of the Report Release Date, the Company's board of directors appointed a designated board committee for the issue of internal enforcement in the Company (the "**Enforcement Committee**"), that has held a series of discussions on the adjustments required to the enforcement outline and the enforcement team procedure for the Company's needs, the unique structure of the Company and the business thereof. The Enforcement Committee convened for further deliberation on the program outline and the procedure derived therefrom, and, on August 22, 2012, approved the principles of the enforcement program and the enforcement team procedure. On the same day, the Company's board of directors approved the recommendation of the Enforcement Committee, the principles of the enforcement program and the enforcement team procedure. As of the Report Date, the Enforcement Committee is reviewing the issue of appointment of an Enforcement Officer in the Company and is expected to recommend a nominee who will be presented

for the board's approval, as aforesaid, no later than the date of approval of the financial statements for 2012. Furthermore, the Company is further acting towards the adjustment of the procedures currently prevailing at the Company for updated procedures which shall constitute part of an overall enforcement system at the Company, as well as the formulation of new enforcement procedures in additional fields, to the extent required. In this context, the Company recently adopted updates to the inside information procedure, the company cluster procedure and the immediate reports procedure, including, *inter alia*, general guidelines and quantitative and qualitative criteria for examination of whether a certain event or matter of the group is material to the Company in respect of the duty to file an immediate report in respect thereof, by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

3.3 **Annual General Meeting**

On November 7, 2012, the Company's general meeting approved, within an annual general meeting, the reappointment of the directors serving in the Company who are not outside directors, as well as the reappointment of the Company's auditor. For details regarding the general meeting and the results thereof see the Company's immediate reports from October 16, 2012 (reference no.: 2012-01-257079) and from November 7, 2012 (reference no.: 2012-01-274062).

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

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

For events and developments during the Report Period and updates to the Description of the Corporation's Business chapter as of December 31, 2011, see Chapter B hereof and Note 5 to the financial statements for September 30, 2012.

4.2 Report on the Group's liabilities

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

4.3 Legal claims

For details see Note 4 to the consolidated financial statement for September 30, 2012.

4.4 Critical accounting estimates

In the quarter ended September 30, 2012, no changes occurred versus the description in the Board of Directors' Report for the year ended December 31, 2011.

4.5 Disclosure pertaining to very material valuations

As of the Report Date, no change has occurred in the parameters for disclosure and attachment of valuations as published in the Periodic Report for 2011.

As of the Report Date and after the above determination was examined, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components - namely - including the Azrieli Mall) only. This valuation as of June 30, 2012 was attached to the quarterly report as of June 30, 2012, and the Company estimates that no material changes were made to this valuation. For details regarding the parameters for examination of an update of the valuations in the quarterly reports, see Note 3C(9) to the periodic report for December 31, 2011.

As of September 30, 2012, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2012) was in the amount of c. NIS 4.4 billion (which is attributed both to Azrieli Center’s towers and Azrieli Mall,), out of a fair value of investment properties in the amount of c. NIS 15.5 billion (c. 28% of the Company's total investment properties).

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

See Note 7 to the consolidated financial statement for September 30, 2012.

4.7 **Financial figures attributed to the Company as a parent company**

Pursuant to Regulation 9C of the Regulations, financial figures from the consolidated financial statements attributed to the Company as a parent company are hereby attached as Annex A to the Board of Directors' Report, together with an auditor's opinion.

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

Without qualifying their opinion, the auditors drew attention to:

The provisions of Note 4 pertaining to legal actions in material amounts, cumulatively, against consolidated companies, regarding which a motion was filed to recognize the same as class actions and pertaining to various arguments and claims in material financial scopes, cumulatively, against a consolidated Company regarding which it was argued that the agreements thereof with its clients constitute a restrictive arrangement.

The Company's board of directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, on their blessed contribution to the Group's achievements in the quarter ended September 30, 2012.

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

Date: November 20, 2012

Annex A

Separate financial information

September 30, 2012

(Unaudited)

The Azrieli Group Ltd.

Separate Interim Financial Information

as of September 30, 2012

(unaudited)

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

The Azrieli Group Ltd.

Separate Interim Financial Information

As of September 30, 2012

(unaudited)

Contents

Deloitte.
Brightman Almagor Zohar

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

Ladies and Gentlemen,

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

Introduction

We have reviewed the interim separate financial information, which is presented pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730–1970, of **Azrieli Group Ltd.** (the "Company") as of September 30, 2012 and for the periods of nine and three months ended on such date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for such interim periods, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, the sum of the investments in which amounted to c. NIS 846 million as of September 30, 2012 and the profit from such investee companies amounted to c. NIS 47 million and c. NIS 23 million for the periods of nine and three months ended on such date, respectively. The financial statements of those companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

Conclusion

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, November 20, 2012

A

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 September 30		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	56,138	63,330	109,398
Financial assets held for trade	442,044	1,268,802	1,322,083
Trade account receivables	9,179	5,824	5,279
Other receivables	64,265	20,961	34,100
Current tax assets	5,215	-	-
Total current assets	576,841	1,358,917	1,470,860
Non-current assets			
Financial assets available for sale	1,259,172	1,348,488	1,256,346
Financial assets designated at fair value through profit and loss	22,038	17,991	16,737
Investment property and investment property under construction	6,227,650	6,105,326	6,152,957
Investments in investee companies	4,792,807	4,401,803	4,401,133
Loans to investee companies	1,967,391	1,513,307	1,517,786
Fixed assets	4,960	4,967	5,276
Receivables	7,412	8,227	25,129
Total non-current assets	14,281,430	13,400,109	13,375,364
Total assets	14,858,271	14,759,026	14,846,224
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	575,248	787,272	831,238
Trade payables	7,807	14,210	15,776
Payables and other current liabilities	35,974	37,802	38,713
Current tax liabilities	-	7,264	2,646
Total current liabilities	619,029	846,548	888,373
Non-current liabilities			
Loans from banks	1,225,909	1,336,462	1,309,484
Bonds	620,895	652,569	651,359
Other liabilities	18,225	18,591	18,001
Deferred tax liabilities	955,160	655,986	927,399
Employee benefits	13,454	15,598	17,819
Total non-current liabilities	2,833,643	2,679,206	2,924,062
Equity			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,477,664	2,477,664	2,477,664
Capital reserves	185,785	211,953	143,030
Retained earnings	8,723,927	8,525,432	8,394,872
Total capital attributed to the shareholders of the Company	11,405,599	11,233,272	11,033,789
Total liabilities and capital	14,858,271	14,759,026	14,846,224

November 20, 2012			
Date of approval of the separate financial information	**David Azrieli Chairman of the Board of Directors**	**Shlomo Sherf CEO**	**Yuval Bronstein Chief Financial Officer**

Azrieli Group Ltd.

Information on the Comprehensive Income

	For a period of nine months ended September 30		For a period of three months ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues					
From rent and management and maintenance fees	330,901	315,951	112,215	106,282	429,467
Net profit from adjustment to fair value of investment property and investment property under construction	35,666	145,634	145	1,875	188,839
Financing income	134,983	85,379	62,838	26,305	102,337
Other, net	7,793	43,178	-	-	44,855
Total revenues	509,343	590,142	175,198	134,462	765,498
Costs and expenses					
Cost of revenues from rent and management and maintenance fees	6,935	6,508	2,139	2,171	10,283
Sales and marketing	3,964	663	448	112	968
Administrative and general	34,701	39,697	7,891	6,002	53,910
Financing expenses	119,599	203,732	40,425	76,721	212,601
Total costs and expenses	165,199	250,600	50,903	85,006	277,762
Income before Company's share of the income of investee companies	344,144	339,542	124,295	49,456	487,736
Share of income of investee companies, net of tax	287,738	430,749	93,809	135,983	444,675
Income before taxes on income	631,882	770,291	218,104	185,439	932,411
Expenses for taxes on income	62,827	45,519	24,083	5,975	336,557
Net profit for the period	569,055	724,772	194,021	179,464	595,854
Other comprehensive income (loss), net of tax					
Change in fair value of financial assets available for sale , net of tax	4,947	(356,227)	91,110	(235,085)	(439,145)
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(18)
Translation differences from foreign operations	6,532	1,801	1,173	6,064	3,991
Share of the other comprehensive income (loss) of investee companies, net of tax	10,300	4,233	(2,763)	13,388	12,416
Other comprehensive income (loss) for the period, net of tax	21,779	(350,193)	89,520	(215,633)	(422,756)
Total comprehensive income (loss) for the period attributed to the shareholders of the Company	590,834	374,579	283,541	(36,169)	173,098

Azrieli Group Ltd.

Information on the Cash Flows

	For the nine months period ended September 30		For the three months period ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - operating activities					
Net profit for the period	569,055	724,772	194,021	179,464	595,854
Depreciation and amortization	592	522	203	187	713
Capital (gain) loss from liquidation of fixed assets	-	(7)	-	25	(7)
Net profit from adjustment to fair value of investment property	(35,666)	(145,634)	(145)	(1,875)	(188,839)
Financing and other revenues (expenses), net	(6,885)	(33,347)	982	9,140	(37,093)
Dividend received from financial assets available for sale	8,000	43,145	-	-	43,145
Interest and dividend received from financial assets held for trade	33,026	57,168	6,721	11,273	68,642
Share of profits of investee companies, net of tax	(287,738)	(430,749)	(93,809)	(135,983)	(444,675)
Taxes recognized in the income statement	62,827	45,519	24,083	5,975	336,557
Income tax paid, net	(40,661)	(52,305)	(16,261)	(7,770)	(67,768)
Change in financial assets held for trade	880,039	966,055	271,458	12,005	912,774
Change in trade accounts and other receivables	(34,544)	(7,742)	(7,870)	6,896	(12,525)
Change in trade accounts and other payables	(2,293)	621	3,294	3,749	4,613
Recording of benefit in respect of share-based payment	(4,389)	1,423	(5,324)	(2,374)	2,587
Change in financial assets designated at fair value through profit and loss	(1,696)	757	(592)	(16)	1,443
Change in employee provisions and benefits	23	1,676	120	154	2,709
Net cash – current operation	1,139,690	1,171,874	376,881	80,850	1,218,130

Azrieli Group Ltd.

Information on the Cash Flows (Contd.)

	For the nine months period ended September 30		For the three months period ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - investment activities					
Proceeds from liquidation of fixed assets	-	460	-	206	460
Investment in investment property and investment property under construction	(38,243)	(616,156)	(13,329)	(37,835)	(622,322)
Purchase of fixed assets	(276)	(1,815)	(136)	(634)	(2,315)
Investment in a company consolidated for the first time	(46,035)	(67,453)	-	(3,226)	(67,453)
Extension of long-term loans	-	(9,033)	-	-	(9,033)
Repayment of long-term loans	-	8,921	-	5,394	
Investment in investee companies	(374)	(1,306)	-	(595)	(1,306)
Investment in financial designated at fair value through profit and loss	(3,605)	(1,340)	(481)	2,124	(1,674)
Extension of long-term loans to investee companies	(369,139)	(247,275)	(263,718)	(46,741)	(213,676)
Extension of long-term loans and receivables, net	-	-	-	-	(8,187)
Institutions due to acquisition of property	-	-	-	83,520	-
Interest received	1,344	-	434	-	-
Net cash - investment activities	(456,328)	(934,997)	(277,230)	2,213	(925,506)
Cash flows - financing activities					
Dividend distribution to shareholders	(240,000)	(240,000)	-	-	(240,000)
Repayment of bonds	(43,475)	(42,764)	-	-	(42,764)
Repayment of long-term loans from banks	(116,418)	(111,895)	(31,605)	(29,363)	(137,605)
Short-term credit from banks, net	(252,280)	232,132	(3,413)	(31,132)	277,667
Deposits from customers, net	(171)	(256)	(335)	(41)	(811)
Interest paid	(84,596)	(93,408)	(27,818)	(32,302)	(123,560)
Net cash - financing activities	(736,940)	(256,191)	(63,171)	(92,838)	(267,073)
Increase (decrease) in cash and cash equivalents	(53,578)	(19,314)	36,480	(9,775)	25,551
Cash and cash equivalents at the beginning of the period	109,398	83,105	19,699	73,620	83,105
Impact of changes in exchange rates on cash balances held in foreign currency	318	(461)	(41)	(515)	742
Cash and cash equivalents at the end of the period	56,138	63,330	56,138	63,330	109,398

Azrieli Group Ltd.

