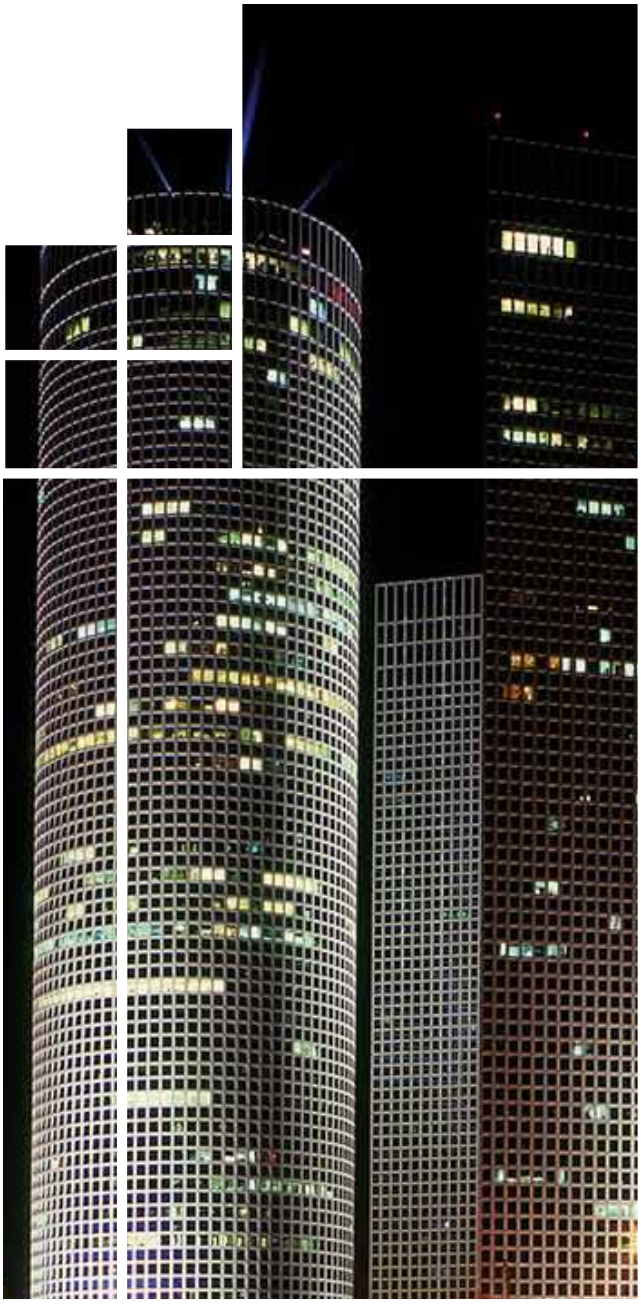
Azrieli Group Ltd.

Q3/2013 Report

Dated 30 September, 2013



AZRIELI GROUP

Part A

Board Report

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, 2013

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the nine months and the three months ended September 30, 2013 (hereinafter: the "**Report Period**" and the "**Quarter**" respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, the effect of which is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2012, 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 2012") and the update to the Corporation's Business Chapter and the financial statements for September 30, 2013.

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

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

The data appearing in the Board of Directors' Report are based on the consolidated financial statements as of September 30, 2013. The financial data and the business results of the Company are affected by financial data and business results of the companies held thereby. In some cases, details are presented which review events that occurred after the date of the financial statements and in proximity to the date of releasing the Report, with such fact indicated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included in this Report was examined from the Company's point of view. In some of the cases additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's view,

material for the purpose of this Report.

The financial statements attached are prepared according to the International Financial Reporting Standards (IFRS). For further details see Note 2 to the financial statements as of September 30, 2013.

Extended standalone statement – the income-producing property segment

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

Main emphases for the Quarter and the Period ended September 30, 2013(*)

NOI During the Quarter compared with the same quarter
• Approx. 1% additional growth in the NOI (see Section 1.1.3 of the Report). • Stability in same property NOI (see Section 1.1.4 of the Report).
Improvement in FFO from the Income-Producing Property Segment
• Approx. 8% growth in the FFO attributed to the income-producing property segment (see Section 1.1.6 of the Report).
Net Profit
• Approx. NIS 56 million net profit in the Quarter compared with a net profit of approx. NIS 211 million in the same quarter last year; • Approx. NIS 55 million net profit attributed to the shareholders in the Quarter, compared with approx. NIS 194 million in the same quarter last year; • Approx. NIS 532 million net profit in the Report Period compared with a net profit of approx. NIS 608 million in the same period last year; • The decline in profit derives mainly from the effect of the change in the corporate tax rate in the sum of approx. NIS 138 million.
Business Development and Initiation
• In the Report Period, the Company continued the development work on the properties under construction in accordance with the planned timetables. • At the same time, significant progress has been made in the marketing efforts of some of the projects under construction, in some of which space has been leased and populated and begun to generate NOI. • During the Report Period, the Company invested a sum of approx. NIS 717 million in the purchase of properties, improvement of existing properties and initiation. • For further developments, see Section 1.1 below.

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

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

1.1 General

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

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

Transactions related to Investment Property

Purchase of land from Yedioth Ahronoth

On May 22, 2013, the Company engaged in an agreement for the purchase of all of the rights of an unaffiliated third party in a plot adjacent to Azrieli Center in Tel Aviv of an area of approx. 8,400 sqm, at the intersection of Menachem Begin Rd. and Noah Moses St. in Tel Aviv, in consideration for the sum of NIS 374 million plus V.A.T and plus linkage differentials which will accrue commencing from the index of December 2012.

Further developments

Class Actions

On August 8, 2013, the Company received a motion for an appraisal remedy and a motion for cancellation of a tender offer, and a motion for class certification thereof, against the Company and against the subsidiary, in connection with a full tender offer for shares of Granite Hacarmel (even though the six (6)-month period determined in the law for the filing of a claim for an appraisal remedy has lapsed). The Company has filed a motion for summary dismissal of the motion.

Refinancing of loans in respect of Azrieli Center Tel Aviv

In the framework of the refinancing of loans in respect of Azrieli Center in Tel Aviv in the sum of approx. NIS 900 million, which we repaid in August 2013, the Company, on August 18, 2013, entered into financing agreements with various institutional bodies and received new loans under significantly better conditions than the loans that were repaid as aforesaid.

Appeal against the decision of the Antitrust Commissioner

On August 8, 2013, the Antitrust Court ordered the dismissal of the appeal filed by the Company during the Report Period from the decision of the Commissioner to object to the purchase of Power

Center One Plaza in Beer Sheva, due to the fact that the merger agreement is no longer valid. The Company has filed an appeal from the court's decision with the Supreme Court.

Approval of a compensation policy

On September 11, 2013, after the approval of the Compensation Committee and the Board of Directors was received, the Company's general meeting approved the Company's compensation policy.

Replacement of officers and approval of the terms of office and employment of the Company's controlling shareholders

During the Report Period, changes occurred in the office of officers of the Company, including Mr. Yuval Bronstein being appointed as the Company's CEO in lieu of Mr. Shlomo Sherf, Irit Sekler-Pilosof being appointed as CFO, directors being replaced (and existing directors being reappointed) and the outside directors being reappointed for another three years. After the Report Period, Mr. Arnon Toren was appointed as CEO of Azrieli Malls in lieu of Mr. Peer Nadir, who will cease to serve as an officer on December 31, 2013, and Mr. Ofer Avram was appointed as Manager of the Office Segment, from January 1, 2014.

In addition, during the Report Period, the approval of the Company's competent organs was received for the terms of office and employment of the officers and of the Company's controlling shareholders (the Chairman of the Board and the Active Vice Chairman of the Board and two directors).

Release of a shelf prospectus

On May 13, 2013, the Company released a shelf prospectus which does not include immediate debt raising by the Company at this stage.

Current Operations

As the Company has reported in the past, during the Report Period and until the date of release thereof, the Group has continued to explore business opportunities in Israel and overseas, in connection with the expansion of its business, mainly in the field of real estate, including tangential fields of real estate and the retirement home sector, through the purchase of land reserves, the purchase of additional properties and/or the improvement of the existing properties, some of which have been consummated as stated in the Company’s reports. In addition, the Company may explore, from time to time, additional options for expanding its fields of business while taking advantage of market situations and/or crisis situations in leading and cash flow generating target companies in other segments. In addition, the Company examines, on an ongoing basis, the holdings which are not in its core business in the field of income producing properties, including a sale

of its holdings in Granite Hacarmel (in whole or its various parts), at its discretion in connection with the timing, the structure and the consideration in the transaction.

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

1.1.2 **Developments in Initiation and Development**

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period totaled approx. NIS 717 million. Thus, the Company also continued to pro-actively manage its existing properties, the improvement thereof, maintaining the high occupancy rate unique to the Group and strengthening the cash flow generated from such properties. As of the date of this Report, the Company operates towards the development of several properties under construction, as specified below.

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

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of September 30, 2013[1] (NIS in millions)	Estimated cost of completion of construction (NIS in millions)
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	2017	679	815-860
Azrieli Kiryat Ata (Phase B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	Q/4 2013	18	18-24
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 (permit for construction of temporary parking and an excavation and shoring permit)	2016	187	391-421
Azrieli Center Holon[2]	Holon	Jun. 2008	Commerce Offices	83%	34,000	5,000 115,000	Phase A[3] – 2010 Phase B[3] – beginning of 2014.	Phase A(1)– Completed in July 2013 Phase A(2) - 2014 Phase B – 2015	488	150-185
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	2013	March 2015	8	118-148[4]

Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	Beginning of 2015	196	155-175
Clalit Health Fund Land(5)	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	121	830-930
Yedioth Ahronoth House(5)	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Not yet determined	Not yet determined	109	890-910
Total						**469,000**			**1,806**	**3,363-3,647**

(1) The figure reflects the value of the project on the books as presented in the financial statement as of September 30, 2013 and not the cost actually invested in the project.
(2)The figures are for 100%.
(3) 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).
(4) Excluding amounts in respect of levies and taxes.
(5) As of the Report Release Date, the Company has not received possession of this property.

During the Report Period, the Company proceeded with the development and construction work in her aforementioned properties and with obtaining the necessary approvals for the purpose of their continued development, in accordance with the scheduled timetables and without substantial delays. For further details, see Section 3 of Chapter B of this Report, update of the description of the corporation's business.

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

1.1.3 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2012[1], the NOI figure (which is unaudited) is one of the important parameters in the valuation of income-producing property companies. In addition, the NOI is used for measurement of the free cash flow available to service financial debt taken to finance the acquisition of the property. Current maintenance expenses for property preservation are offset against the total NOI.

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

NIS in millions	For the three months ended		For the nine months ended		For the year ended
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**	**Dec. 31, 2012**
Retail centers and malls in Israel	176	177	529	525	702
Rate of increase (decrease)	(1%)		1%		
Office and other space for lease in Israel	76	71	223	209	282
Growth rate	7%		7%		
Income-producing property in the USA	25	27	76	78	103
Rate of increase (decrease)	(7%)		(3%)		
Total NOI	277	275	828	812	1,087
Growth rate	1%		2%		
	For explanations pertaining to the increase in NOI, see Sections 1.10.1, 1.10.2 and 1.10.3.				

[1] Details regarding the use made of this figure and the manner of calculation thereof were provided at length in the report of the Company's board of directors for December 31, 2012.

1.1.4 Same property NOI Index[2]

NIS in Millions	For the three months ended		For the nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Retail centers and malls in Israel segment	176(*)	177	529	525
Office and other space for lease in Israel segment	74	71	218	209
Income-producing property in the USA segment	25	27	76	78
Total	**275**	**275**	**823**	**812**
Growth rate	**-**		**1%**	

(*) Includes one-time negative effects in the sum of approx. NIS 3 million due to space that has not yet begun to produce income after a tenant's leaving in several malls, in respect of the majority of which lease agreements have been signed for a higher rent.

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

	2013			2012	
	Q3	Q2	Q1	Q4	Q3
Same property NOI in all of the periods(*)	275	276	276	274	275
NOI from acquired (completed) properties	2	1	1	1	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**277**	**277**	**277**	**275**	**275**
(*) 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, 2013**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex C) (*)	16,678
Net of value attributed to construction rights not utilized yet	(5)
Net of value attributed to investment	(1,575)

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

property under construction	
Net of value attributed to advance payments on account of land purchase	(230)
Net of the value attributed to land reserves	(23)
Total value of income-producing investment properties (including fair value of the vacant space)	**14,845**
Actual NOI for the quarter ended on September 30, 2013	277
Addition to future quarterly NOI (**)	9
Total standardized NOI	286
Pro-forma annual NOI based on standardized NOI	**1,144**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.7%**

(*) The Group carried out valuations for all of its assets in Israel as of June 30, 2013. As of the Report Date, the valuations have not been updated.

The figure includes receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure mainly includes estimates for an addition of NOI for vacant space for population for one year for which value was credited in the valuations as of June 30, 2013 and which have not yet been fully populated, and the effect of the index as of September 30, 2013, which was not included in the actual NOI for Q3/2013.

This figure does not constitute a forecast of the Company for the NOI of 2013 and all of its purpose is to reflect the NOI under the assumption of full population for a whole year of all of the income-producing property.

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

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

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

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

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

	For the three months ended		For the nine months ended	
NIS in Millions	**September 30, 2013**	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Net profit for the period attributed to shareholders	**55**	**194**	**523**	**569**
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	**(35)**	**(22)**	**(92)**	**(44)**
Adjustments to profit (1):				
Increase in investment property value	(2)	(2)	(117)	(93)
Depreciation and amortizations	1	1	3	3
Net non-cash flow financing and other expenses (revenues)	9	22	-	59
Current taxes revenues (expenses) for non-cash flow financing expenses	(2)	(5)	-	(14)
Deferred tax expenses	149	10	200	57
Adjustments for associated companies	1	-	1	1
Interest and dividend from financial assets held for trade, net of tax (2)	-	(6)	(5)	(26)
Impairment of financial assets held for trade, net	-	(20)	-	(8)
Plus benefit recorded for employee option plan	4	(7)	11	(6)
Net of dividend received from financial assets available for sale	-	-	(6)	(8)
Total adjustments to profit	**160**	**(7)**	**87**	**(35)**
Plus interest paid for real investments - (3)	**15**	**15**	**46**	**45**
Total FFO attributed to the income-producing property segment (4)	**195**	**180**	**564**	**535**

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite HaCarmel since its profits were discounted in full.
2. Net of interests and dividends in respect of transactions and actions in securities which were written off from the real estate operations.
3. Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments' cost.
4. Which is attributed to shareholders only.

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

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

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

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

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

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

EPRA NAV (NIS in millions)	**As of**	
	September 30, 2013	**September 30, 2012**
Equity attributed to the Company's shareholders in the financial statements	12,125	11,406
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,582	2,275
EPRA NAV	**14,707**	**13,681**
EPRA NAV per share (NIS)	**121**	**113**

EPRA NNNAV (NIS in millions)	As of	
	September 30, 2013	December 31, 2012
EPRA NAV	14,707	14,250
Adjustment of assets' value to fair value (net of the minority)	27	106
Adjustment of the value of financial liabilities to fair value (net of the minority)	(371)	(433)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,582)	(2,375)
EPRA NNNAV	**11,781**	**11,548**
EPRA NNNAV per share (NIS)	**97**	**95**

1.1.8 Summary of the Company's Results (Consolidated)

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

	For the three-month period ended		For the nine-month period ended		For the year ended
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	Dec. 31, 2012
Net profit for the period attributed to the shareholders	**55**	**194**	**523**	**569**	**939**
Net profit attributed to the shareholders and non-controlling interests	**56**	**211**	**532**	**608**	**986**
Basic profit per share (in NIS)	**0.45**	**1.60**	**4.31**	**4.69**	**7.74**
Comprehensive income for shareholders and non-controlling interests	**96**	**301**	**523**	**635**	**1,111**

The net profit attributed to the shareholders for the nine months ended on September 30, 2013 totaled to an amount of approx. NIS 523 million (NIS 55 million in the quarter) versus net profit attributed to the shareholders in the amount of approx. NIS 569 million in the same period last year (in the same quarter last year NIS 194 million).

The decrease in profit in the period mainly derived from an irregular and one-time expense of approx. NIS 138 million which was recorded due to the increase in the corporate tax rate from 2014, which was mainly offset against an increase in the NOI, an increase in the profit from adjustment to fair value of investment property, a decrease in the net financing expenses and an increase in the results of the Granite segment. The decrease in profit in the quarter mainly derived from an irregular and one-time expense of approx. NIS 138 million which was recorded due to the increase in the corporate tax rate from 2014 and due to an increase in the net financing expenses, which was mainly offset against the increase in

the NOI, as shall be explained below in Sections 1.3-1.10.

b. The Comprehensive Income

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

The comprehensive income for the nine months ended September 30, 2013 amounted to the sum of approx. NIS 523 million compared with a net profit (including non-controlling interests) in the sum of approx. NIS 532 million in the same period. The foregoing difference between the comprehensive income and the net profit results mainly from a loss due to translation differences from foreign operations in the sum of approx. NIS 34 million, which was mainly offset against an increase in the fair value of financial assets available for sale (mainly a change in the fair value of the investment in Bank Leumi le-Israel) net of tax in the amount of approx. NIS 24 million.

The comprehensive income for the three months ended September 30, 2013 amounted to approx. NIS 96 million compared with a net profit (which includes non-controlling interests) in the sum of approx. NIS 56 million in the same period. The said difference mainly derives from a rise in the fair value of assets available for sale (mainly a change in the fair value of the investment in Bank Leumi le Israel), net of tax in the amount of approx. NIS 54 million, offset against a loss due to translation differences from foreign operations in the sum of approx. NIS 14 million.

1.1.9 Main market trends regarding income-producing property segment

The Company's board of directors estimates that no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report for December 31, 2012, except as specified below.

In Israel – during the Report Period, the stability in the income-producing property industry in Israel remained, both in the demand level as well as in the level of rent prices and occupancy rates. The consumer price index recorded a rise in the quarter, the Bank of Israel interest rate decreased by 25 percentage points during the quarter, and further increase was recorded in the expense for private consumption. During the Report Period, the relative stability continued in the average of turnover[3] at the Group's malls compared with the same period last year.

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

However, as reported in the past, due to concerns in the market of a halt in the pace of growth in the short/medium term, a more challenging environment is apparent from time to time, in negotiations with the tenants when signing new lease agreements or renewing existing contracts. In addition, changes in the competitive balance between the industry's players in the Beer Sheva area and in the north, *inter alia* due to the opening of new retail centers and the growth in the supply of commercial space in the area, present challenges to the industry, including the need to make occasional adjustments to the rent prices. As of the Report Release Date, no significant effect of those is apparent, on the results of the Group's operations in the operating segments thereof, however, it is not possible to estimate, as of the Report Date, future effect (if any) and the term of such effect, to the extent it shall apply.

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

In the U.S. - the local economy in Houston continues to present good figures, mainly thanks to the strong connection that the local economy has with the energy market. Foreign investors continue to recognize Houston as one of the most attractive investment destinations. The employment figures rose by 4.2% in the quarter, with an increase of 111,200 employees in April 2013. This rise continues to lead to a further decline in the unemployment rate in Houston, which continues to be significantly lower than the unemployment rate in the entire U.S., and is, as of Q2, 5.9%[4].

These positive trends have led to significant improvements in the real estate market in Houston which are expressed in a decline in the rate of vacant areas, a rise in rent prices and a rise in construction commencements of real estate for offices in view of the improvement in the other parameters[5].

[4] According to figures appearing in MarketView Snapshot, Houston, Office published by CBRE in Q2/2013.
[5] According to figures appearing in MarketView, Houston, Office published by CBRE for Q2/2013.

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

Summary of the Group's operating segments

- ☒ **The Retail Centers and Malls in Israel Segment** – The Company has 13 malls and retail centers in Israel, at a comprehensive leasable area of approx. 258 thousand sqm (consolidated) and 257 thousand sqm (the Company's share) leased to approx. 1,750 tenants;

- ☒ **Office and Other Space for Lease in Israel Segment** – The Company has 10 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 330 thousand sqm (consolidated) and 329 thousand sqm (the Company's share) leased to approx. 481 tenants;

- ☒ **Income-Producing Property Segment in the USA** – The Company has 6 income-producing properties in this segment at a comprehensive leasable area of approx. 179 thousand sqm (consolidated) and approx. 169 thousand sqm (the Company's share) leased to approx. 260 tenants;

- ☒ **Granite Hacarmel Segment** – management of sub-segments mainly of energy, paint, water and environment;

1.2.1 The income-producing property segments

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

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

In this Report, the Company specifies the causes which contributed to the consistent improvement in its business activity, mainly in the income-producing property segment which constitutes its main business. In addition, as of the Report Date, the estimated investment scope of the Group, in future growth engines, through the development and construction of new income-producing properties which are

expected to add to the Group approx. 469 thousand sqm income-producing properties in Israel, is at approx. NIS 3.4-3.6 billion. For specification regarding the projects under construction see Section 1.1.2 above.

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is close to 100% in the retail centers and malls segment and in the office and other space for lease segment[6]. The average occupancy rate in the income-producing property in the USA is approx. 90%.

In Q3/2013, the Group maintained stability in its main business activity in the income-producing property sectors compared with the same quarter last year.

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

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

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

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

1.2.2 Granite Hacarmel segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Granit Hacarmel. Granit Hacarmel continued, during the Report Period, to present improvement in the results as specified in Section 1.10.4 of this Report below.

Additional Businesses

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

[6] Excluding the Azrieli Center Holon, which was opened in July 2013 and is in the process of being populated. The occupancy percentage in the office and other space for lease segment, including the Azrieli Center Holon, is approx. 94%.

segment, investments in start-up companies and investment funds as specified in the Periodic Report for 2012.

Thus, in light of the business opportunity that was created, the Company purchased during 2008 approx. 20% of the shares of Leumi Card and in 2009 passive minority holdings in Bank Leumi. The investments are presented in the financial statements as a financial asset available for sale. The passive financial investments are presented in the Company's financial statements according to the fair value and the change of value in respect thereof, net of the tax effect which was credited directly to the overall profit. The Company's management has taken no decision regarding the increase or reduction of its said holdings.

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

	Investment value in the financial statements as of Dec. 31, 2012	Investments during the nine months ended September 30, 2013	Total investment as of September 30, 2013 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, 2013	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	**895**	**-**	**895**	**925**	**30**	**-**
Investment in Leumi Card Ltd. (**)	**514**	**-**	**514**	**514**	**-**	**6**
Total	**1,409**	**-**	**1,409**	**1,439**	**30**	**6**

* 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, 2013;

** The fair value of the investment in Leumi Card was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2012.

1.3 The Business Results and the Total Assets

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

	Segment profit for the three months ended:		Segment profit for 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:	
	Sept. 30, 2013	**Sept. 30, 2012**	**Sept. 30, 2013**	**Sept. 30, 2012**	**Sept. 30, 2013**	**Sept. 30, 2012**	**Sept. 30, 2013**	**Sept. 30, 2012**
Retail centers and malls in Israel	**176**	**177**	**529**	**525**	**314%**	**84%**	**99%**	**86%**
Office and other space for lease in Israel	**76**	**71**	**223**	**209**	**136%**	**34%**	**42%**	**34%**
Income-producing property in the USA	**25**	**27**	**76**	**78**	**45%**	**13%**	**14%**	**13%**
Granite Hacarmel	**102**	**100**	**261**	**223**	**182%**	**47%**	**49%**	**37%**
Total attributed profit	**379**	**375**	**1,089**	**1,035**	**677%**	**178%**	**204%**	**170%**
Changes in fair value	**2**	**2**	**117**	**99**	**3%**	**1%**	**22%**	**16%**
Net financing expenses	**(113)**	**(102)**	**(290)**	**(316)**	**(202%)**	**(48%)**	**(55%)**	**(52%)**
Tax expenses	**(186)**	**(41)**	**(317)**	**(152)**	**(332%)**	**(19%)**	**(59%)**	**(25%)**
G&A expenses, net	**(26)**	**(23)**	**(67)**	**(58)**	**(46%)**	**(12%)**	**(12%)**	**(9%)**
Net profit per period	**56**	**211**	**532**	**608**	**100%**	**100%**	**100%**	**100%**

The Group's revenues from the business segments for the Report Period amounted to approx. NIS 6,566 million, compared with approx. NIS 6,828 million in the same period last year, a decrease of approx. NIS 262 million, deriving mainly from a decrease in the Granite Hacarmel segment of approx. NIS 276 million, which derived mainly from a decrease in the revenues of Sonol and GES, which was mainly offset against an increase of approx. NIS 17 million in the income-producing property for office and other space for lease in Israel segment (mainly due to an increase in revenues from existing properties).

The Group's revenues from the business segments for the three months ended September 30, 2013 totaled approx. NIS 2,174 million, compared with approx. NIS 2,319 million in the same period last year, a decrease of approx. NIS 145 million, deriving mainly from a decrease in the Granite Hacarmel segment of approx. NIS 144 million, which derived from a decrease in the revenues of Sonol and GES.

As of September 30, 2013, the total assets on the balance sheet were approx. NIS 24.8 billion, compared with approx. NIS 24 billion as of December 31, 2012.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	September 30, 2013	**Dec. 31, 2012**	**September 30, 2013**	**Dec. 31, 2012**
Retail centers and malls in Israel	9,888	9,601	40%	40%
Office and other space for lease in Israel	5,284	4,751	21%	20%
Income-producing property in the USA	1,506	1,570	6%	6%
Granite Hacarmel	6,183	5,979	25%	25%
Others	1,922	2,129	8%	9%
Total	**24,783**	**24,030**	**100%**	**100%**

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

	As of September 30, 2013	As of September 30, 2012	As of Dec. 31, 2012
Current assets	2,963	3,377	3,242
Non-current assets	21,819	20,125	20,789
Current liabilities	4,224	4,932	4,868
Non-current liabilities	8,344	7,088	7,205
Capital attributed to the Company's shareholders	**12,125**	**11,405**	**11,875**
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**49%**	**49%**	**49%**

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

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of September 30, 2013, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to approx. NIS

430 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 13.7 billion in addition to approx. NIS 430 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods. Regarding additional possible liquid sources, the Company estimates that the Group is able to raise financing under favorable terms, even under the currently prevailing financial conditions.

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

Assets	Value of assets as of September 30, 2013 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**7,697**
Properties in the office and other space for lease in Israel segment	**3,247**
Income-Producing Properties in the USA and in England	**78**
Company's holdings in Leumi Card	**514**
Company's holdings in Granite Hacarmel	**1,266**
Company's holdings in Bank Leumi	**925**
Total	**13,727**

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

(b) Dividends:

The Company: On March 19, 2013, the Company's board of directors approved a cash distribution in a total sum of NIS 265 million (approx. NIS 2.185 per share) which constitutes approx. 36% of the net profit to the shareholders in 2012 net of real estate revaluation profits and linkage differentials on unpaid loans and net of the tax effect thereon and approx. 37% of the FFO for the properties business (for the manner of calculation, see Section 1.1.6 above) for 2012. On May 1, 2013, the Company paid the dividend to its shareholders. According to the Company's financial statements as of September 30, 2013, the Company has surplus of approx. NIS 9.6 billion (including revaluation fund of financial assets available for sale).

Granite Hacarmel: Granite Hacarmel's dividend policy determines that Granite Hacarmel shall distribute, each year, a cash dividend in such sum that shall constitute 40% to 50% of the net annual profit after tax of Granite Hacarmel, except for one-time profits not resulting from

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

current operations, subject to the provisions of any law. In the Report Period, the Company received no dividend from Granite Hacarmel.

Leumi Card: To the best of the Company's knowledge, on May 24, 2010, the Leumi Card's board of directors adopted annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed, subject to the instructions of the Supervisor on the Banks, regulatory provisions and the requirements of the Companies Law. This policy was updated on May 22, 2011 so as to allow the dividend distribution subject to limitations of a "risk appetite" and the requirements of the Office of the Supervisor of Banks. During the Report Period, the Company received a dividend in the sum of NIS 6 million from Leumi Card.

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

(c) Cash flows

Net cash flows generated for the Group from current operations in the nine months ended September 30, 2013, amounted to the sum of approx. NIS 1,209 million, compared with the sum of approx. NIS 1,450 million which derived from current operations in the same period last year (a decline of approx. NIS 241 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property (approx. NIS 828 million), with the addition of cash flows generated from current operations from the sale of financial assets held for trade in the sum of approx. NIS 419 million.

The decline in cash flow from current operations in the nine months ended September 30, 2013 compared with the same period last year mainly resulted from a decrease in cash flow from the sale of financial assets held for trade of approx. NIS 485 million in the Report Period compared with the same period last year. In addition, a decline was recorded in the amount of approx. NIS 29 million in the cash flow from dividend and interest which were obtained from financial assets available for sale and held for trade. On the other hand, there was an increase in the cash flow from the Granite Hacarmel segment in the sum of approx. NIS 287 million which mainly derived from an increase in Sonol's cash flow.

The cash flow derived by the Group from current operations in the nine months ended September 30, 2013 were used by the Group mainly for financing investments required for projects under construction and purchase of land.

Net cash flows derived by the Group from current operations in the three months ended September 30, 2013 amounted to approx. NIS 191 million compared with the sum of approx. NIS 556 million which

derived from current operations in the same period last year (a decline of approx. NIS 365 million).

The decline in the cash flow from current operations in the three months ended September 30, 2013 compared with the same period last year derived mainly from a decline in cash flow from the sale of financial assets held for trade of approx. NIS 312 million in the Report Period compared with the same period last year.

Net cash flows used by the Group for investment activity in the nine months ended September 30, 2013, amounted to approx. NIS 734 million, compared with approx. NIS 744 million in the same period last year.

The decrease in the sum of approx. NIS 10 million in the Report Period resulted mainly from the purchase of, and investment in investment properties and investment properties under construction and advance payments on account of investment property in the sum of approx. NIS 594 million in the Report Period, compared with approx. NIS 623 million in the same period last year, offset against an increase in the cash flow from the Granite Hacarmel segment of approx. NIS 26 million which derived from the purchase of fixed assets and net payments for settlement of derivative financial instruments, which were offset, in part, against interest received and withdrawal of short-term deposits.

Net cash flows used by the Group for investment activity in the three months ended September 30, 2013 amounted to approx. NIS 201 million compared with approx. NIS 68 million used for investment activity in the same period last year.

The increase of approx. NIS 133 million in the quarter mainly derived from the purchase of and investment in investment property and investment property under construction and advance payments on account of investment property in the sum of approx. NIS 163 million in the Quarter, compared with approx. NIS 53 million in the same quarter last year.

Net cash flows used by the Group for financing activity in the nine months ended September 30, 2013, amounted to approx. NIS 338 million, compared with net cash flows used for financing activity in the sum of approx. NIS 744 million in the same period last year. The decline in the sum of approx. NIS 406 million results mainly from the purchase of non-controlling interests in the same period last year in the sum of approx. NIS 344 million and from an increase in short- and long-term loans received (net of loans and bonds repaid) consolidated in the sum of approx. NIS 63 million compared with the same period last year.

Net cash flows derived by the Group from financing activity in the three months ended September 30, 2013 amounted to approx. NIS 131

million compared with approx. NIS 460 million cash, net, used by the Group for financing activity in the same period last year. The increase of approx. NIS 591 million mainly derived from the purchase of the non-controlling interests in the same period last year in the sum of approx. NIS 282 million, and from the increase in short- and long-term loans received (net of loans repaid) consolidated in the sum of approx. NIS 297 million, compared with the same period last year.

Following is the composition of the Group's financing sources

	September 30, 2013		**December 31, 2012**	
	NIS in millions	**% of total balance sheet**	**NIS in millions**	**% of total balance sheet**
Short-term credit and current maturities of loans from banks and other credit providers	2,765	11.1%	3,451	14.4%
Long-term credit from banks and other credit providers	4,146	16.7%	3,134	13.0%
Bonds	1,463	6.0%	1,553	6.5%
Total	**8,374**	**33.8%**	**8,138**	**33.9%**

The increase in the sum of approx. NIS 236 million in the Report Period results from an increase in short-term loans in the sum of approx. NIS 193 million, offset against net repayment of long-term loans and bonds in the sum of approx. NIS 41 million (without Granite).

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1.3 billion, resulting mainly from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits. The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so, at market conditions and even under better conditions, in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the said deficit in the working capital may not affect its ability to repay its liabilities on time.

It is noted that during the quarter ended September 30, 2013, the Company acted for the refinancing of the loans in respect of the Azrieli Center in Tel Aviv in the sum of approx. NIS 900 million, which were repaid in August 2013. In this context, the Company entered into agreements with institutional bodies and with a banking institution for the provision of loans in the total sum of NIS 1,110 million, under significantly better conditions than the conditions of the loans that were repaid as aforesaid, all as specified in Section 1.1.1 above and in Chapter B of this Report.

(d) Rating

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

The Security	The Rating Company	The Rating	The Rating Date
Series A Bonds of the Company	Midroog	Aa2 with a stable Outlook	June 25, 2013
	Maalot	AA stable	October 16, 2013
Commercial paper	Midroog	P-1	June 25, 2013
Private loan	Midroog	Aa2	August 19, 2013

For further details, see Note 20 to the financial statements as of December 31, 2012. To review Midroog's annual monitoring report, see the Company's immediate reports of June 25, 2013, (ref. 2013-01-073392 and 2013-01-073404). To review Maalot's annual follow-up report, see the Company's immediate report of October 16, 2013 (ref. 2013-01-167901). To review Midroog's private loan report see the Company's immediate report dated August 19, 2013 (reference: 2013-01-120366).

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of September 30, 2013, 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	-	-	-	24	688	-	712	712
Long Term Loans	3,369	865	20	-	-	4,254	-	4,254
Total	**3,369**	**865**	**20**	**24**	**688**	**4,254**	**712**	**4,966**

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of September 30, 2013, in NIS in millions:

Year	Principal	Interest	Total
1	1,151	168	1,319
2	1,084	137	1,221
3	251	110	361
4	1,440	74	1,514
5 forth	1,040	130	1,170
Total	4,966	619	5,585

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, 2013, short-term loans accounted for approx. 14% of the Group's total financial liabilities (except for Granite Hacarmel). In the Company's estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

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

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

- The Group has a positive cash flow from current operations for many years (excluding consideration or investment in financial assets held for trade). This cash flow amounted to the sum of approx. NIS 789 million in the nine months ended September 30, 2013, compared with the sum of approx. NIS 536 million in the same period last year. The main increase (in the sum of approx. NIS 288 million) is attributed to Granite Hacarmel – see explanation regarding the cash flows above;

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

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

1.6 Quality of Profit

No changes occurred in the Report Period in the description that the Company included in the Board of Directors' Report for December 31, 2012.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) amounted to approx. NIS 73 million in the Report Period (approx. NIS 23 million in the quarter), compared with approx. NIS 58 million in the same period last year (approx. NIS 17 million in the same quarter last year). The increase in the sum of approx. NIS 15 million derives mainly from an increase in the expenses due to share based payment of approx. NIS 13 million, and from an increase in contributions in the sum of NIS 5 million, which was offset against a decline in consideration in respect of the management services paid to Canadian companies wholly owned and controlled by Mr. David Azrieli (as stated in Section 5D of the consolidated financial statements as of September 30, 2013) in the sum of approx. NIS 5 million.