Additional information for the Separate Interim Financial Information

A. General

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

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

B. Definitions

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

C. Accounting Policy

The separate financial information is prepared in accordance with the accounting policy specified in Note B to the Annual Separate Financial Statements of the Company, except for the financial policy specified in Note 2 to the Consolidated Condensed Financial Statements as of September 30, 2012, released together with this separate financial information.

D. Events during the Report Period:

1. In January 2012, AG plaza at enclave, LLC, an American corporation indirectly held at a rate of 100% by the Company was incorporated for the purpose of purchase of an office building in the USA - see Note 5A to the Consolidated Financial Statements as of June 30, 2012.

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

3. As of April 1, 2012, Canit Hashalom Investments Ltd. issued to the Company bonds in the sum of NIS 420,000,000 linked to the consumer price index. The linkage differentials for the loan will be no lower, in any case, than the interest prescribed with regard to Section 3(j) of the Income Tax Ordinance. The principal and linkage differentials will be repaid in one installment on December 31, 2012.

4. As of April 1, 2012, Canit Hashalom Investments Ltd. issued to the Company bonds in the sum of NIS 1,080,000,000 linked to the consumer price index and bearing interest at the rate of 4.8% per annum.

   The linked principal, the interest and the linkage differentials will be repaid in one installment on December 31, 2012.

   The bonds stated in Sections 3 and 4 above replace a previous debt with similar interest and linkage terms.

5. On July 23, 2012, the Company engaged in a contingent sale agreement for the acquisition of all of rights in the Power center known as "One plaza" in Beer Sheva - see Note 5G to the Consolidated Financial Statements as of September 30, 2012.

6. 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 c. 60.61% of Granite's issued and paid-up capital, for the purchase of all of the shares not held by the Offerors, 57,955,689 shares, constituting c. 39.39% of Granite's issued and paid-up capital, in consideration for the sum of 549 Agorot per NIS 1 share of Granite, for a total consideration of c. NIS 318 million. Accordingly, as of the Report Release 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, see also Note 5F to the consolidated financial statements as of September 30, 2012.

E. Event after the Report Period:

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 in the purchase of Clalit's rights in a lot on an area of c. 10 Dunams located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for an amount of NIS 240 million (excluding VAT), linked to the consumer price index. The purchased lot is designated for the construction of a project of c. 75 thousand sqm, comprising office and retail space for lease of c. 58 thousand sqm (c. 48 thousand sqm offices and c. 10 thousand sqm retail), and residential areas of c. 17 thousand sqm.

As of the Report Release Date, the agreement was signed and the Company paid the first installment on account of the consideration in the sum of NIS 48 million.

The handing over of possession of the lot is expected no later than December 31, 2014. However, Clalit may 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.

Annex B

The Group's positions in its derivatives
September 30, 2012

Annex B
The Group's Positions in Derivatives
As of September 30, 2012

The Group's positions in derivatives as of September 30, 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 September 30, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
95,000	NIS	October 2012 – July 2013	616

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 HaCarmels' transactions ended in the reported 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 September 30, 2012:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
31,300	NIS	2014-2016	760

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 September 30, 2012:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
168,200	Dollar	NIS	October-December 2012	(11,381)

The maximum holding of derivatives, during the report period, of all of the purchase positions for purposes of protection of the dollar-NIS exchange rate was US$197,750 thousand, and of the total purchase positions for purposes of protection of the Euro-NIS exchange rate was €3,650 thousand.

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

Annex C

Update- Sensitivity Tests

September 30, 2012

Annex C – Sensitivity Tests

Sensitivity to Changes in Securities' Value as of September 30, 2012

	Profit from changes in the market factor		Fair value of asset	Loss from changes in the market factor		Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	10% Increase	5% Increase		5% Decrease	10% Decrease	
Shares	9,956	4,978	99,552	(4,978)	(9,956)	Market value
Governmental Bonds	14,154	7,077	141,530	(7,077)	(14,154)	Market value
Corporate Bonds	23,016	11,508	230,163	(11,508)	(23,016)	Market value
Participation certificates in trust fund	2,870	1,435	28,700	(1,435)	(2,870)	Market value
Total	49,996	24,998	499,945	(24,998)	(49,996)	

Sensitivity to Rates of Index-Linked Securities as of September 30, 2012

	Profit from changes in the market factor		Fair value of asset	Loss from the changes in the market factor		Manner of Determination of Value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	**2% Increase**	**1% Increase**		**1% Decrease**	**2% Decrease**	
Index linked bonds	3,608	1,804	180,396	(1,804)	(3,608)	Market value
Total	3,608	1,804	180,396	(1,804)	(3,608)	

Annex C – Sensitivity Tests

Sensitivity to Nominal Securities Rates as of September 30, 2012

	Profit from changes in market factor		Fair value of asset	Loss from changes in market factor		Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of Change	**2% Increase**	**1% Increase**		**1% Decrease**	**2% Decrease**	
Bonds	2,292	1,146	114,593	(1,146)	(2,292)	Market value
Shares	1,948	974	97,351	(974)	(1,948)	Market value
Trust Funds	290	145	14,459	(145)	(290)	Market value
Others	44	22	2,199	(22)	(44)	Market value
Total	4,574	2,287	228,602	(2,287)	(4,574)	

Annex D

Reporting according to Linkage Bases

September 30, 2012

(IFRS 7)

Annex D
Reporting according to Linkage Bases
as of September 30, 2012 according to IFRS 7
(NIS in thousands)

	As of September 30, 2012					
	Israeli Currency		Foreign Currency		Other items	
	Non linked	Index linked	Dollar	Other(1)	Others	Total
Current Assets						
Cash and cash equivalents	134,272	-	38,133	13,790	-	186,195
Financial assets held for trade	228,601	180,396	10,611	80,337	-	499,945
Short term deposits and investments	83,522	-	-	-	-	83,522
Trade receivables	1,744,550	19,244	84,269	3,700	-	1,851,763
Accounts receivables	27,737	26,393	29,049	5,319	64,323	152,821
Receivables for work in Progress	7,740	500	23,372	789	-	32,401
Inventory	-	-	-	-	542,715	542,715
Current tax assets	-	-	-	-	27,372	27,372
Total current assets	2,226,422	226,533	185,434	103,935	634,410	3,376,734
Non-current assets						
Investments in equity investees	-	-	-	-	22,718	22,718
Loans to equity investees	14,245	17,525	-	-	-	31,770
Investments and loans	72,898	51,799	37,919	-	27,291	189,907
Limited investments	33,410	21,701	-	-	-	55,111
Financial Assets available for sale	1,315,748	-	-	2,813	-	1,318,561
Financial assets designated at fair value through profit and loss	2,066	-	19,972	-	-	22,038
Long term Receivables in respect of a Franchise Arrangement	122,169	529,969	33,125	79,016	12,594	776,873
The Fuel Administration	-	-	135,133	-	-	135,133
Investment Real Estate and Investment Real Estate under Construction	-	-	-	-	15,567,479	15,567,479
Fixed Assets	-	-	-	-	1,380,338	1,380,338
Intangible assets	-	-	-	-	529,488	529,488
Prepaid Lease Fees and Deferred Expenses	-	-	-	-	40,805	40,805
Deferred Tax Assets	-	-	-	-	54,976	54,976
Total Non-Current Assets	1,560,536	620,994	226,149	81,829	17,635,689	20,125,197
Total assets	3,786,958	847,527	411,583	185,764	18,270,099	23,501,931

(1) Mainly CAD and Euro

Annex D
Reporting according to Linkage Bases
as of September 30, 2012 according to IFRS 7
(NIS in thousands)

(Continued)

	As of September 30, 2012					
	Israeli Currency		Foreign Currency		Other items	
	Non-linked	Index linked	Dollar	Other(1)	Others	Total
Current liabilities						
Credit from banks and other credit providers	1,974,145	1,336,711	150,418	26,601	-	3,487,875
Trade payables	317,698	12,230	506,057	33,797	-	869,782
Account payables	131,698	34,439	37,078	1,093	199,540	403,848
Deposits from customers	-	108,010	-	-	-	108,010
Provisions	-	-	-	-	32,556	32,556
Current taxes liabilities	-	-	-	-	29,640	29,640
Total current liabilities	2,423,541	1,491,390	693,553	61,491	261,736	4,931,711
Non-current liabilities						
Loans from banks and other credit providers	453,644	1,601,497	983,492	62,877	-	3,101,510
Bonds	-	1,583,796	-	-	-	1,583,796
Employee benefits	-	-	-	-	49,806	49,806
Other liabilities	9,937	46,793	6,108	-	187	63,025
Deferred tax liabilities	-	-	-	-	2,289,864	2,289,864
Total non-current liabilities	463,581	2,232,086	989,600	62,877	2,339,857	7,088,001
Total liabilities	2,887,122	4,723,476	1,683,153	124,368	2,601,593	12,019,712
Total exposure in the statement on the financial position	899,836	(3,875,949)	(1,271,570)	61,396	15,668,506	11,482,219

(1) Mainly Euro and Pound Sterling.

Annex E

Financial Statements – expanded Solo
September 30, 2012

Annex E

Extended Standalone Financial Statements

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

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

Balance sheet:

	As of September 30		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	121,071	92,672	145,072
Financial assets held for trade	442,044	1,268,802	1,322,083
Trade account receivable	38,728	31,216	30,101
Other receivables	56,254	50,771	62,139
Current tax Assets	14,910	5,852	6,599
Total Current Assets	673,007	1,449,313	1,565,994
Non-Current Assets			
Investments in investee companies	1,155,694	779,054	767,112
Loans and receivables	58,654	30,041	30,579
Financial assets available for sale	1,259,172	1,348,488	1,256,346
Financial assets designated at fair value through profit and loss	22,038	17,991	16,737
Investment property and investment property under construction	15,486,632	14,285,987	14,766,056
Fixed assets	43,281	44,029	44,909
Deferred tax assets	1,688	1,676	1,723
Total Non-Current Assets	18,027,159	16,507,266	16,883,462
Total Assets	18,700,166	17,956,579	18,449,456

Annex E

Extended Standalone Financial Statements

Balance Sheet: Contd.

	As of September 30		As of December 31
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Equity			
Current Liabilities			
Credit from banks and other credit providers	1,628,220	956,636	1,004,671
Trade payables	60,495	80,368	76,900
Payables and other current liabilities	96,851	68,027	81,013
Current tax liabilities	19,189	22,123	35,019
Total Current Liabilities	1,804,755	1,127,154	1,197,603
Non-Current Liabilities			
Loans from Banks and other credit providers	2,188,075	2,944,358	2,912,228
Bonds	1,014,782	1,088,665	1,074,461
Other liabilities	39,952	38,306	38,229
Employee benefits	15,731	19,513	22,155
Deferred tax liabilities	2,166,624	1,448,329	2,111,119
Total Non-Current Liabilities	5,425,164	5,539,171	6,158,192
Equity			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	145,434	171,602	102,678
Retained earnings	8,723,927	8,525,432	8,394,872
Equity attributed to shareholders of the parent company	11,405,599	11,233,272	11,033,788
Non-controlling interests	64,648	56,982	59,873
Total Capital	11,470,247	11,290,254	11,093,661
Total Liabilities and Capital	18,700,166	17,956,579	18,449,456

Annex E

Extended Standalone Financial Statements

Income Statement:

	For the nine months period ended September 30		For the three months period ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS in thousands	NIS in Thousands	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues					
From rent and management and maintenance fees	1,047,111	912,640	359,351	320,315	1,245,546
Net profit from adjustment to fair value of investment property and investment property under construction	93,283	463,088	2,176	106,761	848,638
Financing income	46,046	2,373	39,689	2,109	4,222
Share in results of associated companies, net of tax	78,171	48,719	37,243	13,702	24,228
Other	7,797	43,152	-	-	44,855
Total Revenues	1,272,408	1,469,972	438,459	442,887	2,167,489
Costs and Expenses					
Cost of revenues from rent and management and maintenance fees	232,775	185,638	83,818	69,467	259,833
Sales and marketing	7,616	1,557	2,147	379	2,480
General and administrative	50,485	48,497	14,907	12,740	70,705
Financing expenses	245,694	330,170	95,662	112,432	369,460
Other	-	31	-	31	34
Total Costs and Expenses	536,570	565,893	196,534	195,049	702,512
Income before Taxes on Income	735,838	904,079	241,925	241,925	1,464,977
Expenses for Taxes on Income	(127,867)	(146,422)	(30,875)	(30,875)	(841,965)
Net Profit for the Period including the Minority	607,971	757,657	211,050	188,360	623,012

PART B

Update - Description of the Corporation's Business

September 30, 2012

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2011 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a specification of material developments which have occurred in the Company's business during the nine months that ended on September 30, 2012 and until the Report Release Date, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided. In this chapter: the "**Report Release Date**" – November 20, 2012; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – September 30, 2012.