1.8 The Net Financing Expenses

The Group’s net financing expenses in the Report Period amounted to the sum of approx. NIS 290 million, compared with approx. NIS 316 million in the same period last year (a decrease of approx. NIS 26 million). The decrease in the net financing expenses results mainly from a decrease in interest expenses for loans and bonds during the Report Period, compared with the same period last year, which resulted from both a decrease in the amount of credit, from the refinancing of loans for the Azrieli Center at considerably lower interest rates than before, capitalization of interest and linkage on projects under construction as well as a decrease in expenses which derived from a rise of approx. 2.0% in the rate of the rise in the index known in the Report Period compared with a rise of approx. 2.1% in the same period last year. Conversely, the profits from marketable securities (plus interest and dividends in respect thereof) amounted, in the Report Period, to approx. NIS 7 million compared with a profit of approx. NIS 45 million in the same period last year.

The group's net financing expenses in the quarter amounted to approx. NIS 113 million compared with approx. NIS 102 million in the same period last year (an increase of approx. NIS 11 million). The increase in the net financing expenses mainly derives from a change in the rate of the rise in the known index (a rise of approx. 1.3% in the quarter compared with a rise of approx. 0.9% in the same quarter last year), as well as from profits in the sum of

approx. NIS 28 million in the quarter last year from marketable securities (plus interest and dividends in respect thereof), offset against a decrease in the interest expenses on loans and bonds in the quarter compared with the same quarter last year, which derived from a decrease in the scope of credit, capitalization of interest on projects under construction and the refinancing of loans for the Azrieli Center at considerably lower interest rates than before.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 317 million, compared with tax expenses in the sum of approx. NIS 152 million in the same period last year. The increase in the tax expenses is attributed mainly to an increase in the deferred tax liability as of September 30, 2013 in the sum of approx. NIS 138 million due to the raising of corporate tax from 2014 to the rate of 26.5%.

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

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

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three-month period ended		For the nine-month period ended		For the year ended
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**	**Dec. 31, 2012**
	NIS in millions				
Revenues	**220**	**224**	**656**	**654**	**874**
% change	**(2%)**		**0.3%**		
NOI	**176**	**177**	**529**	**525**	**702**
% change	**(1%)**		**1%**		

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 change in the NOI results mainly from a change in the revenues of the existing retail centers and malls.

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

	For the three-month period ended		For the nine-month period ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
For the segment's assets owned by the Company as of the beginning of the period[8]	**176**	**177**	**529**	**525**
For assets that were purchased or whose construction was completed in 2012	**-**	**-**	**-**	**-**
For assets that were purchased or whose construction was completed in 2013	**-**	**-**	**-**	**-**
Total	**176**	**177**	**529**	**525**

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

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

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

- Space left vacant in periods of tenant replacement in some of the malls.

The balance of the assets of retail centers and malls in Israel segment – amounted as of September 30, 2013, to the sum of approx. NIS 9.9 billion, compared with approx. NIS 9.6 billion on December 31, 2012. The change mainly derives from appreciation of the assets following an update of appraisals for the properties in Israel carried out as of June 30, 2013 and from investments in the segment's properties.

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

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to approx. NIS 99 million compared with a profit of approx. NIS 38 million in the same period last year. The assets are presented according to the valuations performed by an independent appraiser as of June 30, 2013. The increase in the profit from fair value adjustment mainly derived from a reduction of approx. 0.25% in the cap rate of some of the properties of the segment.

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three months ended		For the nine months ended		For the year ended
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**	**Dec. 31, 2012**
	NIS in millions				
Revenues	**94**	**88**	**271**	**254**	**340**
% change	**7%**		**7%**		**-**
NOI	**76**	**71**	**223**	**209**	**282**
% change	**7%**		**7%**		**-**

The increase in revenues and in the NOI derives mainly from revenues from office and other space for lease which was added to the Group pursuant to the purchase thereof in October 2012 (50% of an office building in Petah Tikva), due to the opening of Azrieli Center Holon in July 2013, and from 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		For the nine-month period ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Due to the segment's assets owned by the Company at the beginning of the period[9]	**74**	**71**	**218**	**209**
Due to assets whose purchase was completed in 2012	**1**	**-**	**4**	**-**
Due to assets which were purchased or whose construction was completed in 2013	**1**	**-**	**1**	**-**
Total	**76**	**71**	**223**	**209**

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 in Israel segment was favorably affected primarily by:

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

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on September 30, 2013 to the sum of approx. NIS 5.3 billion compared with approx. NIS 4.8 billion on December 31, 2012. The change mainly derives from appreciation of the assets following an update of appraisals for the properties in Israel carried out as of June 30, 2013 and from investments in properties.

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 24 million, compared with a profit of approx. NIS 55 million in the same period last year. The assets are presented according to the valuations carried out by an independent appraiser as of June 30, 2013. The increase in the valuation mainly derived from an increase in the lease revenues.

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three-month period ended		For the nine-month period ended		For the year ended on
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	December 31, 2012
			NIS millions		
Revenues	**44**	**47**	**132**	**136**	**181**
Percentage of change	**(6%)**	**-**	**(3%)**	**-**	**-**
NOI	**25**	**27**	**76**	**78**	**103**
Percentage of change	**(7%)**	**-**	**(3%)**	**-**	**-**

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	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Due to the segment's assets owned by the Company at the beginning of the period[10]	**25**	**27**	**76**	**78**
Due to assets whose purchase was completed in 2012	**-**	**-**	**-**	**-**
Due to assets that were purchased or whose construction was completed in 2013	**-**	**-**	**-**	**-**
Total	**25**	**27**	**76**	**78**

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

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

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

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

- The average US Dollar exchange rate in the Report Period is approx. 6% lower than the average exchange rate of the US Dollar in the same period last year.

The investment properties balance of the Group in the segment – amounted on September 30, 2013 to the sum of approx. NIS 1.5 billion compared with approx. NIS 1.6 billion on December 31, 2012. The decrease derived from a decrease in the Dollar exchange rate.

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

Loss from the adjustment of fair value of investment properties of the segment totaled during the Report Period to the sum of approx. NIS 5 million, mainly resulting from changes in the exchange rate.

1.10.4 Granite Hacarmel segment

As of the Report Date, the Company holds, through Canit Hashalom Investments Ltd., the full share capital and voting rights of Granite Hacarmel, which has become a private company and whose shares have been delisted from TASE following the completion of a full

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

tender offer on September 24, 2012 (until such date the Company held (indirectly) approx. 60.61% of the Granite Hacarmel share capital). For details regarding class actions that were filed during the quarter and after the Date of the Statement of Financial Position, see Section 1.1.1 above. The Company's share (without non-controlling interests) in the Granite Hacarmel segment results amounted, in the Report Period, to a profit of approx. NIS 103 million, compared with a profit of approx. NIS 47 million in the same period last year.

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

	For the three-month period ended		Increase/ Decrease	For the nine-month period ended		Increase/ Decrease	For the year ended
	Sept. 30, 2013	Sept.30, 2012		Sept.30, 2013	Sept.30, 2012		Dec. 31, 2012
	NIS in millions		%	NIS in millions		%	NIS in millions
Revenues	1,816	1,960	(7%)	5,506	5,783	(5%)	7,659
Operating Profit	106	98	8%	270	230	17%	320
Net Profit (Loss)	40	38	5%	108	82	32%	124

Summary of Granite Hacarmel's business results:

The decline in Granite Hacarmel's revenues during the Report Period and the quarter compared with the same period last year mainly derived from a decline in Sonol's revenues which derives from a decline in the quantities of fuel sold in the direct marketing segment (mainly low profit black fuels) and from margin erosion and a decline in the revenues of GES, mainly as a result of a decline in revenues from the performance of contracting work due to the completion of the expansion of the desalination plant, which decline was partly offset against an increase in the revenues of Tambour and Supergas, due to an increase in operations.

Gross profit

Granite Hacarmel's gross profit amounted in the Report Period to approx. NIS 959 million (in the quarter NIS 335 million), compared with approx. NIS 903 million in the same period last year (NIS 333 million in the same quarter last year), a rise of approx. 6%, which mainly stems from an increase in the developer profit from the construction of solar facilities at Supergas, from an increase in Tambour's activity and from a rise in the fuel quantities sold at Sonol's fuelling and commerce complexes.

The operating profit

The operating profit in the Report Period amounted to approx. NIS 270 million, compared with the sum of approx. NIS 230 million in the same period last year, an increase of approx. 17%. The increase in the operating profit mainly stems from an increase in the gross profit as aforesaid.

The operating profit in Q3/2013 amounted to approx. NIS 106 million compared with approx. NIS 98 million in the same period last year. The rise mainly derives from an increase in the gross profit as aforesaid.

1.11 Note with Regard to Forward-Looking Information

The Company's intentions mentioned in the introduction of the Board of Directors' Report, the main emphases to the Report and in Sections 1.1 through 1.10 of the Board of Director's Report, inter alia, in connection with taking advantage of business opportunities and expansion of the activity, liquidity, sources of financing, rate of progress of the projects under construction, effects of the economic condition on the Company's operating segments, extent of the effect of the OPC agreement (if any) in connection with the purchase of electricity and pertaining to the possibility of conversion of the short-term debt into long-term debt and/or debt raising; are forward looking information, as defined in the Securities Law, 5728-1968, which is based on the Company's plans as of the Report Date, the Company's estimates in respect of market developments, levels of inflation and the anticipated cash flows, and on the conditions of and possibilities for raising credit on the Report Date. Such estimates may not be realized, in whole or in part, or may be realized in a materially different manner than such which the Company estimated. The main factors which may affect the same are: changes in the capital market which will affect the conditions of and possibilities for raising credit, changes in the Company's plans, including use of liquid balances which will exist, for purposes of taking advantage of business opportunities, changes in the merit of holding various investment channels or in the merit of using various financing channels, the worsening of the economic condition in Israel or in the USA and the entering into a severe recession, and the Company or any of the Group's members encountering financing or other difficulties, in the manner which will have an effect on the Company's cash flow.

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

2.1 General

The person in charge of market risk management in the Company is the CFO. As of May 1, 2013, Irit Sekler-Pilosof serves as the Company's CFO, having taken the position *in lieu* of Mr. Bronstein, who serves as the Company's CEO, as of the Report Date. In the quarter ended September 30, 2013, no material changes occurred in the risk factors, in the Company's policy on the management of market risks, in the means of supervision or in the implementation of policy, compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2012 and in the notes to the financial statements for such year.

2.2 Positions in derivatives

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

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

In the quarter ended September 30, 2013, no material changes occurred in the analysis of sensitivity tests and the effects on the fair value compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2012. In addition, unlike previous reports, the Group did not include in this report a sensitivity analysis for changes in the fair value of the prices of the marketable securities, since the majority of the company's managed marketable securities portfolio was sold during the Report Period.

Linkage bases table

See Annex B to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

The Company's Board of Directors, which is the organ responsible for the overall control of the Company, appointed a Financial Statements Review Committee (the "**Committee**") whose members are Prof. Niv Ahituv (Chairman of the Committee and an outside director, with an expertise in finance and accounting), Mr. Efraim Halevy (an outside director with a professional qualification), Mr. Joseph Ciechanover (an independent director with an expertise in finance and accounting) and, as of May 19, 2013, Ms. Tzipa Carmon (an independent director with an expertise in finance and accounting). Prior to their appointment, the four members of the Committee provided the Company with a statement regarding their education and experience, and pursuant to the provisions of Section 3 of the Companies Regulations (Instructions and Conditions regarding the Process of Approval of the Financial Statements) 5770-2010, whereby the Company considers them to have accounting and financial skills or an ability to read and understand financial statements, as the case may be. For further details regarding the Financial Statements Review Committee, see the Corporate Governance Report which is attached to the Company's Periodic Report for 2012.

Financial Statement Approval Procedure

The Committee convened on November 17, 2013 to review the financial statements for September 30, 2013 and to formulate its recommendations to the Board of Directors regarding approval of the statements. An advanced draft of the quarterly report, including all parts thereof, including the Company's financial statements and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

All of the Committee's members participated in the Committee's meeting of November 17, 2013. In addition, Mr. Menachem Einan, Active Deputy Chairman of the Board, Mr. Yuval Bronstein, the Company's CEO, Ms. Irit Sekler-Pilosof, the CFO, the internal auditor Mr. Gali Gana, General Counsel Ms. Michal Kamir, representatives of the Company's auditor and relevant position holders at the Company such as the Company's comptroller, were present at the meeting, at the request of the Committee's chairperson. During the meeting, the Company's CEO and the CFO reviewed the statements and additional issues and answered the Committee members' questions, as necessary.

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

reasons for it not constituting a warning sign. The Committee further discussed the accounting policy adopted in the framework of its financial statements and whether there were changes therein, the accounting treatment that was implemented on the corporation's material affairs, on which data in the financial statements are based.

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

After a discussion was held at the Committee as aforesaid, the Committee's chairperson put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's financial statements for September 30, 2013. The Committee's recommendations were forwarded to the Board members on November 17, 2013 in accordance with the period of time determined to be "reasonable" by the Board of Directors (approx. 2 business days), in view of the scope and complexity of the recommendations, in preparation for the Board meeting which was held on November 19, 2013.

On November 19, 2013, the Company's Board of Directors, which is the organ responsible for overall control of the Company, approved the Company's financial statements for September 30, 2013. For details regarding the members of the Board of Directors, see Section 26 of Chapter D. of the Company's Periodic Report for 2012. Advanced drafts of the financial statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

The persons invited to the Committee's meeting as specified above were also present at the Board meeting of November 19, 2013. The Board members who were present at the said meeting (including via any media) are: 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, Dr. Sharon Azrieli, Director, Dr. Naomi Azrieli, Director, Mr. Joseph Ciechanover, Independent Director, Ms. Tzippa Carmon, Independent Director, Prof. Niv Ahituv (Outside Director) and Mr. Efraim Halevy (Outside Director).

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

the Board of Directors, a vote was held during which the Company's financial statements for September 30, 2013 were approved.

3.2 **Corporate Governance**

For details regarding replacement of the Company's directors, replacement of the CEO, the CFO and other officers and regarding the general meeting's resolutions for approval of the compensation of officers who are controlling shareholders of the Company, as well as regarding approval of a compensation policy for the Company, see Chapter B herein.

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

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

For events and developments in the Report Period and updates to the Description of the Corporation's Business Chapter as of December 31, 2012, see Chapter B of this Report and Note 5 to the financial statements as of September 30, 2013.

4.2 Report on the Group's liabilities

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

4.3 Lawsuits

For details see Note 4 to the consolidated financial statement for September 30, 2013.

4.4 Critical accounting estimates

In the quarter ended September 30, 2013, no changes occurred compared with the description in the Board of Directors' Report for the year ended December 31, 2012.

4.5 Disclosure pertaining to Very Material Valuations

The Company has updated valuations of its assets in Israel as of June 30, 2013. (For details regarding the parameters for the update of the valuations in the quarterly statements, see Note 3C5 to the Periodic Report as of December 31, 2012).

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely – including the Azrieli Mall) only. This valuation as of June 30, 2013, was attached to the Company's financial statements as of June 30, 2013, as published on August 22, 2013 (ref. no.: 2013-01-123342), and the Company estimates that no material changes have occurred in this valuation.

As of September 30, 2013, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2013) was in the sum of approx. NIS 4.6 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall), out of a fair value of investment properties

in the sum of approx. NIS 16.7 billion (approx. 28% of the Company's total investment properties).

4.6 Subsequent events

See Note 9 to the financial statements.

4.7 Financial figures attributed to the Company as a parent company

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

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

Without qualifying their opinion, the auditors drew attention to the provisions of Note 4 pertaining to legal actions in material amounts, cumulatively, against the Company and consolidated companies, regarding which a motion was filed to recognize the same as class actions as well as 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, 2013.

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

Date: November 19, 2013

Annex A

The Group's Positions in Derivatives
September 30, 2013

Annex A
The Group's Positions in Derivatives
As of September 30, 2013

The Group's positions in derivatives as of September 30, 2013:

Granite Hacarmel and consolidated companies perform, as aforesaid, financial protection on the rise of the index due to the difference between the liabilities and index-linked NIS assets.

Below is a specification of the transactions as of September 30, 2013:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
225,000	NIS	October 2013 – May 2014	901

The maximum holding of derivatives, during the period of the report, of all of the NIS purchase positions was NIS 275,000 thousand.

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

Below is a specification of the transactions as of September 30, 2013:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
31,000	NIS	2014-2016	686

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, 2013:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
164,600	Dollar	NIS	October 2013 – February 2014	(12,543)
1,720	Euro	NIS	October 2013 – January 2014	27

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$178,067 thousand, and of the total purchase positions for purposes of protection of the Euro-NIS exchange rate was €3,500 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 B

Reporting according to Linkage Bases
September 30, 2013
(IFRS 7)

Annex B
Reporting according to Linkage Bases
as of September 30, 2013 according to IFRS 7
(NIS thousands)

	As of September 30, 2013					
	Israeli Currency		Foreign Currency		Others	Total
	Non linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	266,941	-	45,126	5,575	-	317,642
Financial assets held for trade	51,068	162	-	-	-	51,230
Short term deposits and investments	60,730	10	-	-	-	60,740
Trade receivables	1,701,694	4,006	62,036	4,408	-	1,772,144
Accounts receivables	52,769	44,705	23,352	5,328	103,608	229,762
Receivables for work in Progress	7,469	12,825	31,437	-	-	51,731
Inventory	-	-	-	-	459,160	459,160
Current tax assets	-	-	-	-	21,126	21,126
Total current assets	2,140,671	61,708	161,951	15,311	583,894	2,963,535
Non-current assets						
Investments in equity investees	-	-	-	-	9,187	9,187
Loans to equity investees	20,723	14,734	-	-	-	35,457
Investments, loans and receivables	48,699	60,818	4,053	-	62,750	176,320
Limited investments	53,210	21,704	-	-	-	74,914
Financial Assets available for sale	1,533,611	-	1,705	2,813	-	1,538,129
Financial assets designated at fair value through profit and loss	147	-	19,327	-	-	19,474
Long term Receivables in respect of a Franchise Arrangement	166,013	672,690	57,616	137,666	22,944	1,056,929
The Fuel Administration	-	-	122,556	-	-	122,556
Investment Real Estate and Investment Real Estate under Construction	-	-	-	-	16,710,198	16,710,198
Fixed Assets	-	-	-	-	1,414,567	1,414,567
Intangible assets	-	-	-	-	530,586	530,586
Prepaid Lease Fees	-	-	-	-	75,713	75,713
Deferred Tax Assets	-	-	-	-	54,981	54,981
Total Non-Current Assets	1,822,403	769,946	205,257	140,479	18,880,926	21,819,011
Total assets	3,963,074	831,654	367,208	155,790	19,464,820	24,782,546

(1) Mainly Euro

Annex B
Reporting according to Linkage Bases
as of September 30, 2013 according to IFRS 7
(NIS thousands)

(Contd.)

	As of September 30, 2013					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	2,071,896	522,556	141,104	29,548	-	2,765,104
Trade payables	349,398	13,479	423,325	28,495	-	814,697
Account payables	159,887	23,089	48,696	5,689	231,424	468,785
Deposits from customers	-	109,363	-	-	-	109,363
Provisions	-	-	-	-	41,002	41,002
Liabilities due to current taxes	-	-	-	-	24,689	24,689
Total current liabilities	2,581,181	668,487	613,125	63,732	297,115	4,223,640
Non-current liabilities						
Loans from banks and other credit providers	717,795	2,418,686	902,313	107,558	-	4,146,352
Bonds	-	1,462,794	-	-	-	1,462,794
Employee benefits	-	-	-	-	45,789	45,789
Other liabilities	9,151	44,855	6,086	-	268	60,360
Deferred tax liabilities	-	-	-	-	2,628,732	2,628,732
Total non-current liabilities	726,946	3,926,335	908,399	107,558	2,674,789	8,344,027
Total liabilities	3,308,127	4,594,822	1,521,524	171,290	2,971,904	12,567,667
Total exposure in the statement on the financial position	654,947	(3,763,168)	(1,154,316)	(15,500)	16,492,916	12,214,879

(1) Mainly Euro and Pounds Sterling.

Annex C

Extended Standalone Financial Statements
September 30, 2013

Annex C

Extended Standalone Financial Statements

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

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

Balance sheet:

	As of September 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	264,886	121,071	111,040
Financial assets held for trade	30,032	442,044	421,847
Trade accounts receivable	41,138	38,728	36,304
Other receivables	69,122	56,254	69,600
Current tax assets	6,728	14,910	11,381
Total Current Assets	411,906	673,007	650,172
Non-Current Assets			
Investment in investee companies	1,288,104	1,155,694	1,195,712
Loans and receivables	58,671	58,654	58,405
Financial assets available for sale	1,444,195	1,259,172	1,413,701
Financial assets designated at fair value through profit and loss	19,474	22,038	20,088
Investment property and investment property under construction	16,620,383	15,486,632	15,864,794
Fixed assets	42,691	43,281	42,706
Deferred tax assets	1,944	1,688	2,015
Total Non-Current Assets	19,475,462	18,027,159	18,597,421
Total Assets	19,887,368	18,700,166	19,247,593

Annex C

Extended Standalone Financial Statements

Balance Sheet: Contd.

	As of September 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	1,154,275	1,628,220	1,820,873
Trade payables	64,735	60,495	58,510
Payables and other current liabilities	113,893	96,851	75,998
Current tax liabilities	16,879	19,189	34,141
Total Current Liabilities	1,349,782	1,804,755	1,989,522
Non-Current Liabilities			
Loans from banks and other credit providers	2,882,369	2,188,075	1,983,477
Bonds	929,676	1,014,782	995,172
Other liabilities	38,616	39,952	39,953
Employee benefits	14,857	15,731	25,014
Deferred tax liabilities	2,473,835	2,166,624	2,268,759
Total Non-Current Liabilities	6,339,353	5,425,164	5,312,375
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	237,929	145,434	245,454
Retained earnings	9,350,658	8,723,927	9,093,148
Equity attributed to shareholders of the Parent Company	12,124,825	11,405,599	11,874,840
Not-controlling interests	73,408	64,648	70,856
Total Capital	12,198,233	11,470,247	11,945,696
Total Liabilities and Capital	19,887,368	18,700,166	19,247,593

Annex C

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
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in Thousands	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues					
From rent, management and maintenance fees	1,061,896	1,047,111	358,326	359,351	1,399,333
Net profit from adjustment to fair value of investment property and investment property under construction	117,854	93,283	1,581	2,176	314,936
Financing income	16,722	46,046	6,887	28,106	56,699
Share in results of associated companies, net of tax	97,971	78,171	36,270	37,243	119,462
Other	6,000	7,797	-	-	7,797
Total Revenues	1,300,443	1,272,408	403,064	426,876	1,898,227
Costs and Expenses					
Cost of revenues from rent, management and maintenance fees	231,028	232,775	81,830	83,818	309,394
Sales and Marketing	7,621	7,616	4,251	2,147	11,336
General and Administrative	65,729	50,485	19,146	14,907	75,840
Financing Expenses	186,612	245,694	75,469	84,079	275,788
Other expenses	11	-	11	-	-
Total Costs and Expenses	491,001	536,570	180,707	184,951	672,358
Income before income taxes	809,442	735,838	222,357	241,925	1,225,869
Expenses for taxes on income	(277,843)	(127,867)	(166,212)	(30,875)	(239,611)
Net Profit for the period, including the minority	531,599	607,971	56,145	211,050	986,258

Part B

Update of the Description of the Corporation's Business

Azrieli Group

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2012 (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 ended September 30, 2013 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 19, 2013; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – September 30, 2013.

1. Holding Chart of the Company and the Group's companies shortly before the Report Release Date

Update to Footnote (1):

Approximately 0.9% is held by the Azrieli Foundation (Israel) R.A.(during the Report Period Mr. David Azrieli transferred, without consideration, the share that he held in Canit Hashalom to a non-profit organization whose assets are designated for donations and for the financing of philanthropic activity in Israel).

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

Update to Section 1.3 of the Description of the Corporation's Business chapter:

a. On August 8, 2013 the Company received a petition for an appraisal remedy and a petition for cancellation of the tender offer, in accordance with Section 338 of the Companies Law, 5759-1999, and also a motion for class certification that were filed with the Economic Division of the District Court in Tel Aviv, against the Company and against the subsidiary, Canit Hashalom Investments Ltd., by a petitioner claiming to have been an offeree in the framework of the full

[1] As released on March 20, 2013 (ref. no. 2013-01-011398).

tender offer that the Company completed at the end of September 2012, for publicly-held shares in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period determined by law for the filing of an appraisal remedy claim). The Company filed a motion for summary dismissal and the hearing was set for February 2014. For further details please see the immediate report of the Company of August 8, 2013 (ref. no.: 2013-01-113148) which is incorporated herein by reference and Note 4B to Chapter C of this report, the financial statements as of September 30, 2013.

b. On August 8, 2013, the Antitrust Court ordered the dismissal of the appeal that the Company filed in January 2013, from the Antitrust Commissioner's decision to oppose the Company's acquisition of the One Plaza power center in Beer Sheva, due to the fact that the merger agreement is no longer in force. The Company filed an appeal on the Antitrust Court's decision before the Supreme Court.

c. On May 22, 2013, the Company engaged in an agreement for the purchase of all of the rights of an unaffiliated third party in a plot adjacent to Azrieli Center in Tel Aviv of an area of approx. 8,400 sqm, on which a building of an area of approx. 18,000 sqm is currently built (which is slated for demolition), at the intersection of Menachem Begin Rd. and Noah Moses St. in Tel Aviv, in consideration for the sum of NIS 374 million plus V.A.T and plus differentials of linkage to the index of December 2012. On the signing date, the Company paid the sum of NIS 90 million, plus linkage differentials on account of the consideration as aforesaid. For further details, see the Company's immediate report of May 22, 2013 (ref. no.: 2013-01-068386), which is included herein by way of reference.

d. On May 13, 2013, the Company published a shelf prospectus which does not include an immediate raising of the Company at this stage. For the shelf prospectus, see the Company's report of May 13, 2013 (ref. no.: 2013-01-061090).

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

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

On May 16, 2013, Azrieli Holdings Inc. ("**Azrieli Holdings**") through its wholly owned subsidiary, Nadav Investments Inc. ("**Nadav Investments**"), transferred 7,793,662 shares of the Company, without consideration, to a registered charitable foundation, the Azrieli Foundation, which is domiciled in Canada and whose assets are designated for donations and for financing of philanthropic activity in Israel and in Canada (the "**Foundation**"). Following the said share transfer, the Foundation became an interested party of the Company by virtue of the holdings. It is clarified that as the Company was informed, neither Mr. David Azrieli nor any of his relatives are controlling shareholders of the Foundation, and therefore the Foundation shall not be deemed as a controlling shareholder of the Company. After the Date of the

Statement of Financial Position, Azrieli Holdings (through Nadav Investments) transferred additional 4,000,000 shares of the Company owned thereby to the Foundation, without consideration. Therefore, as of the Report Release Date, Azrieli Holdings holds 61.69% of the Company's share capital (directly and indirectly, as specified below) and the Foundation holds 13.30% of the Company's share capital.

After the date of the financial statements, the Company was informed that Nadav Investments transferred to Azrieli Holdings 7.36 million shares of the Company, such that as of the Report Release Date, Azrieli Holdings holds directly approx. 6.07% of the Company's share capital and indirectly holds additional approx. 55.62% of the Company's share capital through its holdings of the entire share capital of Nadav Investments.

For further details, see the Company's immediate reports of May 19, 2013 (ref. no.: 2013-01-063904 and 2013-01-063892) and of October 27, 2013 (ref. no. 2013-01-175218) and of November 3, 2013 (ref. no. 2013-01-180894), which are included herein by way of reference.

4. Dividends

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

On May 1, 2013, the Company paid to its shareholders a total sum of NIS 265 million (approx. NIS 2.19 per share). For further details, see Section 1.5 of Chapter A of the Board of Directors' Report.

5. Properties under Construction

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

Azrieli Holon Center

As of the Report Release Date, the Company has received an occupancy permit for one of the buildings (Building A) that were planned in the framework of the first stage of the project and has commenced the occupancy thereof (while the work in Building B is nearing completion), and has also completed the construction of the project's underground parking lots, and is in the final stages of the work for the purpose of approval of the occupancy of the project's retail spaces, according to the building permit and the timetable that was determined. In addition, the Company is preparing for the construction of Stage B of the project.

Azrieli Mall Ramla

As of the Report Release Date, the Company has completed the construction of the project's first stage, which includes a parking lot, the supermarket building and the project's loading and unloading area and the supermarket has begun operating on site.

Azrieli Mall Rishonim

In September 2013, the zoning plan applicable to the project site received final approval, and the Company is in the course of the work of excavation, establishment and construction of the underground parking lots in the project according to the building permits which were obtained. Administrative petitions were filed in March and April, 2013, against the decision of the district committee to approve the plan which applies to the project site and against the denial of the appeal in connection with the excavation and shoring permit received in the project. In addition, a petition and a motion for an interim injunction were filed and dismissed with prejudice against the final approval of the plan.

Building in Kiryat Ata

The company is finishing the construction work and is preparing for the occupancy of the commercial area of the building.

Additional floor in Ayalon Mall

As of the Report Release Date the Company has begun work for the purpose of construction of the second floor pursuant to a building permit that was received in October 2013.

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.

6. Developments regarding Azrieli Center Tel Aviv

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

Azrieli Towers Tel Aviv

(Data according to 100%) (*)	For the quarter ended September 30, 2013	For the quarter ended June 30, 2013	For the quarter ended March 31, 2013	For the year ended December 31, 2012
Property Value (NIS in thousands)	2,613,291	2,608,435	2,581,656	2,579,848
NOI in the period (NIS in thousands)	48,805	48,539	47,860	186,020
Revaluation profit in the period (NIS in thousands)	330	23,835	341	84,110
Average occupancy rate in the period (%)	100%	100%	100%	99%
Rate of return (%)	7.5%	7.4%	7.4%	7.2%
Average rent per sqm per month (NIS) (**)	97	96	95	93

Average rent per sqm per month in contracts signed in the period (NIS)	113	114	115	103

(*) The corporation's share in the property – 99.1%. The remaining rights in the property are held by the Azrieli Foundation (Israel) R.A.;
(**) The figure does not include the rent of the hotel which is located in the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month in Q3/2013 would have been approx. 93 per sqm, approx. NIS 92 per sqm in Q2/2013, approx. NIS 91 per sqm in Q1/2013 and approx. NIS 89 per sqm in 2012.

The valuation for this property and details of the valuation were published in the Company's financial statements as of June 30 2013.

7. Developments in the Granite Hacarmel operating segment

Supergas Segment -

a. Update to Section 11.13.7 of the Description of the Corporation's Business Chapter

In May 2013, a letter was received at the offices of Supergas, Israeli Gas Distribution Company Ltd. (a second-tier subsidiary, wholly owned by the Company) ("**Supergas**"), from the Ministry of Energy and Water Resources, from which it transpires that further to the supervision, at the level of reporting on profitability and prices pursuant to Chapter G of the Control of Commodities and Services Law, 5718-1957, which was imposed on Supergas and other LPG companies, in the Price Control of Commodities and Services (Application of the Law to LPG) Order, 5770-2010, the Director of the Fuel and Gas Administration and the Supervisor of Prices at the Ministry of Energy and Water Resources are considering recommending the imposition of control over the LPG prices in sales through central tanks and through tanks to the private sector. The letter includes a preliminary draft of attribution of costs of Supergas to the LPG margin, which was prepared by the Fuel Administration, which as set forth therein, is based on data submitted by Supergas and processing performed. As the Company was informed, in July 2013 Supergas provided its comments to the Report and rejected most of the calculations and assumptions underlying the Report.

b. Update to Section 11.13.10 of the Description of the Corporation's Business Chapter

During the reported quarter, Supergas and the Antitrust Authority have reached an agreement whereby, subject to the approval of the Antitrust Court, Supergas and the Company's current CEO will pay sums to the State Treasury, in lieu of the imposition of enforcement measures in relation to the Authority's arguments and without admitting to any breach of law. On November 7, 2013, the Antitrust Court sanctioned the agreement reached between Supergas and the Antitrust Authority

as a consent order. For further details see Note 4C to the financial statements.

c. Update to Section 11.14.3 of the Description of the Corporation's Business Chapter

On July 10, 2013, Supergas Natural Ltd., a subsidiary of Supergas, entered an agreement with the partners of the "Tamar" Lease for the supply of natural gas (the "**Sellers**" and the "**Agreement**", respectively), whereby Supergas Natural Ltd. shall purchase from the Sellers natural gas for the purpose of marketing thereof to its customers and/or consolidated companies of Tambour. The total financial scope of the aforesaid Agreement is estimated at approx. NIS 530 million, and the period of supply has begun in August 2013.

The aforesaid financial scope of the Agreement is forward-looking information, as such term is defined in the Securities Law 5728-1968, and there is no certainty that it will materialize, in whole or in part, and it may materialize in a manner which substantially differs from the aforesaid, due to various causes, including changes in the scope, pace and timing of Supergas' consumption of the natural gas, the price of gas as shall be determined according to the Agreement and so on.

d. Update to Section 23 of the Description of the Corporation's Business Chapter:

On October 15, 2013, after the Date of the Statement of Financial Position, the Company was informed by Supergas of the receipt of a claim and motion for class certification (the "**Motion**") that was filed against Supergas and two additional gas companies in the sum total of approx. NIS 372 million (without stating the share of each company), due to charges for services that are not actually provided by them. For details, see immediate report of October 16, 2013 (ref. no. 2013-01-167055), which is included herein by way of reference.

Tambour Segment -

a. Update to Section 11.20 of the Description of the Corporation's Business Chapter

During May 2013, the Antitrust Commissioner announced that he was partially granting Tambour's application and ordering a reduction of the existing declaration of Tambour as a monopoly in some of the categories in the field of paint in respect of which Tambour submitted the application, and in respect of which the Antitrust Commissioner's declaration had applied to Tambour as a monopoly thus far.

GES Segment -

a. Update to Section 11.26.3 of the Description of the Corporation's Business Chapter

On March 19, 2013, the permanent commercial operating permit for the first stage of the second expansion of the facility was received from the Water Authority.