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

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

(a) Tender offer for the shares of Granite Hacarmel Investments Ltd.

On September 24, 2012, a full tender offer was accepted, which was released by the Company together with Canit Hashalom Investments Ltd. ("**Canit Hashalom**"), a company controlled by the Company (the Company together with Canit Hashalom will be referred to below as the "**Offerors**"), for the purchase of all of the shares not held by the Offerors, in consideration for the sum of 549 Agorot per NIS 1 share of Granite, for a total consideration of c. NIS 318 million. Accordingly, as of the Report Release Date, the Company holds, through Canit Hashalom, the full share capital and voting rights of Granite, which had become a private company pursuant to Section 339 of the Companies Law and whose shares were delisted from the TASE**.** For details see Note 5 to the Company's financial statements as of September 30, 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 herein by way of reference.

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

(b) **Contingent agreement for the purchase of a power center in Beer Sheva**

On July 23, 2012, the Company entered into a contingent sale agreement for the purchase of the full rights in the power center known as "One Plaza" in Beer Sheva in consideration for a sum total of c. NIS 339.5 million (before V.A.T). The closing of the transaction is conditioned upon approval by the Antitrust Commissioner, and there is no certainty in the closing thereof. For details, see Note 5 to the financial statements as of September 30, 2012 and the Company's immediate report dated July 24, 2012 (reference: 2012-01-192417), which is included herein by way of reference.

(c) **Non-closing of an agreement for the acquisition of an office building in North Caroline, U.S.A.**

On June 13, 2012, the Company engaged in an agreement for the purchase of the full rights to an office building in Charlotte, North Carolina, U.S.A. On July 25, 2012, the Company announced that in accordance with its right according to the purchase agreement, and subsequent to the due diligence investigation for the property, the Company has decided not to consummate the purchase of the office building. Accordingly, the agreement has been terminated and a U.S. $2 million deposit, which has been placed in escrow shortly after execution of the agreement, was returned to the Company. For details, see the Company's immediate reports dated September 14, 2012 and July 25, 2012 (reference: 2012-01-155667 and 2012-01-194148, respectively), which are included herein by way of reference.

(d) **Closing of a transaction for the purchase of the additional 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 wholly owned by the Company ("**Otzma**"), engaged in an agreement whereby Otzma shall purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva, from third parties that are partners therewith in the said property, in consideration for the sum of NIS 48.8 million (plus V.A.T). Otzma closed the transaction on October 23, 2012 (after the Date of the Statement of Financial Position), and as of the Report Release Date, Otzma shall hold 100% of the rights in the property. For further details, see the Company's immediate reports dated May 2, 2012 (reference: 2012-01-113859), October 24, 2012 (reference no. 2012-01-262644), which are included herein by way of reference, and Note 5 to the financial statements as of September 30, 2012.

(e) **Acquisition of an office building in Houston, Texas, USA**

On January 10, 2012, AG Plaza at Enclave, LLC., an American corporation indirectly held by the Company at the rate of 100%, closed the acquisition of an office building in the total area of c. 31,986 sqm (344,296 sqf) and at an occupancy rate of 100% in Houston, Texas, USA, in consideration for a total sum of c. U.S. $107.5 million (in addition to transaction costs which added up to the amount of c. U.S. $544 thousand). For further details regarding the property, its financing and the agreement for the purchase thereof, see the Company's reports dated January 1, 2012 (reference: 2012-01-000444), and January 11, 2012 (reference: 2012-01-012534) which are included herein by way of reference, and Note 5 to the financial statements as of September 30, 2012.

(f) **Non-fulfillment of a condition precedent in the agreements for the acquisition of the rights in the "Ir Yamim" Mall.**

On January 8, 2012, the Company withdrew the merger application which it filed with the Antitrust Authority for approval of the acquisition of the "Ir Yamim" mall in Netanya (the contingent sale agreements for the purchase of which were signed on august 15, 2011 and September 11, 2011), in view of the Company's disagreement with the conditions posed by the Antitrust Authority for the approval of the purchase thereof. Accordingly, the condition precedent for closing the transactions for the acquisition of the mall was not fulfilled.

(g) **Winning a proceeding for the purchase of rights in a lot on Menachem Begin Road in the Tel Aviv Northern Central Business District**

On October 22, 2012, after the Date of the Statement of Financial Position, Clalit Health Services ("**Clalit**") notified the Company that it had decided to approve the Company's bid as the winning bid in the purchase of Clalit's rights in a lot on an area of c. 10 Dunams located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for an amount of NIS 240 million (excluding VAT), linked to the consumer price index. The purchased lot is designated for the construction of a project of c. 75 thousand sqm, comprising office and retail space for lease of c. 58 thousand sqm (c. 48 thousand sqm offices and c. 10 thousand sqm retail), residential areas of c. 17 thousand sqm and c. 1,500 parking spaces. As of the Report Release Date, the agreement was signed and the Company paid the first installment on account of the consideration in the sum of NIS 48 million. For further details see the Company's immediate report dated October 22, 2012 (reference: 2012-01-261381) which is included herein by way of reference, and Note 7 to the financial statements as of September 30, 2012.

2. Investments in the capital of the Company and transactions in the shares thereof

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

On May 7, 2012, Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the Company, transferred 2,728,260 shares of the Company held thereby, without consideration, to a registered charity fund, whose residence is in Canada, and whose assets are intended for donations and for financing philanthropic activity in Israel and in Canada (the "**Foundation**"). It is clarified, that as conveyed to the Company, neither Mr. David Azrieli nor any of his relatives are control holders of the Foundation, and therefore the Foundation shall not be considered an interest holder or controlling shareholder of the Company. As of the Report Date, Nadav Investments holds 71.42% of the Company's share capital. For further details, see immediate report of the Company dated May 8, 2012, as amended on May 10, 2012 (reference no.: 2012-01-120162, 2012-01-122850, respectively), which is included herein by way of reference.

3. Dividends

Update to Section 4.4 of the Description of the Corporation's Business Chapter:

Following the Company's report as of March 22, 2012, on April 30, 2012, the Company paid to its shareholders a total sum of NIS 240 million (1.9790099 per share). For further details, see Section 1.5 of Chapter A of the Board of Directors' Report.

4. Properties under Construction

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

Azrieli Sarona Center

As of the Report Release Date, the Company has completed the obtaining of the approvals required in accordance with the requirements of the building permit for the construction of the basements, and the Company received a building permit for the construction of the basements in the property. As of the Report Release Date, the Company has begun the excavation and shoring work. During the Report Period, an appeal was filed by a third party against the receipt of the building permit for the construction of the basements in the property. After the Date of the Statement of Financial Position, the local committee conditionally approved an application filed by the Company for rezoning under local jurisdiction for deposit for objections, *inter alia*, in connection with the building's height and the re-designation of areas therein. For further details, see Section 1.1.2 of the Board of Directors' Report, Chapter A hereof.

Azrieli Mall Holon

During the Report Period, the Group begun the marketing of the project, and as of the Report Release Date, it signed an agreement for the lease of c. 8,000 sqm in the project's office areas and agreements for the lease of c. 1,500 sqm in the retail space therein. The Group is also negotiating the lease of additional office and retail space.

Azrieli Mall Ramla

The Company is acting for the modification of the zoning plan that applies to the site mainly in connection with addition of service areas for parking and regulation of the loading and unloading area, and for this purpose, the plan documents were deposited with the district committee for hearing the application. As of the Report Date, the Company has begun the project construction works, including the supermarket building, after a permit was received, and a conditional use variance permit for construction of the loading and unloading building was approved. The Company is acting for the fulfillment of the conditions.

Azrieli Mall Rishonim

In February 2012, the district committee decided to approve the plan which applies to the project with no further conditions. The Company is awaiting receipt of the language for announcement of approval of the plan. The Company completed the construction of the temporary parking lot at the site and as of the Report Release Date it received all of the approvals and has started the operation thereof. In addition, a conditional permit for excavation and shoring in the site was approved, and the Company is acting for fulfillment of the conditions.

Azrieli Kiryat Ata

As of the Report Release Date, the Group executed a lease agreement with a food chain in the retail space of the additional building. Furthermore, after the Date of the Statement of Financial Position, the company received a permit for the construction of the office building in the project. After the Date of the Statement of Financial Position, an appeal was filed with the district zoning committee by residents living in proximity to the additional building that the Company is building, as aforesaid, in connection with the Kiryat Ata local zoning committee's decision to approve the plan. The additional building is expected to be completed in 2013, and as of the Report Date, the Company has begun advancing the foundation, excavation and shoring work of the additional building.

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

5. Developments regarding Azrieli Center Tel Aviv

Update to Section 9.2 of the Description of the Corporation's Business Chapter: Azrieli Towers Tel Aviv

(Data according to 100%) (*)	For the quarter ended September 30, 2012	For the quarter ended June 30, 2012	For the quarter ended March 31, 2012	For the year ended December 31, 2011
Property Value (NIS in thousands)	2,525,116	2,523,382	2,485,892	2,484,608
NOI in the period (NIS in thousands)	47,164	46,383	45,332	186,461
Revaluation profit in the period (NIS in thousands)	-	31,829	-	186,655
Average occupancy rate in the period (%)	~100%	~100%	~ 100%	~100%
Rate of return (%)	7.47%	7.35%	7.29%	7.5%
Average rent per sqm per month (NIS) (**)	94	93.5	92	91
Average rent per sqm per month in contracts signed in the period (NIS)	109	97	106	100

(*) The corporation's share in the property – 99.1%. The remaining rights in the property are held by Mr. David Azrieli;
(**) The figure does not include the rent of the hotel which is located in the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month for Q3/2012 would have been c. NIS 90 per sqm; for Q2/2012 c. NIS 90 per sqm, for Q1/2012 NIS 89 per sqm, and for 2011 c. NIS 88 per sqm.

The valuation for this property and details of the valuation were published in the Company's financial statements as of June 30, 2012.

As of the Report Date, Yarden Hotels M.H.Y. Ltd. that operates the hotel which is located in the Square Tower of Azrieli Towers, received a business license for the operation of the hotel, which is valid until December 31, 2013. The business license is subject to the fulfillment of several conditions, including the issuance of a building permit for changes made to the Square Tower until September 1, 2013. As of the Report Date, the Company is acting to complete the conditions related thereto.