After the Report Date, the company completed the construction work on the second stage of the second expansion of the facility. On July 30, 2013 completion tests for the last and final stage of the second expansion of the facility began, following which on August 28, 2013, a conditional operating permit was received for the second and final stage of the expansion, for production in the output of 90 million cubic meters per year. The permit is effective retroactively, as of August 6, 2013. The Company is acting to obtain a permanent operating permit.

b. Update to Section 11.31.1 of the Description of the Corporation's Business Chapter

In February 2013, a letter was received by Dan Viro from the Head of Public Health Services at the Ministry of Health, which was sent to the fly ash manager regarding use of a product of Dan Viro's facility – N viro sludge. In his letter, the Head of Health Services demanded receipt of research work regarding agricultural use of N viro sludge in order to carry out a risk assessment with respect to the use thereof and demanded to stop the marketing of agricultural produce in which a Dan Viro facility product was used. Upon receipt of this notice, Dan Viro halted the facility's activity and acted to receive all of the necessary approvals for continued agricultural use of the Dan Viro product.

In late March 2013, the Ministry of Health announced that it permits the marketing of the agricultural produce grown and determined the conditions for the marketing of agricultural produce in the future. Accordingly, the facility's work was resumed in early April 2013 and is expected to produce the planned annual quantity.

c. Update to Section 11.32.1 of the Description of the Corporation's Business Chapter

The terms of the business license received by Via Maris' desalination plant determine that the plant is required to meet a water alkalinity threshold, which the plant is unable to meet due to the incompatibility between the required level and the plant's original design features, while the Ministry of Health is aware of this issue.

Pursuant to the People's Health Regulations (Sanitary Quality of Drinking Water and Drinking Water Facilities), 5773-2013 (the

"**People's Health Regulations**")[2], a desalination plant is required to meet water quality values that are higher than the level for which the plant was designed and for which it is prepared in terms of land area and technology. The desalination plant operates according to the approval of the Ministry of Health which permits the plant to operate according to the water quality values pursuant to which it has been operating since its establishment while using a different method to stabilize the water. The approval is effective until August 25, 2016. In addition, the People's Health Regulations permit a professional team which is defined in the regulations to order the desalination plants, including the Palmachim desalination plant, to construct a pilot plant for the examination of technologies of adding magnesium to the desalinated water, for the period until September 1, 2015. As of the Report Date, the desalination plant has not yet received a request to construct a pilot plant as aforesaid.

As of the Report Date, the Company's estimation, based on the estimation of GES (through Via Maris Desalination) is that insofar as the construction of a pilot plant for adding magnesium is not required, the People's Health Regulations are not expected to have a material effect on the manner of operation of the Palmachim desalination plant.

d. Update to Section 11.27 of the Description of the Corporation's Business Chapter

After the Report Date, on October 31, 2013, Via Maris received a letter from the Water Desalination Administration which is comprised of representatives of the Ministry of Energy and Water and the Ministry of Finance, whereby the State intends to significantly decrease the quantities of desalinated water that will be purchased in 2014 from seawater desalination plants in Israel, including the Palmachim plant which is owned by Via Maris. In the context of the notice, the committee invited Via Maris to voice its response to the aforesaid. A significant reduction of quantities is expected to have an adverse effect on Via Maris' results for 2014. Via Maris has both legal and economic arguments against the aforesaid reduction which it presented to the committee and in addition, Via Maris is examining the legal possibilities that are available thereto.

[2] The People's Health Regulations replaced the People's Health Regulations (Sanitary Quality of Drinking Water), 5734-1974.

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

Update to Sections 17.3 and 17.4 of the Description of the Corporation's Business chapter

a. **Refinancing of loans for the Tel Aviv Azrieli Center**:

In the framework of the refinancing of loans for the Azrieli Center in Tel Aviv amounting to approx. NIS 900 million and maturing in August 2013, on August 18, 2013 the Company entered into an agreement with an institutional body's group, for the provision of a loan linked to the Consumer Price Index in the amount of NIS 710 million, for an 8-year term, bearing interest at an annual rate of 1.16%. To secure the loan's repayment, Canit Hashalom Investments Ltd. has charged in favor of the lender its rights in part of the lobby floor, the roof floor and in Floors 11-49 of the Round Tower, which is part of the Azrieli Center in Tel Aviv.

In addition, on the same day, the Company entered into an agreement for the provision of an additional loan from an institutional body, in a total sum of NIS 250 million, without collateral, for a period of two years that will bear interest at the annual rate of 0.75%.

For further details concerning the two loans, see the Company's immediate reports of August 19, 2013 (ref. nos.: 2013-01120351; 2013-01-120366) which are incorporated herein by reference, and Note 9A to the Company's financial statement as of September 30, 2013.

b. The table in Section 17.3 of the Description of the Corporation's Business chapter, the title of which is "Reportable Credit Extended to the Company" shall be replaced by the following table[3]:

Date of provision of the loan	**Purpose of the loan**	**Type of loan**			**Balance (including current maturities) as of September 30, 2013 (NIS in million)**	**Type and rate of annual interest**	**Linkage**	**Guarantees/securities**	**Long term loans' payment due date**
		Banking Corporation	**Short Term**	**Long Term**					
March 2009	Acquisition of the Givatayim Mall	Banking Corporation A		X	265	4.7%	Consumer Price Index	1. Mortgage registration obligation. 2. First-ranking pledge on contractual rights deriving from the mall. 3. First-ranking fixed charge on all of the rights deriving from the mall. 4. First-ranking floating charge on all of the rights in the mall. 5. Undertaking to refrain from	**Until March 2017**

[3] The table was redrafted pursuant to the provisions of Legal Position 104-15 – Reportable Credit Event that was released by the ISA and the parameters that were approved by the Board of Directors for the examination of materiality in the context of the internal enforcement program. For details concerning loans, the details of which were omitted in the framework of the redrafting, see Section 17.3 of the Company's periodic report as of December 31, 2012, as released on March 20, 2013 (ref. no.: 2013-01-011398).

								creating a floating charge on the assets in their entirety without receipt of the banking corporation's consent.	
March 2007	Current purposes	Banking Corporation B		X	340	4.75%	Consumer Price Index	Undertaking to refrain from creating a floating charge on the assets in their entirety without receipt of the banking corporation's consent.	**Until March 2017**
August 2013	Financing Azrieli Center	Institutional Body Group		X	711	1.16%	Consumer Price Index	Pledge of Canit Hashalom Investments Ltd.'s rights in part of the lobby floor, the roof floor and in Floors 11-49 of the Round Tower, which is part of the Azrieli Center in Tel Aviv	**Until August 2021**
August 2013	Current purposes	Institutional Body		X	250	0.75%	Consumer Price Index	-	**Until August 2015**

The Company has additional loans, which are non-material, from banks, the balance of which in the books, as of September 30, 2013 amounts to approx. NIS 0.8 billion. These loans bear interest ranging between 0.85% and 5.8% and shall be repaid between the years 2013 and 2020. There are no financial covenants for these loans and for the material loans.

c. The table in Section 17.4 of the Description of the Corporation's Business chapter, the title of which is "Reportable Credit Extended to the Members of the Group" shall be replaced by the following table:

Borrowing Corporation	**Date of provision of the loan**	**Purpose of the loan**	**Type of loan**			**Balance (including current maturities) as of September 30, 2013 (NIS in million)**	**Rate of annual interest**	**Linkage**	**Guarantees (NIS in thousand)/lien**	**Long term loans' payment due date**
			Banking Corporation	**Short Term**	**Long Term**					
Shareholders of the property[4]	February 2014	Purchase of Three Galleria	Financial Institute A		X	452	5.998%	USD	Lien on the property and any and all rights related thereto and deriving therefrom. Guaranty of the Company, exercisable only in a number of specific cases that were defined in the loan agreement. Company's undertaking to indemnify the	Until February 2021

[4] The loan was taken by Three Galleria Office Buildings, LLC, a company which is controlled by the Company (90% indirectly). The loan amount presented in the table is for 100% of the loan.

									financing body for damage incurred thereby in the event of specific breaches of the buyer's undertakings in the loan agreement.	
AG Plaza At Enclave LLC	January 2012	Purchase of property in Houston	Foreign Financial Institute		X	244	3.6%	USD	Lien on the property and any and all rights related thereto and deriving therefrom. Guaranty of the Company, exercisable only in a number of specific cases that were defined in the loan agreement. Company's undertaking to indemnify the financing body for damage incurred thereby in the event of specific breaches of the buyer's undertakings in the loan agreement.	Until February 2017

The Group has additional immaterial loans from bank corporations whose balance in the books, as of September 30, 2013, is approx. NIS 0.2 billion. These loans bear interest ranging between 1.9% and 6.4% and shall be repaid between the years 2013 and 2021. There are no financial covenants for these loans and for the material loans

9. Commercial paper

Update to Section 17.5.1 of the Description of the Corporation's Business chapter:

As of September 30, 2013, the balance of the liability due to the issue of rated CP was in the sum of NIS 200 million and due to unrated CP in the sum of approx. NIS 267 million. During the Report Period, the Company issued additional unrated CP at a scope of approx. NIS 135 million, and after the Report Date performed an additional issue at a scope of approx. NIS 11 million.

For details regarding the financing conditions, see Note 20 to the financial statements for December 31, 2012.

On June 25, 2013 Midroog Ltd. extended the rating of the CP issued by the Company in an amount of up to NIS 200 million, until June 30, 2014, at P-1 rating. To secure sufficient liquidity for payment of the CP, the Company undertook to maintain liquid cash balances and/or signed and unused credit facilities and/or other liquid financial holdings, at a total scope of no less than NIS 200 million. For details, see immediate report of June 25, 2013 (ref. no.: 2013-01-073404), which is included herein by way of reference.

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

Update to Sections 17.5.2 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 and in Note 20 to the financial statements for December 31, 2012. As of September 30, 2013, the balance of the par value of the Series A Bonds of the Company is NIS 518 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 and in Note 20 to the financial statements for December 31, 2012.

On June 25, 2013, Midroog reaffirmed the rating of the Company's Series A Bonds at Aa2 rating with a stable outlook. For a review of Midroog's annual follow-up report see the Company's immediate report of June 25, 2013 (ref. no.: 2013-01-073392), which is included herein by way of reference. On October 16, 2013, Maalot reaffirmed the rating of the Series A Bonds at AA rating with a stable outlook. For a review of Maalot's annual follow-up report and the rating affirmation, see the Company's immediate report of October 16, 2013 (ref. no.: 2013-01-1670-1).

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

Update to Sections 17.6.1 and 17.11.1 of the Description of the Corporation's Business chapter:

In the Report Period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.6.1 of the Description of the Corporation's Business chapter and in Note 20 to the financial statements for December 31, 2012. As of September 30, 2013, the balance of the par value of the Series A Bonds of Canit Hashalom is approx. NIS 323 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, including an amendment to the indenture of October 2013, are specified in Section 17.6.1 of the Description of the Corporation's Business chapter, in Note 20 to the financial statements as of December 31, 2012 and in Note 9 to Chapter C of this Report – the financial statements as of September 30, 3013.

On June 25, 2013, Midroog reaffirmed the rating of Canit HaShalom's Series A Bonds at Aa2 rating with a stable outlook. For a review of Midroog's annual follow-up report see the Company's immediate report of June 25, 2013 (ref. no.: 2013-01-073401).

12. Legal Proceedings

For an update in connection with the legal proceedings being conducted against the Group's companies, see Note 4 to the financial statements as of September 30, 2013 and this report.

13. Changes in the Office of Officers of the Company

Update to Regulations 26, 26A, 27 of Chapter D of the Periodic Report and the Corporate Governance Report

Approval of a compensation policy

On August 6, 2013, the Company's Board of Directors approved, after receipt of the Compensation Committee's recommendation, a compensation policy for the Company pursuant to Section 267A of the Companies Law. On September 11, 2013, the general meeting of the holders of the Company's shares approved the aforesaid compensation policy. For details, see the Company's immediate reports of August 6, 2013 (ref. no.: 2013-01-110556) and of September 11, 2013 (ref. no. 2013-01-143388), which are included herein by way of reference.

Approval of the terms of the office and employment of the Company's controlling shareholders

On June 20, 2013, the Company's general meeting approved the terms of office and employment of the Chairman of the Board, Mr. David Azrieli, and

of the Active Vice Chairman of the Board, Ms. Danna Azrieli, after receipt of the approval and recommendation of the Company's Board of Directors and the Compensation Committee. For details, see the Company's immediate reports of May 14, 2013 (ref. no.: 2013-01-062020) and of June 21, 2013 (ref. no.: 2013-01-070386), which are included herein by way of reference, and Note 5 to the financial statements.

On May 13, 2013, the Company's Board of Directors and the Compensation Committee reapproved the terms of office of the directors Dr. Naomi Azrieli and Dr. Sharon Azrieli, without any change to the terms of their office.

In addition, the Compensation Committee and the Company's Board of Directors approved, on the same dates, the continued inclusion of the Company's controlling shareholders and their relatives, who serve as directors and officers of the Company, in the directors and officers liability insurance policies at the Company in accordance with the resolution of the Company's general meeting of May 6, 2010. For details, see the Company's immediate report of May 14, 2013 (ref. no.: 2013-01-062029) which is included herein by way of reference.

Approval of the reappointment of the accountancy firm

On September 11, 2013, the Company’s general meeting approved the reappointment of Brightman Almagor Zohar & Co. Accountancy Firm as the Company’s auditors. For details regarding the results of the general meeting, see the Company’s immediate report of September 11, 2013 (ref. no.: 2013-01-143388), which is included herein by way of reference.

Extension of the office of the Company’s outside directors

On May 8, 2013, the Company's Board of Directors resolved to recommend to the general meeting of the shareholders to re-appoint Prof. Niv Ahituv and Mr. Efraim Halevy as outside directors of the Company for an additional three-year term of office from August 24, 2013. On June 20, 2013, the Company's general meeting approved the reappointment of the foregoing outside directors. For further details, see the Company's immediate reports of May 14, 2013 (ref. no. 2013-01-062020) and of June 21, 2013 (ref. no.: 2013-01-070386), which are included herein by way of reference.

Replacement of directors and reappointment of directors and auditor

On May 1, 2013, Mr. Yossi Kucik ended his office as a director of the Company after giving the Company notice of his resignation. On May 8, 2013, the Company's Board of Directors approved the appointment of Ms. Tzipa Carmon as an independent director of the Company, with accounting and financial expertise, from May 19, 2013, and it further approved the terms of her office, after having accepted the recommendation of the Compensation Committee. For details, see the Company's immediate report of May 8, 2013 (ref. no.: 2013-01-057697), which is included herein by way of reference.

On June 20, 2013, the Company's general meeting approved the appointment of Ms. Tzipa Carmon as a director of the Company, until the Company's next annual general meeting. For further details, see the Company's immediate reports of May 14, 2013 (ref. no.: 2013-01-062020) and of June 21, 2013 (ref. no.: 2013-01-070386), which are included herein by way of reference.

On September 11, 2013, the Company's general meeting approved the reappointment of the incumbent directors on the Company's Board of Directors (excluding the outside directors), Messrs.: David Azrieli, Danna Azrieli, Menachem Einan, Sharon Azrieli, Naomi Azrieli, Joseph Ciechanover (as an independent director) and Tzipora Carmon (as an independent director) as members of the Company's Board of Directors until the end of the next annual meeting of the Company. In the said meeting also the reappointment of Brightman Almagor Zohar & Co. Accountancy Firm as the Company's auditors was affirmed. For details see the Company's immediate reports of August 6, 2013 (ref. no.: 2013-01-110556) and of September 11, 2013 (ref. no.: 2013-01-143388), which are included herein by way of reference.

Replacement of the CEO

On April 2, 2013, the Company's Board of Directors approved the appointment of Mr. Yuval Bronstein as the Company's CEO, from May 1, 2013, and further approved an update to Mr. Bronstein's terms of office as the Company's CEO, subject to the approval of the Company's general meeting. Mr. Bronstein replaced the Company's acting CEO, Mr. Shlomo Sherf, who gave the Board of Directors notice of termination of his office as the Company's CEO, and who ended his duties in practice on April 30, 2013, after a term of office of more than two years. For further details, see the Company's immediate report of April 3, 2013 (ref. no.: 2013-01-024391), which is included herein by way of reference. On June 20, 2013, the Company's general meeting approved an update to Mr. Bronstein's terms of office. For further details, see the Company's immediate reports of May 14, 2013 (ref. no.: 2013-01-062020) and of June 21, 2013 (ref. no.: 2013-01-070386), which are included herein by way of reference, and Note 5 to the financial statements.

Appointment of a CFO

On May 8, 2013, the Company's Board of Directors approved the terms of office of Ms. Irit Sekler-Pilosof as the Company's CFO, in lieu of Mr. Yuval Bronstein, as of May 1, 2013.

Appointment of other officers

On October 3, 2013, Mr. Arnon Toren was appointed as CEO of Azrieli Malls in lieu of Mr. Peer Nadir., whose office as an officer of the Company will end on December 31, 2013. Mr. Toren, who has taken office on November 1, 2013, served as Manager of Office Segment and Azrieli Center CEO in the Group during the recent years. For details, see the Company's immediate reports of October 30, 2013 (ref. no.: 2013-01-178101; 2013-01-178095), which are included herein by way of reference.

On October 8, 2013, Mr. Ofer Avram was appointed as Manager of Office Segment in the Group, replacing Mr. Toren commencing from January 1, 2014. Mr. Ofer Avram served until recently as Deputy CEO in Bayside Land Corporation Ltd. For additional details, see immediate report of October 30, 2013 (ref. no.: 2013-01-178104) which is included herein by way of reference.

Part C

Condensed Consolidated Financial Statements Dated 30 September, 2013

Azrieli Group

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of September 30, 2013

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

Auditor's Review Report to the Shareholders of
Azrieli Group Ltd.

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "Group") which includes the Condensed Consolidated Statement of Financial Position as of September 30, 2013 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Equity and Cash Flows for the periods of nine and three months then ended. The board of directors and management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the presentation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of a consolidated company whose consolidated assets constitute approx. 23.7% of all the consolidated assets as of September 30, 2013, and whose consolidated revenues constitute approx. 82.3% and 83.5%, respectively, of all the consolidated revenues for the periods of nine and three months then ended. The condensed financial information for the interim periods of such company was reviewed by other auditors whose review report was furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review report of the other auditors**.**

Scope of the review

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

Conclusion

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

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

Without qualifying our above conclusion, attention is drawn to Note 4 regarding legal claims in material amounts, in the aggregate, against the Company and consolidated companies, in respect of which a motion for class certification has been filed and regarding various claims and suits in material amounts, in the aggregate, against a consolidated company whose agreements with its customers are alleged to constitute a restrictive arrangement.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, November 19, 2013

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of September 30		As of December 31
	2013	2012	2012
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	317,642	186,195	182,818
Financial assets held for trade	51,230	499,945	470,757
Short-term deposits and investments	60,740	83,522	90,331
Trade accounts receivable	1,772,144	1,851,763	1,757,697
Other receivables	229,762	152,821	173,020
Receivables for work in progress	51,731	32,401	41,164
Inventory	459,160	542,715	498,002
Current tax assets	21,126	27,372	27,826
Total Current Assets	2,963,535	3,376,734	3,241,615
Non-current Assets			
Investments in associated companies	9,187	22,718	7,626
Loans to associated companies	35,457	31,770	35,051
Investments, loans and receivables	176,320	189,907	186,895
Restricted investments	74,914	55,111	70,223
Financial assets available for sale	1,538,129	1,318,561	1,509,531
Financial assets designated at fair value through profit and loss	19,474	22,038	20,088
Long-term receivables in respect of franchise arrangement	1,056,929	776,873	858,710
The Fuel Administration	122,556	135,133	129,130
Investment property and investment property under construction	16,710,198	15,567,479	15,954,699
Fixed assets	1,414,567	1,380,338	1,390,194
Intangible assets	530,586	529,488	533,394
Pre-paid long-tern rent	75,713	40,805	40,921
Deferred tax assets	54,981	54,976	52,432
Total Non-current Assets	21,819,011	20,125,197	20,788,894
Total Assets	24,782,546	23,501,931	24,030,509

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As of September 30		As of Dec. 31
	2013	2012	2012
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current Liabilities			
Credit from banks and other credit providers	2,765,104	3,487,875	3,451,483
Trade payables	814,697	869,782	804,455
Trade and other payables	468,785	403,848	429,964
Deposits from customers	109,363	108,010	107,633
Provisions	41,002	32,556	30,295
Current tax liabilities	24,689	29,640	44,380
Total Current Liabilities	4,223,640	4,931,711	4,868,210
Non-current Liabilities			
Loans from banks and other credit providers	4,146,352	3,101,510	3,134,320
Bonds	1,462,794	1,583,796	1,552,518
Employee benefits	45,789	49,806	58,244
Other liabilities	60,360	63,025	62,274
Deferred tax liabilities	2,628,732	2,289,864	2,397,607
Total Non-current Liabilities	8,344,027	7,088,001	7,204,963
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	237,929	145,434	245,454
Retained earnings	9,350,658	8,723,927	9,093,148
Total Equity Attributed to the Shareholders of the Parent Company	12,124,825	11,405,599	11,874,840
Non-controlling interests	90,054	76,620	82,496
Total Capital	12,214,879	11,482,219	11,957,336
Total Liabilities and Capital	24,782,546	23,501,931	24,030,509

November 19, 2013			
Date of approval of the financial statements	**David Azrieli** **Chairman of the Board**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **CFO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the nine month Period ended September 30		For the three month Period ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousand		NIS thousand		NIS thousand
	(unaudited)		(unaudited)		
Revenues					
From sales, labor and services	5,495,444	5,772,191	1,812,473	1,956,519	7,644,162
From rent and management and maintenance fees	1,070,926	1,055,865	361,459	362,382	1,411,192
Net profit from adjustment to fair value of investment property and investment property under construction	117,439	99,003	2,229	1,883	328,896
Financing income	84,934	117,299	36,774	53,788	122,000
Other	11,650	12,416	2,387	195	27,391
Total revenues	6,780,393	7,056,774	2,215,322	2,374,767	9,533,641
Costs and Expenses					
Costs of revenues from sales, labor and services	4,547,535	4,875,308	1,480,719	1,625,500	6,449,437
Costs of revenues from rent, management and maintenance fees	236,879	238,150	84,033	85,760	316,813
Sales and marketing	596,799	581,025	201,379	196,264	779,961
General and administrative	168,709	156,520	53,529	53,498	218,202
Share in results of associated companies, net of tax	5,664	10,777	2,903	4,103	12,033
Financing expenses	374,930	433,305	149,979	156,199	496,983
Other	949	1,729	194	1,263	1,795
Total Costs and Expenses	5,931,465	6,296,814	1,972,736	2,122,587	8,275,224
Income before income taxes	848,928	759,960	242,586	252,180	1,258,417
Expenses for taxes on income	(317,329)	(151,989)	(186,441)	(41,130)	(272,159)
Net profit for the period	531,599	607,971	56,145	211,050	986,258
Other comprehensive income:					
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(252)
Amounts that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	24,188	13,639	54,533	91,110	138,504
The effective share of the change in the fair value of the cash flow hedge, net of tax	(495)	(373)	78	466	(1,316)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	1,231	(94)	104	(69)	466
Translation differences from foreign operations	(33,980)	13,423	(14,386)	(1,535)	(12,333)
Total	(9,056)	26,595	40,329	89,972	125,321
Other comprehensive income (loss) for the period, net of tax	(9,056)	26,595	40,329	89,972	125,069
Total comprehensive income for the period	522,543	634,566	96,474	301,022	1,111,327

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income (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
	2013	2012	2013	2012	2012
	NIS thousands		NIS thousands		NIS thousands
	(Unaudited)				
Net income for the period attributed to:					
Shareholders of the parent company	522,510	569,055	54,585	194,021	938,526
Non-controlling interests	9,089	38,916	1,560	17,029	47,732
	531,599	607,971	56,145	211,050	986,258
Total comprehensive income for the period attributed to:					
Shareholders of the parent company	515,053	590,834	95,582	283,541	1,060,234
Non-controlling interests	7,490	43,732	892	17,481	51,093
	522,543	634,566	96,474	301,022	1,111,327
	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	4.31	4.69	0.45	1.60	7.74
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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity

	For the period of nine months ended September 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net profit for the period	-	-	-	-	-	-	-	522,510	522,510	9,089	531,599
Change in fair value of financial assets available for sale, net of tax	-	-	24,204	-	-	-	-	-	24,204	(16)	24,188
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(491)	-	(491)	(4)	(495)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	1,220	-	1,220	11	1,231
Translation differences from foreign operations	-	-	-	(32,390)	-	-	-	-	(32,390)	(1,590)	(33,980)
Total comprehensive income for the period	-	-	24,204	(32,390)	-	-	729	522,510	515,053	7,490	522,543
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Capital reserve for transactions with related parties	-	-	-	-	(68)	-	-	-	(68)	68	-
Total transactions with shareholders of the Company	-	-	-	-	(68)	-	-	(265,000)	(265,068)	68	(265,000)
Balance as of Sept. 30, 2013	18,223	2,518,015	297,847	(48,027)	(30,980)	21,375	(2,286)	9,350,658	12,124,825	90,054	12,214,879

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of nine months ended September 30, 2012										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 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 financial assets available for sale, 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)
Sales of shares in a consolidated company	-	-	-	-	-	-	(508)	-	(508)	917	409
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	2,850	2,850
Capital reserve for 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 of Sept. 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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of three months ended September 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of July 1, 2013	18,223	2,518,015	243,309	(34,306)	(31,027)	21,375	(2,466)	9,296,073	12,029,196	89,209	12,118,405
Net profit for the period	-	-	-	-	-	-	-	54,585	54,585	1,560	56,145
Change in fair value of financial assets available for sale, net of tax	-	-	54,538	-	-	-	-	-	54,538	(5)	54,533
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	77	-	77	1	78
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	103	-	103	1	104
Translation differences from foreign operations	-	-	-	(13,721)	-	-	-	-	(13,721)	(665)	(14,386)
Total comprehensive income for the period	-	-	54,538	(13,721)	-	-	180	54,585	95,582	892	96,474
Capital reserve for transactions with related parties	-	-	-	-	47	-	-	-	47	(47)	-
Total transactions with shareholders of the Company	-	-	-	-	47	-	-	-	47	(47)	-
Balance as of September 30, 2013	18,223	2,518,015	297,847	(48,027)	(30,980)	21,375	(2,286)	9,350,658	12,124,825	90,054	12,214,879

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of three months ended September 30, 2012										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of 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 financial assets available for sale, net of tax	-	-	91,110	-	-	-	-	-	91,110	-	91,110
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	276	-	276	190	466
Net change in the fair value of the cash flow hedge that was 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 for 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 of 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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the year ended December 31, 2012										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands										
Balance as of January 1, 2012	18,223	2,518,015	138,608	(3,220)	(30,921)	-	(1,789)	8,394,872	11,033,788	430,270	11,464,058
Net income for the year	-	-	-	-	-	-	-	938,526	938,526	47,732	986,258
Change in the fair value of financial assets available for sale, net of tax	-	-	135,035	-	-	-	-	-	135,035	3,469	138,504
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(250)	(250)	(2)	(252)
Translation differences from foreign operations	-	-	-	(12,417)	-	-	-	-	(12,417)	84	(12,333)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(1,161)	-	(1,161)	(155)	(1,316)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	501	-	501	(35)	466
Total comprehensive income for the year	-	-	135,035	(12,417)	-	-	(660)	938,276	1,060,234	51,093	1,111,327
Dividend to 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 consolidated companies	-	-	-	-	-	21,375	-	-	21,375	(401,441)	(380,066)
Sales of shares in a consolidated company	-	-	-	-	-	-	(508)	-	(508)	917	409
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	2,850	2,850
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,470)	(1,470)
Capital reserve for transactions with related parties	-	-	-	-	9	-	-	-	9	(9)	-
Total transactions with shareholders of the Company	-	-	-	-	9	21,375	(566)	(240,000)	(219,182)	(398,867)	(618,049)
Balance as of Dec. 31, 2012	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash Flows - Current Operations					
Net profit for the period	531,599	607,971	56,145	211,050	986,258
Depreciation and amortization	103,883	94,175	35,072	31,816	126,486
Profit from adjustment to fair value of investment property and investment property under construction, net	(117,439)	(99,003)	(2,229)	(1,883)	(328,896)
Financing and other expenses, net	288,073	309,814	118,413	128,631	380,408
Impairment of financial assets available for sale	-	1,516	-	1,263	1,450
Dividend received from financial assets available for sale	6,000	8,379	-	-	8,461
Interest and dividend received from financial assets held for trade	5,936	33,026	4	5,811	36,911
Loss (profit) from realizing fixed assets, investment property and intangible assets, net	(1,765)	(2,544)	(2,009)	304	(2,194)
Share in losses of associated companies accounted by the equity method	5,664	10,777	2,903	4,103	12,033
Change in recording of	10,826	(7,537)	4,051	(7,945)	1,646

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

benefit in respect of share-based payment					
Profit from liquidation of investments in financial assets available for sale	(1,748)	-	-	-	-
Tax expenses recognized in the income statement	317,329	151,989	186,441	41,130	272,159
Change in financial assets held for trade	419,527	901,841	(35,708)	276,209	921,684
Profit from loss of material effect in an associated company	-	-	-	-	(14,822)
Income taxes paid, net	(106,870)	(106,140)	(38,390)	(30,041)	(130,065)
Burnout (revaluation) of balance of the Fuel Administration	6,574	(3,044)	2,717	369	2,959
Burnout (revaluation) of financial assets designated at fair value through profit and loss	348	(1,696)	512	(592)	254
Change in inventory	38,708	(102,680)	5,449	(59,200)	(58,097)
Change in trade accounts and other receivables	(63,909)	(184,482)	9,857	109,068	(85,944)
Change in receivables in respect of franchise arrangement	(211,551)	(235,671)	(57,944)	(138,389)	(330,806)
Change in trade and other payables	(9,262)	72,689	(81,141)	(14,663)	67,555
Change in provisions and employee benefits	(12,547)	499	(12,838)	(1,220)	(3,054)
Net cash - current operations	1,209,376	1,449,879	191,305	555,821	1,864,386

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows (Continued)

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash flows - investment activities					
Proceeds from realizing fixed and intangible assets	2,424	2,722	1,170	738	3,256
Proceeds from liquidation of investment property	1,980	220	-	220	220
Increase of balance of the Fuel Administration	-	631	-	-	631
Down payments on account of investment property	(181,574)	-	(18,821)	-	(48,502)
Purchase and investment in investment property and investment property under construction	(418,325)	(622,921)	(144,287)	(53,256)	(792,069)
Purchase of fixed and intangible assets	(183,287)	(133,347)	(55,367)	(27,172)	(181,902)
Investment in and granting of loans to associated companies	(5,894)	(14,502)	(4,867)	(648)	(22,809)
Change in short-term deposits	29,731	812	(2,894)	12,492	(5,801)
Change in restricted investments	(3,695)	(3,010)	-	(2,854)	(8,012)
Receipt (payment) for settlement of derivative financial instruments, net	(44,320)	4,523	(16,002)	(6,166)	(19,948)
Investment in financial assets available for sale	(237)	-	(2)	-	(3,464)
Investment in financial assets designated at fair value through profit and loss	266	(3,605)	484	(481)	(3,605)
Granting long-term loans	(1,970)	(19,351)	(270)	(6,294)	(25,087)
Collection of long-term loans	10,747	10,550	2,950	2,815	12,867
Interest received	49,249	33,174	21,562	12,899	45,523
Proceeds from liquidation of financial assets available for sale	5,024	-	311	-	3,684
Institutions for purchase of property	5,638	-	15,368	-	(16,546)
Net cash - investment activities	(734,243)	(744,104)	(200,665)	(67,707)	(1,061,564)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows (Continued)

	For the period of nine months ended September 30		For the period of three months Ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash flows - Financing Activity					
Distribution of a dividend to shareholders	(265,000)	(240,000)	-	-	(240,000)
Repayment of bonds	(164,144)	(160,174)	(43,451)	(42,193)	(182,102)
Receipt of long-term loans from banks and others	1,350,778	518,161	1,209,150	115,336	870,695
Repayment of long-term loans from banks	(1,242,847)	(362,190)	(968,318)	(114,470)	(498,051)
Short-term credit from banks and others, net	255,073	141, 621	21,552	(34,129)	(12,606)
Proceeds from the exercise of stock options by employees in a consolidated company	-	228	-	-	228
Repayment of deposits from customers	(2,288)	(1,365)	(263)	(107)	(1,982)
Deposits from customers that were received	787	2,156	91	682	2,936
Payment for settlemen	(533)	(510)	(176)	(180)	(689)

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

t of derivatives used for cash flow hedge					
Acquisition of non-controlling interests (including loans)	-	(343,983)	-	(282,171)	(380,168)
Dividend to holders of non-controlling interests	(1,470)	-	-	-	-
Proceeds from issue of shares in a consolidated company to holders of non-controlling interests	-	2,850	-	-	2,850
Proceeds from sales of shares of a consolidated company	-	402	-	-	402
Interest paid	(268,081)	(301,239)	(87,437)	(102,938)	(405,441)
Cash, net - Financing Activity	(337,725)	(744,043)	131,148	(460,170)	(843,928)
Increase (decrease) in cash and cash equivalents	137,408	(38,268)	121,788	27,944	(41,106)
Cash and cash equivalents as of the beginning of the period	182,818	224,430	196,105	159,204	224,430
Effect of exchange rate changes on cash balances held in foreign currency	(2,584)	33	(251)	(953)	(506)

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

Cash and cash equivalents as of the end of the period	317,642	186,195	317,642	186,195	182,818

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

Note 1 – General

Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled and incorporated in Israel and whose registered address is Azrieli Center 1, Tel Aviv. The Company is traded on the TASE and is included in the TA-25 Index. The Group's consolidated financial statements as of September 30, 2013 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associated companies and in entities under common control.

As of the Report Release Date, the Company is held at the rate of approx. 61.69% (until the issue of the Company, the Company was held at the rate of 100%) by Azrieli Holdings Inc. directly and indirectly through Nadav Investments Inc. (the "Parent Company"), which is wholly owned and controlled thereby. Both companies are private companies incorporated under the Canadian law, which are (directly and/or indirectly) wholly owned and controlled by Mr. David Azrieli, the Chairman of the Board of the Company. David Azrieli holds Azrieli Holdings Inc., directly and indirectly, approx. 47% of the issued share capital, and his four children hold, directly and indirectly, the balance of the share capital.

These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2012, and for the year then ended, and the notes accompanied thereto.

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 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 of December 31, 2012 and for the year then ended, except for changes in the accounting policy deriving from implementation of new standards, amendments to the standards and interpretations that took effect during the reporting period, as specified in Note 2C.