6. Developments in the Granite Hacarmel operating segment

a. As aforesaid, after consummation of a full tender offer for the shares of Granite Hacarmel, the Company holds, as at the Report Release Date, the entire share capital and voting rights of Granite Hacarmel, which became a private company according to Section 339 of the Companies Law, and its shares were delisted from the TASE.

b. For general reports of the Company regarding reports released by Granite after the release of the Company's Periodic Report, which are

included herein by way of reference, see the following reports of the Company:

Date of Report	Reference Number
Apr. 4, 2012	2012-01-093981
Apr. 8, 2012	2012-01-098106
Apr. 24, 2012	2012-01-108060
May 16, 2012	2012-01-126747
May 22, 2012	2012-01-131175
May 23, 2012	2012-01-133005
May 31, 2012	2012-01-143886

c. Sonol – Update of the marketing margin - 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 in Gasoline Stations), 5772-2012 was announced, raising the marketing margin for 95 octane gasoline by NIS 0.05, and reducing the full service supplement by NIS 0.04. For details see also the Company's immediate report dated May 31, 2012 (reference no: 2012-01-143886) which is included herein by way of reference, and Note 5 to the financial statements as of September 30, 2012.

d. Tambour becoming a private company: On May 22, 2012, a full tender offer was accepted, which was made by Granite Hacarmel, to purchase all of the shares of Tambour Ltd. ("**Tambour**"), a subsidiary of Granite Hacarmel, at the price of NIS 6 per Tambour share in cash (and for a total consideration of c. NIS 61,260 thousand), and all pursuant to the terms which Granite Hacarmel announced in the aforesaid tender offer. Accordingly, at the Report Date, Granite Hacarmel holds (jointly with Tambour) the entire share capital and voting rights of Tambour, which became a private company according to Section 339 of the Companies Law, and its shares were delisted from the TASE.

For details see the Company's immediate reports dated April 24, 2012 (reference no: 2012-01-108060), May 16, 2012 (reference no: 2012-01-126747) and May 23, 2012 (reference no: 2012-01-133005), which are included herein by way of reference, and Note 5 to the financial statements as of September 30, 2012.

e. For an update in respect of the dismissal without prejudice of class actions against Sonol, see Note 4 to the financial statements as of September 30, 2012.

7. Reportable credit which was provided to the Company

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

In the Report Period the Company paid short term credit from banks in the amount of c. NIS 310 million.

8. Reportable credit which was provided to the companies in the Group (except for Granite Hacarmel)

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

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

9. Payment of commercial papers

Update to Sections 17.5.1.3 and 17.11.2 of the Description of the Corporation's Business chapter:

As provided in the Periodic Report, the Company issued, in January 2012, an additional amount of NIS 65 million rated commercial papers (the "**CP**"), after an expansion by Midroog of the rating framework for this series of CP from NIS 135 million to 200 million. As of September 30, 2012, the balance of the liability due to the issue of rated CP was in the sum of NIS 200 million. For details on the expansion of the rating framework, see the Company's Immediate Report dated January 12, 2012 (reference number: 2012-01-013743) which is included herein by way of reference.

On June 28, 2012, Midroog extended the rating of the CP issued by the Company until June 30, 2013, at a P-1 rating. To secure sufficient liquidity for payment of the CP, the Company undertook to reserve a liquidity balance and signed and unused credit facilities in a sum total of at least NIS 200 million. For details see immediate report dated June 28, 2012 (reference 2012-01-170271), which is included herein by way of reference.

In October 2012, after the Report Date, the Company issued an additional sum of NIS 100 million of unrated CP with an interest rate identical to the existing unrated series. (For details in respect of the interest, see Section 17.5.1.2 of the

Description of the Corporation's Business chapter in the Periodic Report). The principal balance of the unrated CP as of the Report Date is c. NIS 32 million and as of the Report Release Date c. NIS 132 million.

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

Update to Sections 17.5.2 and 17.11.1 of the Description of the Corporation's Business chapter:

During the Report Period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.5.2 of the Description of the Corporation's Business chapter. As of September 30, 2012, the balance of the par value of the Series A Bonds of the Company is NIS 555 million. According to the terms thereof, the final maturity date of the Company's Series A Bonds is March 31, 2017. The remaining details in connection with the Company's Series A Bonds and the payment dates thereof are specified in Section 17.5.2 of the Description of the Corporation's Business chapter.

On June 30, 2012, Midroog reapproved the rating of the Company's Series A Bonds, at Aa2 with a stable outlook. To review Midroog's annual follow-up report, see the Company's report dated June 28, 2012 (reference: 2012-01-170247), which is included herein by way of reference.

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

Update to Sections 17.6.1 and 17.11.3 of the Description of the Corporation's Business chapter:

In the Report Period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.6.1 of the Description of the Corporation's Business chapter. As of September 30, 2012, the balance of the par value of the Series A Bonds of Canit Hashalom is c. NIS 365 million. According to the terms thereof, the final maturity date of the Series A Bonds of Canit Hashalom is June 30, 2015. The remaining details in connection with the Series A Bonds of Canit Hashalom and the payment dates thereof are specified in Section 17.6.1 of the Description of the Corporation's Business chapter.

On June 28, 2012, Midroog reapproved the rating of the Series A Bonds of Canit Hashalom, at Aa2 with a stable outlook. To review Midroog's annual follow-up report, se the Company's report dated June 28, 2012 (reference: 2012-01-170442), which is included herein by way of reference.

12. Cancellation of inter-company guarantee

Update to Section 17.3.3 of the Description of the Corporation's Business chapter:

In November 2012, IC's guarantee to Bank Leumi Le-Israel Ltd. to secure the liabilities of Urban A.A.R. Ltd. to the bank, was cancelled.

13. Environment Protection – Azrieli Akko Mall

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

The hearing of the Israel Ministry of Environmental Protection's appeal regarding the Azrieli Akko Mall was held on May 9, 2012, and it was determined therein that the Strauss plant shall present to the Israel Ministry of Environmental Protection (the "**Ministry**") risk reduction scenarios for its environment as the Ministry ordered in the context of the conditions of the poison permit issued to the plant, and that the Israel Ministry of Environmental Protection shall submit its official position on the matter to the Appeals Committee until August 1, 2012. On August 1, 2012, the Ministry of Environmental Protection submitted its position to the Appeals Committee, from which it emerges that as at such date the Strauss plant had not submitted a risk evaluation to the Ministry of Environmental Protection in relation to public receptors in the vicinity thereof or a plan for the reduction of these risks. For the purpose of determining its position on the appeal, the Ministry performed an independent risk evaluation, pursuant whereto – so the Ministry contends – it is not possible to reduce the existing risks posed by the plant such that they will meet the acceptability criterion for each public receptor in the plant's vicinity, as provided in the Ministry's policy, and in these circumstances the Ministry is standing by the appeal. On August 6, 2012, the City of Akko submitted a notice to the Appeals Committee to the effect that the Ministry's position is laconic and unsubstantiated, including in connection with the risk evaluation that formed the basis for its position. In response, the Appeals Committee determined dates for submitting a detailed response of the Ministry of Environmental Protection and for receipt of the City's position and thereafter for receipt of the other parties' position (including the Company and plant). Shortly before the Report Release Date, the position of the Ministry of Environmental Protection was received, whereby if the plant installs various means listed in the response, the risk will become acceptable.

14. Business Licensing

Update to Section 20.1.7 of the Periodic Report

Azrieli Haifa Mall – A permanent business license for the mall, valid until April 1, 2013, was received.

Azrieli Ayalon Mall - The temporary license was extended until December 31, 2012.

PART C

Financial Statements

September 30, 2012

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as at September 30, 2012

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

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

Introduction
We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "Group") which include the Condensed Consolidated Statement of Financial Position as at September 30, 2012, and the Condensed Consolidated Statements of Comprehensive Income, of Changes in Capital and of Cash Flows for the periods of nine and three months then ended. The board of directors and management are responsible for the preparation and presentation of financial information for these interim periods in accordance with international accounting standard IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion of financial information for these interim periods, based on our review.

We did not review the condensed financial information for the interim periods of consolidated companies whose assets included in the consolidation comprise c. 24% of all the consolidated assets as at September 30, 2012 and whose revenues included in the consolidation comprise c. 83% and c. 84%, respectively, of all the consolidated revenues for the periods of nine and three months then ended. Moreover, we did not review the condensed financial information for the interim periods of associated companies, the investment in which is c. NIS 54,488 thousand as at September 30, 2012 and the Group's share in the results thereof is c. NIS 10,777 thousand and c. NIS 4,103 thousand, respectively, for the periods of nine and three months then ended. The condensed financial information for the interim periods of those companies were reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors**.**

Scope of the review
We performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of interim financial information prepared by the entity's auditor". The review of the interim financial information comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is considerably more limited in scope than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

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

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

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

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, November 20, 2012

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As at September 30		As at December 31,
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current assets			
Cash and cash equivalents	186,195	138,781	224,430
Financial assets held for trade	499,945	1,333,298	1,401,786
Short-term deposits and investments	83,522	70,799	84,271
Trade accounts receivable	1,851,763	1,810,002	1,719,764
Other receivables	152,821	139,240	144,684
Receivables for work in progress	32,401	33,279	32,649
Inventory	542,715	441,492	439,933
Current tax assets	27,372	20,706	24,626
Total current assets	3,376,734	3,987,597	4,072,143
Non-current assets			
Investments in associated companies	22,718	13,698	13,140
Loans to associated companies	31,770	35,687	33,080
Investments, loans and receivables	189,907	129,804	122,126
Restricted investments	55,111	50,733	50,930
Financial assets available for sale	1,318,561	1,385,596	1,305,184
Financial assets designated at fair value through profit and loss	22,038	17,991	16,737
Long-term receivables in respect of franchise arrangement	776,873	526,326	534,596
The Fuel Administration	135,133	129,048	132,720
Investment property and investment property under construction	15,567,479	14,358,246	14,839,570
Fixed assets	1,380,338	1,399,272	1,427,028
Intangible assets	529,488	545,731	540,406
Prepaid long-term rent	40,805	37,367	36,603
Deferred tax assets	54,976	49,325	55,450
Total non-current assets	20,125,197	18,678,824	19,107,570
Total assets	23,501,931	22,666,421	23,179,713

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As at September 30		As at Dec. 31
	2012	2011	2011
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	3,487,875	2,356,680	2,445,422
Trade payables	869,782	784,115	854,724
Payables and other current liabilities	403,848	371,314	385,849
Deposits from customers	108,010	105,925	105,995
Provisions	32,556	31,086	29,288
Current tax liabilities	29,640	30,393	42,107
Total current liabilities	4,931,711	3,679,513	3,863,385
Non-current liabilities			
Loans from banks and other credit providers	3,101,510	3,860,112	3,757,837
Bonds	1,583,796	1,730,496	1,706,726
Employee benefits	49,806	55,286	59,312
Other liabilities	63,025	101,721	100,122
Deferred tax liabilities	2,289,864	1,536,597	2,228,273
Total non-current liabilities	7,088,001	7,284,212	7,852,270
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	145,434	171,602	102,678
Retained earnings	8,723,927	8,525,432	8,394,872
Total equity attributed to the shareholders of the parent company	11,405,599	11,233,272	11,033,788
Non-controlling interests	76,620	469,424	430,270
Total capital	11,482,219	11,702,696	11,464,058
Total Liabilities and capital	23,501,931	22,666,421	23,179,713

November 20, 2012			
Date of approval of the financial statements	**David Azrieli** **Chairman of the Board**	**Shlomo Sherf** **CEO**	**Yuval Bronstein** **CFO**

Azrieli Group Ltd.

Condensed Consolidated Statements of Comprehensive Income

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended Dec. 31
	2012	2011	2012	2011	2011
	NIS thousands		NIS thousands		NIS thousands
	(Unaudited)		(Unaudited)		
Revenues					
From sales, labor and services	5,772,191	4,623,034	1,956,519	1,608,347	6,291,304
From rent and management and maintenance fees	1,055,865	920,225	362,382	322,904	1,255,966
Net profit from adjustment to fair value of investment property and investment property under construction	99,003	462,364	1,883	106,223	848,859
Financing income	117,299	72,335	53,788	21,756	101,661
Other	12,416	53,894	195	1,513	54,608
Total revenues	7,056,774	6,131,852	2,374,767	2,060,743	8,552,398
Costs and Expenses					
Costs of revenues from sales, labor and services	4,875,308	3,788,350	1,625,500	1,333,889	5,205,350
Costs of revenues from rent, management and maintenance fees	238,150	190,534	85,760	71,195	266,842
Sales and marketing	581,025	573,819	196,264	201,720	764,650
General and administrative	156,520	144,009	53,498	40,656	200,288
Share in results of associated companies, net of tax	10,777	13,169	4,103	3,443	17,512
Financing expenses	433,305	500,229	156,199	156,578	591,159
Other	1,729	3,200	1,263	964	7,504
Total costs and expenses	6,296,814	5,213,310	2,122,587	1,808,445	7,053,305
Income before taxes on income	759,960	918,542	252,180	252,298	1,499,093
Expenses for taxes on income	(151,989)	(160,885)	(41,130)	(63,938)	(876,081)
Net profit for the period	607,971	757,657	221,050	188,360	623,012
Other comprehensive income (loss), net of tax					
Change in fair value of financial assets available for sale, net of tax	13,639	(356,227)	91,110	(235,085)	(431,783)
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(2,769)
The effective share of the change in the fair value of the cash flow hedge, net of tax	(373)	-	466	-	(143)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	(94)	-	(69)	-	88
Translation differences from foreign operations	13,423	7,366	(1,535)	22,118	15,917
Other comprehensive income (loss) for the period, net of tax	26,595	(348,861)	89, 972	(212,967)	(418,690)
Total comprehensive income (loss) for the period	634,566	408,796	301,022	(24,607)	204,322

The Azrieli Group Ltd.