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

Note 2 – Significant Accounting Principles (contd.)

b. Use of estimates and discretion:

(1) In the preparation of the condensed financial statements in accordance with IFRS, the Group's managements are required to use discretion, evaluations, estimates and assumptions which affect the 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 of December 31, 2012.

(2) Following Note 3(c)1 to the annual Financial Statements, on June 30, 2013 the Group updated the valuations of all of its investment properties in Israel (which are attributed to the retail centers and malls segment and the office and other space for lease segment).

The valuations were conducted by an external independent valuator of appropriate professional qualifications.

The valuations were carried out mainly by way of capitalizing the projected cash flows from the assets.

The cap rates that were used by the valuator are mainly within the range of 7%-9.25%. The cap rates were determined based on the type, designation and location of the property, the amount of the rent versus the market price and the quality of the tenants.

With respect to the remaining assets, in the Company's estimation there was no significant change in the value of properties compared to the last date on which valuation has been made.

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

- **IFRS 10 "Consolidated Financial Statements"**
  The standard introduces a new control model for the purpose of determining whether an investee company should be consolidated, which shall apply to all investee entities. The standard was retroactively implemented (except for certain relaxations in the transition provisions).
  The implementation of the standard had no material effect on the financial statements.

Note 2 – Significant Accounting Principles (contd.)

- **IFRS 11 "Joint Arrangements"**
  The standard classifies joint arrangement as joint operations or joint ventures based on the rights and obligations of the parties to the arrangement.
  The standard was applied retroactively. The implementation of the standard had no material effect on the financial statements.

- **IFRS 13 "Fair Value Measurement"**
  The Standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

  Measuring fair value of investment property shall reflect consideration of future capital expenditures that shall improve or expand the property, and the future economic benefits resulting from such expenditures, if such expenditures or benefits are taken into account by market players at the time of measurement.

  The amendment was prospectively implemented while the standard's disclosure requirements are not applied to comparative information for the periods preceding the initial implementation.

  Upon the publication of the standard, the disclosure requirements regarding fair value of financial instruments in the financial statements for interim periods were expanded.

  The standard's requirements were integrated in these statements in the framework of Note 6 regarding fair value of financial instruments.

- **Amended IAS 19 "Employee Benefits"**
  Classification of employee benefits as short-term employee benefits or as other long-term employee benefits (for measurement purposes) is determined according to the Group's expectation for the use of the benefits in full and not according to the date on which the employee is entitled to exercise the benefit.

  The amended standard was retroactively implemented excluding a relaxation in connection with capitalization of costs to assets. According to the relaxation, it is not required to adjust the book value of assets excluded from IAS 19 for changes in the costs due to employee benefits that were included in the book value prior to the date of initial implementation.
  The implementation of the amendment had no material effect on the financial statements.

Note 2 – Significant Accounting Principles (contd.)

- **Amendment of IAS 1 "Presentation of Financial Statements" regarding presentation of other comprehensive income items**
  The amendment has changed the mode of presentation of other comprehensive income items in the financial statements, such that other comprehensive income items, net of tax, that are carried to the profit and loss after the initial recognition in the framework of the comprehensive income, are presented separately from other comprehensive income items that will never be carried to the profit and loss.

  The amendment is retroactively implemented. The statement of comprehensive income during the comparison periods was restated according to the amendment.

- **Amendment IAS 34 "Interim Financial Reporting"**
  The amendment determined that a disclosure be made in the interim reports regarding the total assets and liabilities of a certain reportable sector if such amounts are reviewed on an ongoing basis by the chief operational decision maker, and in the event of a significant change in such amounts relative to the amounts disclosed in the Company's last annual financial statements. This amendment is applied to annual reporting periods commencing on or after January 1, 2013.

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

- **IFRS 12 "Disclosures due to Involvement with Other Entities"**
  The standard determines disclosure requirements with respect to rights of an entity in consolidated companies, joint arrangements, associated companies and unconsolidated structured entities. The purpose of the disclosures is to assist in the assessment of the nature and the related risks in connection with the rights in such entities and the effect of such rights on the financial statements of the reporting entity.

  The implementation of the standard had no effect on the financial statements.

Note 2 – Significant Accounting Principles (contd.)

d. New Standards, amendments to standards and interpretations that have been released and are not in force and have not been adopted by the Group:

- **IFRIC 21 "Levies"**
  The interpretation determines the date of recognition of a liability due to a levy imposed by legislation (with the exception of taxes on income or fines). A levy payment liability shall only be recognized at the time of occurrence of the "Obligating Event", in accordance with the provisions of the relevant legislation. The "Obligating Event" is the activity that causes the payment of the levy. When the "Obligating Event" takes place over a certain period of time, the liability shall be recognized gradually over the same period.

  The interpretation shall be retroactively implemented with respect to reporting periods beginning on January 1, 2014. Earlier implementation is possible.

  The interpretation provisions shall be retroactively implemented as of the date of first implementation.

  The Company is examining the effect of implementation of the interpretation on its financial statements, and at this stage it seems that the implementation of the interpretation is not expected to have a material effect on the Company's financial statements.

- **Amendment to IAS 36 "Impairment of Assets" (regarding Disclosures as to a Recoverable Amount)**
  The amendment clarifies the applicability and extent of the required disclosure requirements for assets (including goodwill) or cash-producing units, due to which impairment was recognized (or reversed), and also determines that the required disclosures for such assets or cash-producing units, the recoverable amount of which was determined based on their fair value, shall be similar in nature to the disclosures required for fair value measurements according to the international financial reporting standard IFRS 13 "Fair Value Measurement".

  The amendment will be retroactively implemented with respect to annual reporting periods beginning on January 1, 2014. Earlier implementation is possible.

Note 2 – Significant Accounting Principles (contd.)

e. Rates of exchange and linkage basis:

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

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

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

	Representative exchange rate of the			Israeli Index	
	Euro (1 euro = NIS)	Canadian dollar (1 CAD = NIS)	US dollar (1 USD = NIS)	"For" Basis 1993	"Known" Basis 1993
Date of the financial statements:					
September 30, 2013	4.773	3.432	3.537	223.80	223.80
September 30, 2012	5.065	3.995	3.912	220.84	220.84
December 31, 2012	4.921	3.750	3.733	219.80	219.39
Rates of change:	%	%	%	%	%
For the period of nine months ended:					
September 30, 2013	(2.99)	(8.48)	(5.25)	1.82	2.01
September 30, 2012	2.57	6.85	2.38	2.11	2.11
For the period of three months ended:					
September 30, 2013	1.14	(0.58)	(2.24)	0.49	1.29
September 30, 2012	2.69	4.45	(0.28)	1.14	0.85
For the year ended:					
December 31, 2012	(0.34)	0.27	(2.30)	1.63	1.44

Note 3 – Additional Information to the Statement of Cash flows

The following is additional information to the Statement of Cash Flows regarding transactions which are not in cash:

	For the three and nine month periods ended September 30		For the year ended December 31,
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
	Unaudited		
Transactions not in cash:			
Payables for the purchase on credit of non-current assets	80,134	24,151	24,601
Receivables for the sale on credit of fixed assets and investment property	13,145	2,380	2,380
Receivables for the sale of financial asset	-	5,319	-
Payables for a dividend to holders of non-controlling interests	-	-	1,470
Payables for the acquisition of non-controlling interests	-	36,010	-

Note 4 – Contingent Liabilities

Following are details regarding new claims received claims which have ended and material changes in claims, if any. In the remainder of the claims there was no significant change since the audited financial statements as of December 31, 2012 (see Note 34 to the annual financial statements).

a. Claims against Sonol by IDF disabled veterans who operate gasoline stations as part of an arrangement between the disabled veterans and the Ministry of Defense, the Israel 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 remedy amounting to approx. NIS 80 million.	5 claims by IDF disabled veterans (one of which by the heirs of an IDF disabled veteran) who received operating rights for gasoline stations as part of an arrangement between the disabled veterans and the Rehabilitation Department of the Ministry of Defense, the Israel Lands Administration/ a local authority and the fuel companies (the "Plaintiffs"), 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 standard form contract, bad faith and discrimination against the Plaintiffs relative to other gasoline stations. Monetary compensation is also claimed in respect of alleged overcharging as a result of restrictive arrangements and/or overpricing and price discrimination and discrimination in commercial conditions.	In the Company's estimation, based on the estimation of Granite's management, based on Sonol's legal counsel, the chances of three claims are lower than 50%. With respect to two of the claims, the Company estimates, based on Granite's management, based on Sonol's legal counsel, that their chances are higher than 50%, but that the court will not award the Plaintiffs the full monetary remedy requested. In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the likelihood of paying sums over and above the provision included in the financial statements is lower than 50%.

Note 4 – Contingent Liabilities (contd.)

b. Class actions

Motions for class actions were filed against the Group's companies, as specified in Note 34B to the annual financial statements.

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company	In case it is not certified as class action – NIS 4,561. Should it be certified as class action only in relation to the class of offerees whose shares were force purchased – approx. NIS 18 million. Should it be certified as class action in relation to the class of all the offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Division in the Tel Aviv District Court by a petitioner claiming to have been an offeree in the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The Claim alleges, *inter alia*, that the Petitioner was forced to sell his shares to the Company in the Tender Offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the Tender Offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion to summarily dismiss the motion and the hearing was scheduled for February 2014. In this preliminary stage, it is impossible to estimate the chances of the claim.

Note 4 – Contingent Liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and other fuel companies	The relief claimed is a declaratory relief to order the fuel companies to stop charging for fuel not supplied, and a monetary remedy amounting to approx. NIS 124 million, with the proportional share of Sonol being approx. NIS 24 million.	A claim and a motion for class certification of October 2009, concerning the plaintiff's claim whereby the fuel companies charge the customers when refuelling at automatic fuel dispensers, with the meter starting to operate and charge the customers even before the fuel leaves the dispenser. The plaintiff alleges that through this conduct, the fuel companies breached their obligations to their customers and the provisions of the Promotion of Competition Law, and committed several torts.	The parties filed a motion with the court for approval of a settlement that has not been approved by the court at this stage. The court will hold an additional hearing in respect of the settlement. In the Company's estimation, based on Sonol's management, based on its legal counsel, if the settlement is not approved, the chances that the motion for class certification will be granted are higher than 50%. In the Company's estimation, based on Sonol's management, an adequate provision is included in its financial statements.
3. Claim against Sonol and a consolidated company of Sonol	A claim and a motion for class certification thereof in the sum 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 the stations.	In the Company's estimation, based on Granite's management, based on Sonol's legal counsel, at this stage the chances of the claim and motion are lower than 50%.
4. Claim against a consolidated company of Sonol	A claim and a motion for class certification thereof in the amount of NIS 29 million.	Claim and motion for class certification of December 2012, claiming that in cash transactions at the convenience stores of the "so good" chain, the purchase amount is rounded up, in contravention of the relevant legal provisions which require to round the purchase amount down.	In the estimation of the Company, based on Granite's management, based on Sonol's legal counsel, according to the data forwarded thereto by Sonol, the exposure amount is immaterial.

Note 4 – Contingent Liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. Claim against Sonol, other fuel companies and credit card companies	A claim and a motion for class certification thereof in an unliquidated amount	Claim and motion for class certification thereof of October 2013, claiming misleading under the Consumer Protection Law and violation of disclosure duties in credit cards under the Consumer Protection Law. In the context of the motion, the petitioners claim, *inter alia*, that an arrangement exists between the credit card companies and the fuel companies in an agreement whereby when fuelling through credit cards, the credit companies are charging the customer, without informing him in advance, an additional amount, over and above the fuel purchase cost. The additional charge is for a fixed period of time through taking control of the customer's credit facility or by way of charging the customer for an unperformed purchase, until the customer is charged the amount of the fuelling that was actually performed.	In this preliminary stage, the Company, based on Sonol's management, cannot estimate the chances of the claim or its effect, if it is certified as a class action.
6. Claim against Supergas and other gas companies	A claim in the estimated sum of approx. NIS 821 million (Supergas' share, approx. NIS 193 million). In July 2009, the amount of the claim was reduced to approx. NIS 709 million.	Claim and motion for class certification of March 2009, claiming failure to credit gas consumers (who are not central-gas consumers) for gas left over in the cylinder. In July 2009, the petitioners raised new claims whereby the gas cylinders are, from the outset, not completely filled.	In March 2013 the Court issued a judgment approving the amended settlement according to which Supergas was charged an immaterial amount.

Note 4 – Contingent Liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
7. Claim against Supergas and other gas companies	Claim in an amount that has not yet been quantified.	A claim and a motion for class certification of February 2011. The action concerns a claim that the gas companies market LPG to their customers at a higher atmospheric pressure and temperature than the conditions at which, so it is alleged, the gas companies purchase the LPG and/or than the conditions at which LPG should be sold in accordance with international trade standards, and therefore, according to the plaintiffs, the gas companies are selling a product inferior to the product that they purchase, contrary to the Consumer Protection Law, thus gaining unjust enrichment, according to the plaintiffs.	In April 2013 the court sanctioned as a judgment the agreed notice of withdrawal from the motion for class certification, with no order for costs.
8. Claim against Supergas and other gas companies	Claim in the total amount of approx. NIS 372 million (without stating each defendant's share).	A claim and a motion for class certification thereof of October 2013. The subject matter of the claim is, *inter alia*, the argument whereby the companies collect from their customers, in the context of the usage fee set forth in an Order, a payment for services which are not actually rendered thereby, such as participation in the cost of obtaining building permits for gas containers while, according to the petitioners, the companies bury gas containers without receiving lawful building permits.	In the estimation of the Company, based on Granite's management, based on Supergas' management, in this preliminary stage, it is impossible to estimate the chances of the claim.

Note 4 – Contingent Liabilities (contd.)

c. Other claims

Against the Group's companies, motions for claims were filed, as specified in Note 34C of the annual financial statements.

	The parties	Amount of claim	Nature of claim	Prospects of claim
1.	The State of Israel - The Fuel Administration against Sonol and other fuel companies, ORL and PEI: ORL against PEI, Sonol and other fuel companies (the hearing of such claims was consolidated with the hearing of the claim of Sonol and other fuel companies against the Fuel Administration, ORL and PEI)	The State's claim is in the amount of approx. NIS 120.7 million (Sonol's share, approx. NIS 19 million). In an additional claim, no remedy was claimed from the Company. In the claim of Sonol and the fuel companies, approximately NIS 25 million were claimed from the State (Sonol's share, approx. NIS 4.6 million).	A claim filed by the State of Israel in 2004 against Sonol, other fuel companies and ORL and PEI due to funds that were paid by the State for storage, financing and insurance of emergency stock that became sludge and for storage fees that were paid by the State in excess, according thereto, due to the fact that the stock was not transferred into closed storage on the date the State required to transfer the same. In 2005, ORL filed a claim against the Company, other fuel companies and PEI, in which it petitioned for a declaratory remedy that the crude oil balances that appear on PEI's records as unowned oil, fully belong to ORL (and not to the fuel companies).	In October 2013, after the Report Date, a judgment was received whereby ORL's claim of ownership of the crude oil balances that are recorded at PEI was rejected. The claim of the fuel companies of ownership of 30,000 ton crude stock which, it was determined, is not sludge (Sonol's share 17.6%) was accepted, and Sonol, like the other fuel companies, was obligated to pay an amount which is immaterial to the State of Israel due to financing and insuring part of the stock which became sludge. Sonol is examining the financial ramifications of the judgment but estimates that it is expected to record a revenue in the income statement for Q4/2013.

Note 4 – Contingent Liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and others	Claim in the amount of approx. NIS 13 million.	A claim against a third party, claiming a breach of a loan agreement, with Sonol and three of its former employees sued claiming they helped to conceal property of the third parties with the aim of thwarting the debt payment to the plaintiff.	In October 2013, after the Report Date, a judgment was issued whereby 5 defendants were charged with the payment of a (nominal) estimated amount of $1,950 thousand plus interest and linkage from the claim date, while the consolidated company of Sonol was charged with the payment of the share of three out of the five aforesaid defendants. Sonol recorded a provision for the exposure of the consolidate company in accordance with the estimation of Sonol's management. Sonol intends to appeal the judgment. In the Company's estimation, based on the estimation of Granite's management, based on Sonol's legal counsel, due to flaws in the judgment, the chances of the appeal that was received are higher than 50%.
3. The State of Israel against. Sonol and former officers	Criminal	In December 2010, the Ministry of Environmental Protection filed an indictment against Sonol and against former officers of Sonol due to several violations of the said Water Regulations: failure to perform sealing tests; failure to deliver results of sealing tests; failure to report a fuel leak, including under aggravated circumstances; failure to treat an unsealed facility, including under aggravated circumstances; and failure to install a piezometer. These are offences that were allegedly committed between the years 2000-2004.	Pursuant to a mediation proceeding between the parties, which was signed and approved by the court, it was agreed to omit the managers from the indictment, on an admission by Sonol of the charges and on the determination of a framework for arguments on a fine in amounts that are immaterial to Sonol. In September 2013, the court sentenced Sonol to a fine in an immaterial amount. The financial statements included a fair provision in the matter.

Note 4 – Contingent Liabilities (contd.)