Condensed Consolidated Statements of Comprehensive Income
(Continued)

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended Dec. 31
	2012	2011	2012	2011	2011
	NIS thousands (Unaudited)		NIS thousands (Unaudited)		NIS thousands
Net profit for the period attributed to:					
shareholders of the parent company	569,055	724,772	194,021	179,464	595,854
non-controlling interests	38,916	32,885	17,029	8,896	27,158
	607,971	757,657	211,050	188,360	623,012
Total comprehensive income (loss) for the period attributed to:					
shareholders of the parent company	590,834	374,579	283,541	(36,169)	173,098
non-controlling interests	43,732	34,217	17,481	11,562	31,224
	634,566	408,796	301,022	(24,607)	204,322
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributed to shareholders of the parent company	4.69	5.98	1.60	1.48	4.91
Average weighted share capital used in calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the period of nine months ended September 30, 2012										
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve from transactions with related parties	Capital reserve from purchase of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2012	18,223	2,518,015	138,608	(3,220)	(30,921)	-	(1,789)	8,394,872	11,033,788	430,270	11,464,058
Net profit for the period	-	-	-	-	-		-	569,055	569,055	38,916	607,971
Change in fair value of available for sale financial assets, net of tax	-	-	10,175	-	-	-	-	-	10,175	3,464	13,639
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(225)	-	(225)	(148)	(373)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	(54)	-	(54)	(40)	(94)
Translation differences from foreign operations	-	-	-	11,883	-	-	-	-	11,883	1,540	13,423
Total comprehensive income for the period	-	-	10,175	11,883	-	-	(279)	569,055	590,834	43,732	634,566
Dividend to the 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 a consolidated company	-	-	-	-	-	21,548	-	-	21,548	(401,440)	(379,892)
Sale of shares in a consolidated company	-	-	-	-	-	-	(508)	-	(508)	917	409
Issuance to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	2,850	2,850
Capital reserve from transactions with related parties	-	-	-	-	(5)	-	-	-	(5)	5	-
Total transactions with shareholders of the Company	-	-	-	-	(5)	21,548	(566)	(240,000)	(219,023)	(397,382)	(616,405)
Balance as at September 30, 2012	18,223	2,518,015	148,783	8,663	(30,926)	21,548	(2,634)	8,723,927	11,405,599	76,620	11,482,219

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the period of nine months ended September 30, 2011									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve from transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
	(Unaudited)									
Balance as of January 1, 2011	18,223	2,518,015	573,325	(16,850)	(31,000)	(1,432)	8,040,660	11,100,941	423,896	11,524,837
Net profit for the period	-	-	-	-	-	-	724,772	724,772	32,885	757,657
Change in fair value of available for sale financial assets, net of tax	-	-	(356,227)	-	-	-	-	(356,227)	-	(356,227)
Translation differences from foreign operations	-	-	-	6,034	-	-	-	6,034	1,332	7,366
Total comprehensive income for the period	-	-	(356,227)	6,034	-	-	724,772	374,579	34,217	408,796
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(2,076)	-	(2,076)	(591)	(2,667)
Dividend to the shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	17,682	17,628
Dividend to holders of non- controlling interests	-	-	-	-	-	-	-	-	(5,898)	(5,898)
Capital reserve from transactions with related parties	-	-	-	-	(172)	-	-	(172)	172	-
Total transactions with shareholders of the Company	-	-	-	-	(172)	(2,076)	(240,000)	(242,248)	11,311	(230,937)
Balance as at September 30, 2011	18,223	2,518,015	217,098	(10,816)	(31,124)	(3,508)	8,525,432	11,233,272	469,424	11,702,696

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the period of three months ended September 30, 2012										
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve from transactions with related parties	Capital reserve from purchase of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of July 1, 2012	18,223	2,518,015	57,673	10,488	(30,925)	(159)	(2,869)	8,529,906	11,100,352	399,032	11,499,384
Net profit for the period	-	-	-	-	-	-	-	194,021	194,021	17,029	211,050
Change in fair value of available for sale financial assets, net of tax	-	-	91,110	-	-	-	-	-	91,110	-	91,110
The effective share of the change in the fair value of cash flow hedge, net of tax	-	-	-	-	-	-	276	-	276	190	466
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	(41)	-	(41)	(28)	(69)
Translation differences from foreign operations	-	-	-	(1,825)	-	-	-	-	(1,825)	290	(1,535)
Total comprehensive income for the period	-	-	91,110	(1,825)	-	-	235	194,021	283,541	17,481	301,022
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	21,707		-	21,707	(339,894)	(318,187)
Capital reserve from transactions with related parties	-	-	-	-	(1)	-		-	(1)	1	-
Total transactions with shareholders of the Company	-	-	-	-	(1)	21,707		-	21,706	(339,893)	(318,187)
Balance as at September 30, 2012	18,223	2,518,015	148,783	8,663	(30,926)	21,548	(2,634)	8,723,927	11,405,599	76,620	11,482,219

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the period of three months ended September 30, 2011									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve from transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
	(Unaudited)									
Balance as of July 1, 2012	18,223	2,518,015	452,183	(30,268)	(31,124)	(3,508)	8,345,968	11,269,489	457,466	11,726,955
Net profit for the period	-	-	-	-	-	-	179,464	179,464	8,896	188,360
Change in fair value of available for sale financial assets, net of tax	-	-	(235,085)	-	-	-	-	(235,085)	-	(235,085)
Translation differences from foreign operations	-	-	-	19,452	-	-	-	19,452	2,666	(22,118)
Total comprehensive income (loss) for the period	-	-	(235,085)	19,452	-	-	179,464	(36,169)	11,562	(24,607)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	348	348
Capital reserve from transactions with related parties	-	-	-	-	(48)	-	-	(48)	48	-
Total transactions with shareholders of the Company	-	-	-	-	(48)	-	-	(48)	396	348
Balance as at September 30, 2011	18,223	2,518,015	217,098	(10,816)	(31,172)	(3,508)	8,525,432	11,233,272	469,424	11,702,696

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

	For the year ended December 31, 2011									
	Share capital	Premium on shares	Revaluation reserve of financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve from transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands									
Balance as of January 1, 2011	18,223	2,518,015	573,325	(16,850)	(31,000)	(1,432)	8,040,660	11,100,941	423,896	11,524,837
Net profit for the year	-	-	-	-	-	-	595,854	595,854	27,158	623,012
Change in the fair value of available for sale financial assets, net of tax	-	-	(434,717)	-	-	-	-	(434,717)	2,934	(431,783)
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	(1,642)	(1,642)	(1,127)	(2,769)
Translation differences from foreign operations	-	-	-	13,630	-	-	-	13,630	2,287	15,917
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	(72)	-	(72)	(71)	(143)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	45	-	45	43	88
Total comprehensive income for the year	-	-	(434,717)	13,630	-	(27)	594,212	173,098	31,224	204,322
Acquisition of non-controlling interests in consolidated companies	-	-	-	-	-	(330)	-	(330)	(36,501)	(36,831)
Non-controlling interests in a consolidated company	-	-	-	-	-	-	-	-	17,628	17,628
Dividend to shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	(5,898)	(5,898)
Capital reserve from transactions with related parties	-	-	-	-	79	-	-	79	(79)	-
Total transactions with shareholders of the Company	-	-	-	-	79	(330)	(240,000)	(240,251)	(24,850)	(265,101)
Balance as at Dec. 31, 2011	18,223	2,518,015	138,608	(3,220)	(30,921)	(1,789)	8,394,872	11,033,788	430,270	11,464,058

Azrieli Group Ltd.

Condensed Consolidated Cash Flow Statements

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS thousands				
	(Unaudited)				
Cash Flows - Current Operations					
Net profit for the period	607,971	757,657	211,050	188,360	623,012
Depreciation and amortization	94,175	104,470	31,816	34,494	134,680
Impairment of fixed and intangible assets	-	-	-	-	1,620
Impairment of investments and loans in associated companies	-	73	-	-	73
Net profit from adjustment to fair value of investment property and investment property under construction	(99,003)	(462,364)	(1,883)	(106,223)	(848,859)
Financing and other expenses, net	309,814	273,958	128,631	80,689	314,290
Impairment of available for sale financial assets	1,516	-	1,263	-	1,496
Dividend received from available for sale financial assets	8,379	44,346	-	885	44,564
Interest and dividend received from financial assets held for trade	33,026	57,168	5,811	11,273	68,642
Loss (profit) from realizing fixed assets, investment property and intangible assets, net	(2,544)	(1,755)	304	(434)	1,610
Share in losses of associated companies accounted by the equity method	10,777	13,169	4,103	3,443	17,512
Change in recording of benefit in respect of share-based payment	(7,537)	(774)	(7,945)	(5,581)	(449)
Tax expenses recognized in the income statement	151,989	160,885	41,130	63,938	876,081
Change in financial assets held for trade	901,841	977,125	276,209	21,469	908,637
Income taxes paid, net	(106,140)	(85,995)	(30,041)	(10,730)	(103,092)
Revaluation of balance of the Fuel Administration	(3,044)	(5,479)	369	(10,005)	(9,151)
Revaluation of financial assets designated at fair value through profit and loss	(1,696)	757	(592)	(16)	1,443
Change in inventory	(102,680)	(95,297)	(59,200)	(35,853)	(93,436)
Change in trade and other receivables	(184,482)	(523,003)	109,068	(245,341)	(415,950)
Change in receivables in respect of franchise arrangement	(235,671)	942	(138,389)	1,827	(8,529)
Change in trade and other payables	72,689	110,410	(14,663)	65,270	179,144
Change in provisions and employee benefits	499	(3,207)	(1,220)	(2,298)	(6,435)
Net cash - current operations	1,449,879	1,323,086	555,821	55,167	1,686,903

Azrieli Group Ltd.

Condensed Consolidated Cash Flow Statement
(Continued)

	For the period of three months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS thousands				
	(Unaudited)				
Cash flows - investment activities					
Proceeds from liquidation of fixed and intangible assets	2,722	2,582	738	1,451	4,234
Proceeds from realization of investment property	220	-	220	-	-
Fuel Administration realization	631	-	-	-	-
Purchase and investment in investment property and investment property under construction	(622,921)	(1,627,470)	(53,256)	(155,763)	(1,707,785)
Institutions due to acquisition of property	-	-	-	83,520	-
Purchase of fixed and intangible assets	(133,347)	(102,840)	(27,172)	(28,632)	(148,355)
Investment in and granting of loans to associated companies	(14,502)	(19,322)	(648)	(4,752)	(20,123)
Change in short-term deposits	812	(21,652)	12,492	(9,235)	(35,942)
Change in restricted investments	(3,010)	(140)	(2,854)	(42)	(8)
Receipt (payment) for settlement of derivative financial instruments, net	4,523	(575)	(6,166)	22,271	18,568
Investment refund (investment) in financial assets designated at fair value through profit and loss, net	(3,605)	(1,340)	(481)	2,124	(1,674)
Granting long-term loans	(19,351)	(8,343)	(6,294)	(1,956)	(8,343)
Collection of long-term loans	10,550	24,202	2,815	10,407	29,836
Interest received	33,174	28,245	12,899	9,495	38,178
Net cash - investment activities	(744,104)	(1,726,653)	(67,707)	(71,112)	(1,831,414)

Azrieli Group Ltd.

Condensed Consolidated Cash Flow Statements
(Continued)

	For the period of three months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
	NIS thousands				
	(Unaudited)				
Cash flows - financing activities					
Distribution of a dividend to shareholders	(240,000)	(240,000)	-	-	(240,000)
Repayment of bonds	(160,174)	(176,330)	(42,193)	(40,943)	(197,313)
Receipt of long-term loans from banks	518,161	859,864	115,336	55,832	873,198
Repayment of long-term loans from banks	(362,190)	(507,030)	(114,470)	(86,560)	(594,883)
Short-term credit from banks and others, net	141,111	697,811	(34,309)	144,229	773,333
Repayment of deposits from customers	(1,365)	(2,444)	(107)	(507)	(2,970)
Deposits from customers that were received	2,156	4,877	682	1,994	5,388
Acquisition of non-controlling interests (including loans)	(343,983)	(2,715)	(282,171)	(410)	(65,093)
Dividend to holders of non-controlling interests	-	(5,898)	-	-	(5,898)
Proceeds from issue of shares in a consolidated company to holders of non-controlling interests	2,850	9,337	-	371	9,337
Proceeds from the exercise of options for shares by employees in a	228	-	-	-	-

consolidated company					
Proceeds from sale of shares of a consolidated company	402	-	-	-	-
Interest paid	(301,239)	(271,943)	(102,938)	(90,533)	(364,085)
Net cash - financing activities	(744,043)	365,529	(460,170)	(16,527)	191,014
Increase (decrease) in cash and cash equivalents	(38,268)	(38,038)	27,944	(32,472)	46,503
Cash and cash equivalents at beginning of the period	224,430	177,858	159,204	172,112	177,858
Effect of changes in the rates of exchange on cash balances held in foreign currency	33	(1,039)	(953)	(859)	69
Cash and cash equivalents at end of the period	186,195	138,781	186,195	138,781	224,430

Note 1 – General

a. General description of the Company and its operations:

Azrieli Group Ltd. (the "Company" and/or the "Group") is an Israeli resident company which was incorporated in Israel and its registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the "Tel Aviv 25" index. The Group's consolidated financial statements as at September 30, 2012 include those of the Company and of its subsidiaries (jointly, the "Group"), and the Group's rights in associated companies and jointly controlled entities.

The Company is held at the rate of c. 71.4% (until the IPO of the Company the Company was held at the rate of 100%) by Nadav Investments Inc. (the "Parent Company") a private company incorporated under Canadian Law, wholly owned and controlled by Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is wholly owned and controlled by Mr. David Azrieli, Chairman of the Company's Board, who holds therein directly and indirectly, c. 39% of the issued and paid up capital, and his son who holds c. 14% and his three daughters each holding directly and indirectly, c. 16% of the issued and paid up capital.

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

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

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

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

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

(4) Granite Hacarmel Investments Ltd. ("Granite"). Granite is an Israeli resident company which is incorporated in Israel and whose securities were listed on the TASE. As of the Report Release Date, Granite is a private company. For details about the tender offer see Note 5F below.

Granite and its consolidated companies engage primarily in:

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

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

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

- Engineering planning, manufacture and operation of water desalination plants and systems, for improvement and purification of water and for waste treatment, full ownership of the "Via Maris" desalination facility in Palmachim.

Note 2 – Significant accounting principles

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

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

In the preparation of these Interim Financial Statements the Group has implemented the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of the financial statements as at December 31, 2011 and for the year then ended.

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

b. Use of estimates and discretion:

In the preparation of the condensed financial statements in accordance with IFRS, the Group's managements are required to use discretion, evaluations, estimates and assumptions which affect the implementation of the policy and the amounts of assets and liabilities, revenues and expenses. It should be clarified that the actual results are liable to be different from these estimates.

The evaluations and discretion that the management used in order to implement the accounting policy and the preparation of consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as at December 31, 2011.

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

To implement the standards, the amendments to the standards and the new clarifications, which are in force, which can be seen in Note 2(ao) to the consolidated financial statements as at December 31, 2011 have no significant effect on these condensed Interim Financial Statements;

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

For information regarding the start dates, the transition provisions and the expected effects on the Company of the standards, the amendments to the standards and the interpretations specified below, see Note 2ao to the annual financial statements of the Company as of December 31, 2011 and for the year ended on the same date:

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

Note 2 – Significant accounting principles (Cont.)

Amendment of IAS 1 (Amended) "Presentation of Financial Statements"
In the context of the amendment it was prescribed that in cases where an entity applies an accounting policy retrospectively and/or makes a representation and/or a reclassification of items in its financial statements, which significantly affect the statement of the financial position for the beginning of the period preceding the reporting year, it must present a statement of the financial position for such date. In addition, it was clarified in the context of the amendment that companies are not required to present notes regarding such additional statement of the financial position. The amendment will apply retrospectively to annual reporting periods beginning on January 1, 2013 or thereafter. An early application is possible.

Amendment of IAS 16 "Property, Plant and Equipment"
The amendment prescribes that spare parts, stand-by equipment and servicing equipment which comply with the definition of property, plant and equipment in IAS 16 will be presented in accordance with the provisions thereof, and such items which do not comply with this definition will be presented in accordance with the provisions of IAS 2 "Inventories". In the context of this amendment, the directive according to which, spare parts and servicing equipment that can be used only in connection with an item of property, plant and equipment will be classified as property, plant and equipment, was cancelled. This amendment will apply retrospectively to annual reporting periods beginning on January 1, 2013 or thereafter. An early application is possible.

Amendment of IAS 32 "Financial Instruments: Presentation"
The amendment clarifies that taxes on income for distributions to holders of equity instruments and for costs of an equity transaction will be treated in accordance with the provisions of IAS 12 "Income Taxes" and not pursuant to previous directives of the standard according to which income taxes applying at the time of a distribution will be carried directly to equity. The amendment applies retrospectively to annual reporting periods beginning on January 1, 2013 or thereafter. An early application is possible.

e. Rates of exchange and linkage basis:

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

(2) Balances that are linked to the consumer price index are presented according to the last known index on the Date of the Statement of Financial Position (the index for the month preceding the month of the date of the financial statements) or according to the index for the last month of the Report Period (the index for the month of the month of the date of the financial statements) according to the terms of the transaction.

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

Note 2 – Significant accounting principles (Cont.)

	Representative exchange rate of the			Israeli Index	
	Euro (1 euro = NIS)	Canadian dollar (1 Can dollar = NIS)	US dollar 1 US dollar = NIS)	"For" Basis 1993	"Known" Basis 1993
Date of the financial statements:					
September 30, 2012	5.065	3.995	3.912	220.84	220.84
September 30, 2011	5.044	3.642	3.712	216.27	216.68
December 31, 2011	4.938	3.739	3.821	216.27	216.27
Rates of change for the period of:	%	%	%	%	%
nine months ended:					
September 30, 2012	2.57	6.85	2.38	2.11	2.11
September 30, 2011	6.45	2.44	4.59	2.17	2.75
three months ended:					
September 30, 2012	2.69	4.45	(0.28)	1.14	0.85
September 30, 2011	2.02	3.08	8.70	-	0.58
For the year ended:					
December 31, 2011	4.23	5.19	7.66	2.17	2.55

Note 3 – Additional information to the cash flow statement

The following is additional information to the cash flow statement regarding non-cash transactions:

	For the period of nine months ended September 30		For the year ended December 31,
	2012	2011	2011
	NIS in thousands	NIS in thousands	NIS in thousands
	Unaudited		
Non-cash transactions:			
Payables for the purchase on credit of non-current assets	24,151	58,334	72,293
Receivables for the sale on credit of fixed assets and investment property	2,380	850	850
Receivables for the sale of a financial asset	5,319	-	7,337
Payables for purchase of non-controlling interests	36,010	-	100

Note 4 – Contingent liabilities

Following are details regarding new claims received, claims which were ended and significant changes in claims, if any. In the remainder of the claims there was no significant change as of the audited financial statements as of December 31, 2011 (see Note 36 to the annual financial statements).

a. Claims against Sonol of IDF disabled veterans operating gasoline stations in as part of an arrangement between the IDF disabled veterans, the Ministry of Defense, 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 c. NIS 80 million.	5 claims by IDF disabled veterans (and one 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 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 Sonol's legal counsel, that its chances are higher than 50%, but that the court will not award the Plaintiffs the full monetary remedy request. Sonol has made a provision, in the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's management and legal counsel, reflects the expected costs due to this claim.

b. Claims filed against Sonol (not by IDF disabled veterans) in claims of a restrictive arrangement

The parties	Amount of claim	Nature of claim	Prospects of claim
2 claims against Sonol	Claims for declaratory relief and for monetary relief totalling c. NIS 17.5 million	2 claims of gasoline stations operators. One claim for declaratory relief, concerning the Termination of the series of agreements between the parties for being a prohibited restrictive arrangement and/or standard form contract with oppressive clauses; and another claim, seeking in addition monetary remedy for alleged discrimination of the plaintiffs compared with other Sonol gasoline stations operators, and in respect of exorbitant and excessive commercial conditions relative to the "market prices" of oil products in other companies, which, as the plaintiffs allege, Sonol charged them within the restrictive arrangement, thus having gained unjust enrichment.	In May and September 2012, the court approved settlement agreements between the parties in both of the claims described herein. A provision has been made for the full pecuniary amounts, as agreed between the parties.

Note 4 – Contingent liabilities (Cont.)

c. Class actions

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

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol and other fuel companies	The relief claimed is declaratory relief to order the fuel companies to cease raising charges for fuel not supplied, and a monetary claim totalling c. NIS 124 million, with the proportional share of Sonol being c. NIS 24 million.	A claim and a motion for class certification of October 2009, concerning the plaintiff's claim whereby the fuel companies require the customers when refuelling at the automatic refuelling pumps, with the meter starting to operate and charge the customers even before fuel had come out of the pumps. The plaintiff alleges that with this conduct, the refuelling companies breached their obligations vis-à-vis their customers and the provisions of the Competition Law, and caused a number of civil torts.	The parties filed a motion for approval of the settlement with the court, which has not been approved by the court at this stage. The court appointed an additional expert to examine the reasonableness of the situation contemplated in the class action, subsequent to which it shall consider the approval of the settlement. In the Company's estimation, based on Granite's management, which is based on Sonol's management, based on the legal counsel thereof, insofar as the settlement is not approved, chances of the class certification motion being accepted are higher than 50%. In Sonol's management's estimation, a sufficient provision is included in the financial statements thereof.
2. Claim against Sonol and other fuel companies	A claim in the total estimated sum of c. NIS 200 million.	A claim and a motion for class certification of December 2010. The Plaintiffs claim that the companies violated the law pertaining to water pollution and caused pollution of groundwater and damage. The action was filed following an indictment against the company and three other fuel companies.	In October 2012, after the Date of the Financial Statements, the court dismissed the claim with prejudice and the motion for class certification was dismissed, without an order for expenses.
3. Claim against Sonol and other fuel companies	A Claim in the total estimated sum of c. NIS 66.7 million (Sonol's share).	A claim and a motion for class certification of December 2010. The motion concerns a claim that the fuel companies have breached and still breach Sections 2-4 of the Consumer Protection Law, 5741-1981, by misleading consumers with respect to the nature, quantity and quality of the fuels they sell, and by not advertising the fact that the fuels sold thereby are sold at ambient temperature, whereas when sold they are calculated according to a temperature of 15 degrees Celsius. As claimed by them, the fuel companies received, without any lawful right, money for a product they sold while misleading consumers, and have therefore gained unjust enrichment, contrary to the provisions of Section 1 of the Unjust Enrichment Law, 5739-1979.	In November 2012, after the date of the statements, the plaintiffs announced their withdrawal of the motion for class certification, with no order for costs.

Note 4 – Contingent liabilities (Cont.)

4.	Claim against Sonol	A claim in the total sum of c. NIS 899 million, as estimated by the Plaintiff.	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 consumers using the Dalkan system) a higher price for diesel oil purchase than the one customary in stations and that it restrained the Dalkan customers and they are therefore entitled to restitution of monies from Sonol.	In the Company's estimation, based on the estimation of Granite's management, based on Sonol's legal counsel, 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 payment from customers, who are engaged therewith in a Dalkan agreement, for "Night", "Saturday" or "Holiday" extras, even when the said customers use the self-service fuelling pumps without receiving service from the station workers, unlike "walk-in" customers who use the self-service fuelling pumps.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the chances of the claim and motion being accepted are estimated at more than 50%, the Company's estimation being, based on Granite's estimation, in reliance on Sonol's legal counsel that Sonol shall not be liable for a material amount beyond the provision recorded. In October 2012, after the date of the financial statements, Sonol signed a settlement, whereby it shall pay a non-material amount to conclude the claim. The settlement has been filed for the court's approval and the court's approval has not been granted yet.
6.	Claim against a Sonol subsidiary	A claim in the amount of NIS 6 million	Claim and motion for class certification of September 2011. The action concerns a claim that Sonol's subsidiary is in breach of its duty pursuant to the Consumer Protection Regulations (Price per Measurement Unit), 5768-2008 to mark the prices of the products sold in its stores per measurement unit, in addition to the price of the product. It shall be stated that the alleged breach pertains to stores whose floor area exceeds 100 sqm.	In February 2012, the claim was concluded in a settlement which was approved by the court, whereby the subsidiary was charged a non-material amount.
7.	Claim against Sonol and a subsidiary of Sonol	A claim in the sum of c. NIS 42.5 million.	A claim and a motion for class certification of November 2011. The action concerns a claim of overcharging for self- service fuelling, such that when the customer uses the pump designated for self service and pays in cash, he is charged for full service.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the chances of the claim and motion are lower than 50%.
8.	Claim against Sonol	A claim in the amount of c. NIS 1 billion.	A claim and a motion for class certification of November 2011. The action concerns the claim that Sonol charged the Dalkan customers, for fuels, significantly higher prices than the prices that it charges from its "walk-in" customers, who are not engaged in a Dalkan agreement therewith, and that such charge is against the law.	In the Company's estimation, based on Granite's management estimation, in reliance on Sonol's legal counsel, the chances of the claim being accepted are lower than 50%.

Note 4 – Contingent liabilities (Cont.)

9. Claim against Sonol and a consolidated company of Sonol	A claim and a motion for class certification in the amount of NIS 50 million.	A claim and a motion for class certification of August 2012, claiming that Sonol breached its duties to maintain sanitary conditions in stations.	In the Company's estimation, based on the estimation of Granite's management, based on the legal counsel thereof, at this preliminary stage, the claim's chances cannot be estimated.
10. Claim against a consolidated company of Sonol	A claim and a motion for class certification in the amount of NIS 5 million.	A claim and a motion for class certification of October 2012, claiming that a consolidated company of Sonol breached the duty to mark the prices of tobacco products (cigarettes) sold thereby, as prescribed by law.	In the Company's estimation, based on the estimation of Granite's management, based on the legal counsel of Sonol, at this preliminary stage, the claim's chances cannot be estimated.
11. Claim against Supergas and other gas companies	A claim in the amount of c. NIS 1 billion.	A claim and a motion for class certification of December 2003, claiming that between the years 1994 and 2003, there were restrictive arrangements in the private gas sector and the commercial gas market.	In March 2012, the court approved that the proceedings pertaining to the sanctioning of the settlement formed between the parties would proceed. In the Company's estimation, based on the estimation of Granite's management, based on the legal counsel of Supergas, the probability that the settlement agreement shall be approved (subject to certain changes that may be requested within the proceeding) is higher than 50%. A provision representing the anticipated costs under the settlement agreement has been included in Granite's financial statements.
12. Claim against Supergas and other gas companies	A claim in an amount estimated at c. NIS 821 million (Supergas's share – c. NIS 193 million). In July 2009, the petitioners asked to reduce the claims' amount to c. NIS 709 million.	A claim and a motion for class certification of March 2009, claiming failure to credit gas consumers (who are not central-gas consumers) for gas left over in the cylinder. In July 2009, the petitioners raised new claims, whereby the gas cylinders, from the outset, are not completely filled.	The parties reached a settlement. In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas's legal counsel, the probability of the settlement being approved exceeds 50%. The Company estimates, based on the estimation of Granite's management, in reliance on Supergas's management, that in the settlement Supergas shall not bear material costs beyond the provision recorded in its books.
13. Claim against Supergas and other gas companies	A claim for an amount yet to be quantified.	A claim and a motion for class certification of February 2011. The action concerns a claim that the gas companies market to their customers LPG at a temperature and atmospheric pressure that are higher than the conditions under which, as claimed, the gas companies purchase LPG and/or the conditions under which LPG should be sold according to international trade standards, and therefore, the plaintiffs claim, the gas companies sell a product which is inferior than the product purchased thereby, contrary to the Consumer Protection Law, and, in so doing, they are unjustly enriched, as claimed by the plaintiffs.	In the Company's estimation, based on Granite's management's estimation, based on Supergas's legal counsel, the probability that the certification motion shall be dismissed is higher than 50%.
14. Claim against Supergas and a subsidiary thereof	A claim in the amount of c. NIS 30 million.	A claim and a motion for class certification of September 2010. The action concerns a claim of non-compliance with the law's provisions pertaining to the provision of a free telephone service to Supergas customers.	In July 2012, the court approved the settlement signed between the parties. Supergas included a provision that represents the costs anticipated due to the settlement.

Note 4 – Contingent liabilities (Cont.)

d. Other claims

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

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol	A claim in the sum of c. NIS 10 million	A monetary claim of December 2005 alleging that Sonol unlawfully terminated an agreement signed with the plaintiff concerning the construction of a gasoline station on the land of the plaintiff and operation thereof by Sonol in consideration for payments to the plaintiff.	In April 2012 the court had dismissed the claim in full and charged the plaintiff to pay Sonol an immaterial amount.
2. Claim against Sonol	A claim in the sum of c. NIS 6 million	In April 2012, a monetary claim was filed against Sonol, claiming that Sonol had breached the lease contract entered into between it and the plaintiff, and in order to reduce its damage was forced to engage with another company in less favourable terms.	In the Company's estimation, in reliance on the estimation of Granite's management, which is based on Sonol's legal counsel, the chances of the claim are lower than 50%.
3. Claim against Sonol	A claim in the sum of c. NIS 7.5 million.	In June 2012, a monetary claim was filed against Sonol, claiming that it breached a settlement agreement that was signed between it and the plaintiffs, thus denying them a potential profit. The claim was filed with the Court of Justice (Beit Din Tzedek) in Bnei Brak. In light of Sonol's objection to litigation in the Court of Justice, in August 2012, a claim in the amount of NIS 4.1 million was filed against Sonol with the District Court.	In the Company's estimation, in reliance on the estimation of Granite's management, based on Sonol' legal counsel, in this preliminary stage it is impossible to estimate the chances of the claim.

Note 4 – Contingent liabilities (Cont.)

4. A city against Supergas	A city demands in the amount of c. NIS 68 million, of March 2011	Supergas filed an application for a building permit by virtue of NOP 32C, for upper landfill of gas tanks. As a condition for the permit's issuance, the local committee and the city sent demands for payment with respect to three issues: a usage fee in the amount of c. NIS 4.5 million; fees and development levies in the amount of c. NIS 4 million; a betterment levy in the amount of c, NIS 59 million (in this section: the "First Demand for Levy Payment"). The Company filed an appeal due to the First Demand for Levy Payment. In light of the decision of the National Zoning Council dated February 7, 2012, in the matter of the duration of the operation of the Company's gas site in Kiryat Ata, on July 18, 2012, the local zoning committee at Kiryat Ata sent a letter, wherein it announced its intention to issue a new betterment assessment (in this section: the "Second Demand for Levy Payment"). The Company filed an appeal due to this letter as well. In a hearing held before the appeals committee on October 15, 2012, it was determined with respect to the Second Demand for Levy Payment that, insofar as the local committee stands firm in its stance, whereby betterment levy can be charged, due to the National Council's decision, it should issue a new assessment by November 1, 2012. If such assessment is submitted, the Company will be able to respond thereto by November 21, 2012 and the matter will be heard on December 3, 2012. Accordingly, on November 1, 2012, the municipality issued a new betterment assessment to the Company in the amount of c. NIS 57,970 thousand, in addition to the proceeding held due to the First Demand for Levy Payment.	In November, after the date of the statements, the appeals committee adopted the opinion of the consulting appraiser, who was appointed to discuss the matter of the First Demand, whereby Supergas is not liable for any betterment levy. With respect to the proceeding held due to the Second Demand for Levy Payment, in the Company's estimation, in reliance on Granite's management, in reliance on Supergas's counsel, although Supergas rejects the demand for betterment levy, at this stage it is impossible to quantify the chances of the proceeding and the pecuniary amount of a liability due to such demand. With respect to the fees and development levies – it can be estimated, at a probability higher than 50%, that the liability remaining, if any, shall be much less than the requested amount, but, at this stage, it is too early to assess its pecuniary amount. With respect to the usage fee demand – at this stage, the chances of the demand and the pecuniary amount thereof, if liability is imposed, cannot be estimated. It shall be noted that Supergas is not compelled by the demands for betterment levy and development levies, such that if it withdraws the permit application, it shall bear no pecuniary liability on these issues.
5. Hearing in the Israel Antitrust Authority against Supergas and officers thereof	Criminal	In March 2012, the Israel Antitrust Authority had notified Supergas and officers thereof that it intends to prosecute them due to offences pursuant to the Antitrust Law. A hearing prior to the filing of indictment was held in July and August 2012.	In the Company’s estimation, in reliance of the estimation of Granite's management, which is based on Supergas' legal counsel, in view of the preliminary stage of the proceeding, it is impossible to estimate its results or the extent of possible exposure of Supergas.
6. Administrative petition by a city and others against the National Zoning Council and others (including Supergas)	Petition for the grant of orders nisi.	In June 2012 a petition was filed for orders nisi to cancel the decision of the National Zoning Council of February 2012, whereby the gas farm in Kiryat Ata shall continue operating after the burying of the containers pending operation of a permanent site for LPG storage or by January 2029 – whichever is later. Alternatively, an order nisi was sought to fix a time of several years only for the gas farm.	In the Company’s estimation, in reliance on the estimation of Granite's management, which is based on Supergas' legal counsel, at this stage of the proceeding, it is impossible to estimate the chances of the petition.
7. A claim against Supergas	NIS 16.4 million.	In October 2012, a claim in the amount of NIS 16.4 million was filed against Supergas. The claim was filed by a former agent of Supergas and two other companies owned by him. The claim is due to debts allegedly owed by Supergas to the Plaintiffs for work performed by them, construction of housing units and other alleged damage.	In the Company's estimation, in reliance on Granite's management, based on the legal counsel thereof, due to the preliminary stage of the claim, it is impossible to estimate the chances thereof.

Note 4 – Contingent liabilities (Cont.)

8. Arbitration proceeding against GES	C. $1.5 million (and a claim on behalf of GES in the sum of c. NIS 4 million).	An arbitration proceeding between GES and a third party with respect to a series of agreements concerning the construction of two water treatment plants in the U.S.A.	In October 2012 a settlement was signed, in which it was agreed, *inter alia*, that the third party shall pay G.E.S. a non-material amount, plus V.A.T.
9. Claim against GES and others	C. NIS 10 million	A claim of December 2009 with respect to damage which, according to the Plaintiff, was caused to an orchard as a result of penetration of ballast water to water provided to the orchard, by causing them to flow through the agricultural sludge treatment facility in the water pipes designated for irrigation.	In March 2012 a judgment was given whereby due to non-compliance with the court's ruling regarding preliminary proceedings, the claim will be dismissed without prejudice. In May 2012, it was decided to dismiss the judgment subject to the payment of expenses to the Defendants and the completion of the preliminary proceedings vis-a-vis the Defendants. In the Company's estimation, in reliance on the estimation of Granite's management and in reliance on G.E.S.'s legal counsel, the chances of the claim against G.E.S. are lower than 50%.
10. City against Azrieli Group	Approx. NIS 29 million	Demands in respect of development levies, municipal tax (*arnona*) and levies in respect of open public areas in Hanegev mall in Beer Sheva.	In the Company's estimation, based on its legal counsel, the chances of the demands being accepted are lower than 50%.

e. In 2008, a claim for bodily injury totalling NIS 10 million was filed against two consolidated companies of the Company. The subject matter of the Complaint is a claim for alleged liability of the companies in relation to the acts of suicide of two youths of whose heirs are the plaintiffs in the Complaint. The claim has been recognized as an insurance event and is being conducted through attorneys on behalf of the defendants' insurance company. The district court had dismissed, with a reasoned judgment, the claim against the companies. The father of one of the youths who committed suicide filed an appeal to the Supreme Court that has not yet been heard. The Tel Aviv District Attorney's Office notified the Company that it is reviewing the legal implications with respect to the Company and/or its managers, of several suicide events that took place between the years 2007-2009 from the Azrieli Mall roof balcony.The amount of the claim is included within the framework of the insurance cover per insurance event.

f. On September 21, 2011, after the opening of Azrieli Akko Mall, the Ministry of Environmental Protection filed an appeal against Akko Local Zoning Committee to grant an occupancy permit to Azrieli Akko Mall, while cancelling the need for the approval of the Ministry of Environmental Protection, due to the proximity of the mall to the Strauss plant where there are ammonia cooling systems. The company filed its response to such appeal and it is acting for its dismissal towards thereto. On May 9, 2012, a hearing was held on the appeal in which it was decided that the Strauss plant shall present to the Ministry of Environmental Protection risk reduction scenarios for its environment, as the Ministry ordered in the context of the conditions of the toxic material permit issued to the plant, and that the Israel Ministry of Environmental Protection shall submit its official position on the matter to the Appeals Committee by August 1, 2012. On August 1, 2012, the Ministry of Environmental Protection submitted its position to the Appeals Committee, from which it emerges that as at such date the Strauss plant had not submitted a risk evaluation to the Ministry of Environmental Protection in relation to public receptors in the vicinity thereof or a plan for the reduction of these risks. For the purpose of determining its position on the appeal, the Ministry performed an independent risk evaluation, pursuant whereto – so the Ministry contends – it is not possible to reduce the existing risks posed by the plant such that they will meet the acceptability criterion for each public receptor in the plant's vicinity, as provided in the Ministry's policy, and in these circumstances the Ministry is standing by the appeal. On August 6, 2012, the City of Akko submitted a notice to the Appeals Committee to the effect that the Ministry's position is laconic and unsubstantiated, including in connection with the risk evaluation that formed the basis for its position. In response, the Appeals Committee determined dates for submitting a detailed response to the Ministry of Environmental Protection and for receipt of the City's position and thereafter for receipt of the other parties' position (including the Company and plant). Shortly before the Report Release Date, the position of the Ministry of Environmental Protection was received, whereby if the plant installs various means listed in the response, the risk will become acceptable.

g. Additional claims, mostly legal and in immaterial amounts (including demands of the authorities, levies and mandatory payments) arising from the ordinary course of business, have been submitted against the Group companies.

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

Note 5 – Material transactions and events during the Report Period

a. Purchase of an Office Building in Houston:

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

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

There are four tenants in the property as follows:

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

- Three tenants (13% in total) who have lease agreements for periods ranging between 6-7 years, with some of the tenants having an option for early departure after c. 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 c. U.S. $8 million.

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

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

c. On May 1, 2012, Otzma & Co. Investments Maccabim Ltd., a private company wholly owned by the Company ("Otzma"), engaged in an agreement, whereby it shall purchase the additional rights (50%) in the property known as the Science and Technology Park Project in Petah Tikva from third parties who are partners therewith in the said property, in consideration for a sum of NIS 48.8 million (plus V.A.T). The transaction was closed on October 23, 2012.

As of the Report Release Date, Otzma holds 100% of the rights in the property.

d. 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 in Gasoline Stations), 5772-2012 was announced, raising the marketing margin by c. NIS 0.05, and reducing the full service supplement by c. NIS 0.04. The effect on the results in the reported periods is immaterial.

e. On May 22, 2012, a full tender offer was accepted, which was released by Granite Hacarmel, to purchase all of the shares of Tambour Ltd. ("Tambour"), a public subsidiary of Granite Hacarmel, at the price of NIS 6 per Tambour share in cash (for a total consideration of c. 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 shall hold (jointly with Tambour) the entire share capital and voting rights of Tambour, Tambour has become a private company according to Section 339 of the Companies Law, and its shares will be 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 grant 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 c. NIS 159 thousand, was carried to a capital reserve as a debt balance.

f. 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 c. 60.61% of Granite's issued and paid-up capital, for the purchase of all of the shares not held by the Offerors, 57,955,689 shares, constituting c. 39.39% of Granite's issued and paid-up capital, in consideration for the sum of 549 Agorot per NIS 1 share of Granite, for a total consideration of c. NIS 318 million. Accordingly, as of the Report Release 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 c. NIS 21 million is carried to the capital reserve as credit balance.

g. On July 23, 2012, the Company engaged in a contingent sale agreement for the purchase of an income-producing leasable area of c. 23,500 sqm, additional leasable area of c. 4,000 sqm, which have been leased to various tenants and will be built by the seller, and additional building rights of c. 2,760 sqm in the power center known as "One Plaza" in Beer Sheva (the "Power Center"), in consideration of a sum total of c. NIS 339.5 million (before V.A.T), payable within 10 days from the date of fulfillment of the condition precedent (subject to the performance of actions and delivery of documents to the Company). It was further agreed, according to mechanisms set forth in the agreement which are based mainly on a rate of return and date of commencement of income production, that the Company will pay an additional consideration in the aggregate amount of c. NIS 38 million, *inter alia*, in connection with the addition of leasable areas whose construction will be completed by the seller (according to the existing lease agreements) up to c. 18 months from the date of signing the agreement, and in connection with the receipt of a building permit by the seller for additional rights at the scope of c. 760 sqm. As of the Report Date, the transaction costs (including in connection with purchase tax) are estimated at c. NIS 22 million.

In proximity to the engagement date, the Power Center was occupied at the rate of c. 98% with c. 70 tenants, having lease agreements, mostly for 5 year terms.

The closing of the transaction is conditioned upon approval by the Antitrust Commissioner and there is no certainty in the closing thereof. The Company has received a non-binding preliminary opinion from the Antirust Commissioner, whereby there is no impediment to approving the transaction. The Company filed a merger application as required shortly after execution of the agreement.

h. The Company intends to finance the purchase through internal financing and/or bank financing.

Note 6 – Segment reporting

a. General:

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

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

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

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

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

Segment A – 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 – Granit Hacarmel.

Note 6 – Segment reporting (contd.)

b. Operating segments:

	For the period of nine months ended September 30, 2012					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)					
Revenues:						
Total external income	654,323	253,968	136,147	5,782,846	772	6,828,056
Total segment expenses	129,116	44,903	58,697	5,560,127	58	5,792,901
Segment profit (NOI)	525,207	209,065	77,450	222,719	714	1,035,155
Net profit from adjustment of fair value of investment property and investment property under construction	38,320	54, 876	87	5,720	-	99,003
Non-attributed expenses						(58,102)
Financing expenses, net						(316,006)
Other revenues, net						10,687
The Company's share in the results of associated companies, net of tax						(10,777)
Income before taxes on income						759,960
Additional information:						
Segment assets (**)	9,525,052	4,475,249	1,544,263	5,957,458	-	21,502,022
Unallocated assets (*)						1,999,909
Total consolidated assets						23,501,931

(*) Mainly financial assets held for trade in the sum of c. NIS 442 million and available for sale financial assets in the sum of c. NIS 1,259 million.

(**) The total sum of the properties of the income-producing property in the USA operating segment, as at September 30, 2012, is c. NIS 1.5 billion, compared to c. NIS 1.1 billion as at December 31, 2011. The difference derives from the acquisition of an office building in Texas, as explained in Note 5A to the financial statements.

Note 6 – Segment reporting (contd.)

b. Operating segments: (contd.)

	For the period of nine months ended September 30, 2011					
	Retail centers and malls	Office and other space for lease	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)					
Revenues:						
Total external income	595,064	241,207	73,332	4,632,950	706	5,543,259
Total segment expenses	108,800	40,030	36,755	4,461,020	53	4,646,658
Segment profit (NOI)	486,264	201,177	36,577	171,930	653	896,601
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	377,008	68,008	18,072	(724)	-	462,364
Non-attributed expenses						(50,054)
Financing expenses, net						(427,894)
Other revenues, net						50,694
The Company's share in the results of associated companies, net of tax						(13,169)
Income before taxes on income						918,542
Additional information:						
Segment assets	9,249,621	4,085,605	975,791	5,488,895	-	19,799,912
Unallocated assets (*)						2,866,509
Total consolidated assets						22,666,421

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

Note 6 – Segment reporting (contd.)

b. Operating segments: (contd.)

	For the period of three months ended September 30, 2012					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)					
Revenues:						
Total external income	223,588	87,786	47,074	1,960,186	267	2,318,901
Total segment expenses	46,238	17,023	20,532	1,860,151	20	1,943,964
Segment profit (NOI)	177,350	70,763	26,542	100,035	247	374,937
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	156	556	1,464	(293)	-	1,883
Non-attributed expenses						(17,058)
Financing expenses, net						(102,411)
Other expenses, net						(1,068)
The Company's share in the results of associated companies, net of tax						(4,103)
Income before taxes on income						252,180

Note 6 – Segment reporting (contd.)

b. Operating segments: (contd.)

	For the period of three months ended September 30, 2011					
	Retail centers and malls	Office and other space for lease	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands (unaudited)					
Revenues:						
Total external income	209,207	83,463	26,622	1,611,721	238	1,931,251
Total segment expenses	41,286	13,936	14,228	1,564,874	17	1,634,341
Segment profit	167,921	69,527	12,394	46,847	221	296,910
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	103,831	907	2,023	(538)	-	106,223
Non-attributed expenses						(13,119)
Financing expenses, net						(134,822)
Other revenues, net						549
The Company's share in the results of associated companies, net of tax						(3,443)
Income before taxes on income						252,298

Note 6 – Segment reporting (contd.)

b. Operating segments: (contd.)

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

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

Note 7 – Event after the end of the reporting period

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 in the purchase of Clalit's rights in a lot on an area of c. 10 Dunams located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for an amount of NIS 240 million (excluding VAT), linked to the consumer price index. The purchased lot is designated for the construction of a project of c. 75 thousand sqm, comprising office and retail space for lease of c. 58 thousand sqm (c. 48 thousand sqm offices and c. 10 thousand sqm retail), and residential areas of c. 17 thousand sqm.

As of the Report Release Date, the agreement was signed and the Company paid the first installment on account of the consideration in the sum of NIS 48 million.

The handing over of possession of the lot is expected no later than December 31, 2014. However, Clalit may 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.

PART D

Effectiveness of the internal control over the financial reporting and disclosure

September 30, 2012

QUARTERLY REPORT ON THE EFFECTIVENESS OF THE INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 38C

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

For this purpose, members of the management are:

1. Shlomo Sherf, CEO;
2. Yuval Bronstein, CFO;
3. Michal Kamir, General Counsel and Company Secretary;
4. Irit 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 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 requirements.

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure which was attached to the quarterly report for the period ended on June 30, 2012 (the "Last Quarterly Report on Internal Control"), the internal control was found to be effective.

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

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

Statement of Managers:

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

I, Shlomo Sherf, represent that:

(1) I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for Q3/2012 (the "Reports").

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

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

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

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

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

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

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

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

reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

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

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

November 20th, 2012

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Shlomo Sherf, CEO

Statement of Managers:

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

I, Yuval Bronstein, represent that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim period reports of Azrieli Group Ltd. (the "Corporation") for Q3/2012 (the "Reports" or the "Interim Period Reports");

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

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

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

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

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

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

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

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

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

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

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

November 20th, 2012

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Yuval Bronstein, CFO