	The parties	Amount of claim	Nature of claim	Prospects of claim
4.	Municipality against Supergas	Municipality demands in the amount of approx. NIS 126 million of March 2011.	Supergas submitted an application for a building permit by virtue of NOP 32C for the aboveground burial of gas cylinders. As a condition to the issue of the permit, the local committee and the municipality sent payment demands on three issues: usage fees in the sum of approx. NIS 4.5 million; development levies and fees in the sum of approx. NIS 4 million; betterment levy in the sum of approx. NIS 59 million (in this section: the "First Demand for Payment of Levies"). In view of the decision of the National Council for Planning and Building of February 2012, regarding the duration of operation of the company's gas site in Kiryat Ata, the municipality issued a new betterment assessment to the company in the sum of approx. NIS 58 million (in this section: the "Second Demand for Payment of Levies"), in addition to the proceeding being conducted due to the First Demand for Payment of Levies.	In November 2012, the Appeals Committee determined that Supergas is not liable for any betterment levies regarding the First Demand for Payment of Levies. In December 2012, the local committee filed an administrative appeal regarding this decision. In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, the chances of the appeal are low. With respect to the Second Demand for Payment of Levies, in December 2012, the Appeals Committee determined that the decision of the National Council for Planning and Building is not a planning event which creates a liability for betterment levies. In February 2013, the local committee filed an administrative appeal on this decision of the Appeals Committee. In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, the chances of the claim are lower than 50%. With respect to the development levies and fees – it may be estimated that there is a higher than 50% probability that the remaining liability, if any, will be much less than the amount requested, but at this stage, it is too early to estimate the financial scope thereof. In respect of the usage fees demand – at this stage it is impossible to estimate the chances of the demand and its financial scope, if liability is determined. It shall be stated that the demands for betterment levies and development levies are not mandatory for Supergas, such that if it withdraws the permit application, it shall be subject to no financial liability on these issues.

Note 4 – Contingent Liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. Agency operator against Supergas	Approx. NIS 16.5 million.	A claim of October 2012 against Supergas in the sum of approx. NIS 16.5 million which was filed by a former agent of the Company and companies owned by him, claiming that Supergas owes them moneys for work performed thereby, payments and additional alleged damage.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, the chances of the claim on the issue of the work, which constitutes the major part of the claim, are lower than 50%. At this stage it is difficult to assess the chances of additional clauses of the claim which are immaterial.
6. Administrative petition of a city and others against the National Zoning Council and others (including Supergas)	Petition for orders nisi.	In June 2012 a petition for orders nisi was filed, to revoke the resolution of the National Zoning Council of February 2012 whereby the gas farm in Kiryat Ata shall continue to operate after the burial of the containers until the operation of a permanent site for LPG storage or until January 2029 – whichever is later. The petitioners requested to limit the activity of the gas companies in the gas farm to several years and stated that they intended to seek an interim order whereby the companies shall start the burial. In the hearing held in July 2013, it was decided that the National Council shall notify within 60 days whether it is willing to revise its decision and determine that the gas farm shall continue to operate after the burial for a period of fifteen years (while omitting the words "whichever is later").	In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, at this stage of the proceeding the chances of the petition to completely revoke the resolution of the National Council are low, and the estimation is that, at most, the resolution shall be modified in the manner that was recommended as aforesaid by the court.

Note 4 – Contingent Liabilities (contd.)

	The parties	Amount of claim	Nature of claim	Prospects of claim
7.	A hearing at the Antitrust Authority against Supergas and officers thereof	Criminal.	In March 2012, the Antitrust Authority notified Supergas and officers thereof that it intends to put them on trial for offences under the Restrictive Trade Practices Law, subject to a hearing. In July and August 2012, a hearing before the filing of an indictment was held. In December 2012, the Antitrust Authority notified that it has decided to file an indictment against the Company and two officers thereof.	Pursuant to negotiations with the Authority, the parties have reached an agreement with regard to a consent decree. Pursuant to the agreement, Supergas and Supergas' CEO shall pay amounts to the State's treasury in lieu of the taking of enforcement measures and without admitting to any breach of law. In November 2013, after the Report Date, the agreement was sanctioned as a consent decree. A suitable provision was recorded in the financial statements.
8.	2 consolidated companies of the Company	Claim for bodily injury totalling NIS 10 million	In 2008, a claim was filed on the subject of an argument of alleged liability of the companies in relation to the acts of suicide of two youths, whose heirs are the plaintiffs in the complaint. The claim was recognized as an insurance event and is being conducted through attorneys on behalf of the defendant's insurance company.	The district court rejected, in 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. During the Report Period, the Office of the Tel Aviv District Attorney informed the Company that it is ceasing to examine the legal implications in respect of the Company and/or its managers, of several such acts of suicide. The amount of the claim is included within the framework of the insurance cover per insurance event.

Note 4 – Contingent Liabilities (contd.)

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

e. In the estimation of the Company's management, the provisions made to settle the outcome of the abovementioned claims are fair.

Note 5 – Material Events During the Report Period

a. On March 19, 2013, the Company's board of directors decided upon the distribution of a dividend in the sum of NIS 265 million (reflecting NIS 2.19 per share), which was paid on May 1, 2013.

b. On April 2, 2013, Mr. Shlomo Sherf notified the Company's board of directors of the termination of his service as the Company's CEO, which office terminated in practice on April 30, 2013.

c. On April 2, 2013, the Company's board of directors approved the appointment of Mr. Yuval Bronstein ("Mr. Bronstein") as the Company's CEO as of May 1, 2013.

On June 20, 2013, the general meeting approved the terms of the Company's engagement in an agreement with a Company wholly-owned by Mr. Bronstein (the "Management Company").

The Management Company is entitled to a fixed monthly payment in the amount of NIS 255,000, linked to the rate of increase of the Consumer Price Index for February 2013, as released on March 15, 2013, and is entitled to related benefits, including the provision of a vehicle (Group 7) and telephone.

Mr. Bronstein holds phantom units which were granted to him during his service as the Company's CFO, in accordance with the approval by the Company's board of directors and general meeting of May 2010. Upon the approval of the terms of engagement as the Company's CEO, the terms of the phantom units remained unchanged. Mr. Bronstein was granted with 82,454 phantom units in a value set on the date of the grant of the options at the amount of approx. NIS 2.5 million pursuant to a base value determined according to a share price of May 2010, which amounted to a sum of NIS 83.25 (as of the date of the financial statements, 27,485 phantom units remained). From the date of the grant to the date of approval of his office as the Company's CEO by the general meeting, the Company recorded an aggregate amount of approx. NIS 2.4 million in its books for the phantom units.

Each of the parties to the agreement may terminate the agreement, for any reason whatsoever, by a prior written notice of three months.

Furthermore, the Management Company will be entitled to adjustment compensation in an amount equal to 9 monthly payments.

Note 5 – Material Events During the Report Period (contd.)

d. On June 20, 2013, following approval by the board of directors and compensation committee, the general meeting approved the continuance of management services between the Company and Canadian companies wholly owned and fully controlled by Mr. David Azrieli (the "Management Companies"). Accordingly, the Management Companies shall provide the Company management services, through Mr. David Azrieli, for a three-year period, starting on June 3, 2013 (the "Management Agreement").

Under the Management Agreement , the Management Companies will provide the Company the following services: active chairman of the board, chairman of the executive committee in the area of strategic, business and executive decisions relating to the development and management of the Group's assets, business development, financing and budget, goals and examination of new business segments, provision of ongoing executive and professional consultation to the Group's management and to managers of the principal business segments, identification and analysis of business opportunities and escorting transactions and acquisitions in Israel and abroad, and consultation and supervision over development and construction and over the business development abroad (the "Management Services"). The Management Services will be provided at an 80%-position.

In consideration for the Management Services, the Company shall pay the Management Companies a fixed annual management fee in the amount of NIS 4.5 million per calendar year, linked to the Consumer Price Index of April 2013, which was released on May 15, 2013.

The fixed management fee shall be paid quarterly, the payment for the fourth quarter being paid 15 days after the date of approval of the Company's annual audited financial statements.

In addition to the management fee, the Management Companies shall be entitled to receive an annual bonus for each calendar year at a phased rate derived of the adjusted profit.

Adjusted profit is annual profit before tax according to its consolidated financial statements, net of dividends received by the Company from financial assets available for sale, profit (loss) from revaluation of real properties, results of companies that do not engage in the core segments (real properties) of the Company, linkage differentials accumulated for financial liabilities, interest costs at the rate of the weighted effective *de facto* interest for the same year, of the Company and of companies under its control that engage in the Company's core business, due to loans (whether taken or not), at a financing rate of 65% of the historic acquisition cost in the books of the investment in companies that are not in the core business, the total amount of the management fee (including the bonus) and profit (loss) from financial assets held for trade, including interest and dividend therefor.

Note 5 – Material Events During the Report Period (contd.)

No bonus shall be paid for an adjusted profit in an amount up to NIS 565 million, a bonus at the rate of 0.75% shall be paid for the portion of the adjusted profit between NIS 565 million and NIS 765 million, and a bonus at the rate of 1.5% shall be paid for the portion of the adjusted profit exceeding NIS 765 million.

The total annual bonus for each calendar year shall not exceed NIS 5.5 million.

In addition to the management fees and the annual bonus, the Company shall bear the car and communication expenses. The expenses shall not exceed a maximum amount as shall be determined from time to time at the audit committee and which shall be determined thereby as appropriate, taking into consideration the Company's activity and scope.

Within the Management Agreement, the parties agreed that the Management Companies shall be entitled to borrow up to NIS 1 million per year from the Company. The Management Companies shall be obligated to repay all the amounts of loans taken thereby as aforesaid, plus interest according to the regulations for determination of the minimum interest rate for the purpose of Section 3(i) of the Income Tax Ordinance, updated by the Minister of Finance, until and no later than 60 days after the approval of the date of the annual bonus payment to the Management Company.

The rest of the terms for the Management Services shall be as provided in the previous management agreement, as specified in Note 38C(1) of the consolidated financial statements as of December 31, 2012.

For the effect of the change in the terms of the new management fee agreement, had it been applicable in previous periods, see note 8 below.

e. On June 20, 2013, following approval by the board of directors and compensation committee, the general meeting approved the continuance of management services between the Company and an interested party in the Company through a management company (the "Management Company"). Accordingly, the Management Company shall provide the Company management services for a three-year period as of June 3, 2013 (the "Management Agreement"). The management services to be provided under the Management Agreement are: active vice chairman; member of the Company's executive committee which engages, *inter alia*, in the formation of the Company's policy and strategy, formation of the Company's financial forecasts; decisions concerning business development; the outlining of material transactions; supervision over existing projects and follow-up on their progress; responsibility for charting the Company's community relations and representation thereof in conferences in Israel and abroad.

The consideration and other terms due to the management services shall be the same as the previous management agreement, as specified in Note 38C(7) of the consolidated financial statements as of December 31, 2012.

Note 5 – Material events during the Report Period (contd.)

f. On May 13, 2013, following approval by the compensation committee, the Company's board of directors approved the continued inclusion of the Company's controlling shareholders and their relatives, who serve as directors and officers of the Company, in the Company's D&O insurance policies, in accordance with the Company's general meeting resolution of May 6, 2010, on the same terms as were applicable prior to the date of such approval, as specified in Note 38D of the consolidated financial statements as of December 31, 2012.

g. On May 22, 2013, the Company engaged in an agreement for the purchase of the full rights of a non-related third party in a lot adjacent to the Azrieli Center in Tel Aviv, in an area of approx. 8,400 sqm, at the intersection of the streets Menachem Begin Road and Noah Moses in Tel Aviv, in consideration for an amount of NIS 374 million, plus V.A.T. and linkage differentials on the December 2012 index. During the Report Period, the Company paid an amount of NIS 90 million, plus linkage differentials, as an advance on the consideration, and a purchase tax in the amount of approx. NIS 19 million was paid. An amount of NIS 284 million plus linkage differentials and V.A.T., with the addition of linked annual interest at a rate of 2.25% as of the date of the signing of the agreement, shall be paid against the handing over of the possession of the lot.

Possession of the lot is expected to be handed over to the Company on March 31, 2016. The seller may bring the handing over date forward to a date to be no earlier than December 31, 2014.

h. In the framework of refinancing of loans for the Azrieli Center in Tel Aviv in the sum of approx. NIS 900 million maturing in August 2013, the Company entered, on August 2013, into an agreement with an institutional body for the provision of a loan linked to the CPI in the amount of NIS 710 million, for a period of 8 years, which shall bear interest at an annual rate of 1.16%. To secure the repayment of the loan, a consolidated company shall pledge to the lender its rights in part of the lobby floor, in the roof floor and in floors 11-49 of the Round Tower which is a part of the Azrieli Center in Tel Aviv.

Upon the occurrence of certain accepted conditions, as specified in the agreement (mainly upon a restructure and change of control in the Company, payment delinquencies, receivership, adverse change in the value of collateral and acceleration of a Company debt to other financial institutions or the imposition of an attachment in such amounts and on such terms as determined in the agreement), the institutional body may accelerate the amount of the loan.

In addition, the Company entered into an agreement for the provision of an additional loan from another institutional body, in the amount of NIS 250 million. The loan was rated by Midroog Ltd. at Aa2 rating, linked to the CPI and bearing interest at an annual rate of 0.75%, with no collateral and for a period of two years.

The additional institutional body shall have the right to accelerate the loan upon the occurrence of certain accepted conditions, as specified in the agreement, including in

case of acceleration of a Company debt to other financial institutions, in such amounts and on such terms as specified in the agreement, and in case of a change of control in the Company.

Furthermore, the loan agreements state that should the Company provide in the future a floating charge to any other body, it shall, at the same time, issue a floating charge of identical ranking and scope (pari-passu) in favor of the lending bodies.

i. On August 8, 2013, the Antitrust Court ordered the dismissal without prejudice of the appeal that was filed by the Company during the Report Period from the decision of the Antitrust Commissioner to oppose to the acquisition of One Plaza power center in Beer Sheva by the Company, due to the fact that merger agreement is no longer valid. The company filed an appeal on the decision of the Antitrust Court before the Supreme Court.

j. On July 10, 2013, Supergas Natural Ltd., a consolidated company of Supergas, signed an agreement with the partners in the Tamar lease for the supply of natural gas for a period of 5 years, whereby Supergas Natural Ltd. shall purchase natural gas from the sellers for the marketing thereof to its customers. The total financial scope of the said agreement is estimated at about NIS 530 million, and the supply period according thereto begun in August 2013.

k. **Taxes on Income**:

In August 2013, the "Economic Arrangements Law" (the "Law") was published in the Official Publications.

Following are main significant tax changes set forth in the Law:

(1) Increase of the corporate tax from the tax year 2014 to 26.5% (a 1.5% increase).

(2) Amendment of the Encouragement of Capital Investments Law –

- The tax rate to apply to a company in Development Zone A from January 1, 2014 is 9% (rather than 7% and 6% in 2014 and 2015 forth, respectively), whereas the tax rate to apply to companies in the rest of Israel will be increased to 16% (rather than 12.5% and 12% in 2014 and 2015 forth, respectively).

- The tax rate on a dividend originating from preferred income or to be distributed from a company which holds an approved enterprise which is a tourism enterprise will be increased, from January 1, 2014, from 15% to 20%.

(3) Revaluation profits (surpluses not taxed with corporate tax of the type determined by the Minister of Finance in an amount exceeding one million shekels, calculated on an aggregate basis from the date of purchase of the asset), will be taxable, based on a mechanism of a notional sale and purchase of an asset at any time for which a revaluation thereof was performed, from which revaluation profits were also distributed. Accordingly, a parallel provision was set forth in the Land Taxation Law (Appreciation and Purchase) with respect to appreciation tax on a right in land or a right in a land association for which a distribution from revaluation profits was recorded in the Company's financial statements, as if the right was sold on the date of distribution of the revaluation profits, and re-purchased on the same day.

As a result of the aforesaid legislation, the deferred tax liabilities as of September 30, 2013 increased by approx. NIS 141 million, the Company's tax expenses for the nine and three month periods ended September 30, 2013 increased by NIS 138 million, and the Company's other comprehensive income, for the nine and three month periods ended September 30, 2013, decreased by NIS 141 million.

Note 6 - Fair Value

a. Fair value vs. Book value

Other than the data specified below, the Group believes that the book value of the financial assets and liabilities which are presented in the financial statements at depreciated cost, is approximately identical to their fair value.

	As of September 30, 2013		As of December 31, 2012	
	Book value	Fair value	Book value	Fair value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:				
Loans to customers and others	111,727	107,670	125,614	115,601
Receivables in respect of a franchise arrangement	1,109,935	1,141,311	898,384	1,015,850
	1,221,662	1,248,981	1,023,998	1,131,451
Non-current liabilities:				
Loans from banks and other credit providers	4,739,531	4,924,917	4,634,351	4,887,099
Bonds	1,614,291	1,797,566	1,739,522	1,927,271
	6,353,822	6,722,483	6,373,873	6,814,370

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

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

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

	As of September 30, 2013	As of December 31, 2012
	%	%
Non-current assets:		
Loans to customers and others	3.7-6	3.4-6.4
Receivables in respect of a franchise arrangement	3.7-5.4	3.3-4.01
Non-current liabilities:		
Loans from banks and other credit providers	0.05-5.2	0.64-5.7
Bonds	0.69-2.2	1.14-2.7

c. The hierarchy of fair value

The following table presents an analysis of the financial instruments that are measured at fair value, using an evaluation model.
The various levels have been defined as follows:

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

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

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

Note 6 - Fair Value (contd.)

	As of September 30, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trade:				
Securities	51,230	-	-	51,230
Restricted investments	53,210	-	-	53,210
Derivatives not used for hedging:				
Forward contracts	-	1,254	-	1,254
Derivatives used for hedging:				
Interest rate Swap	-	728	-	728
Financial assets available for sale:				
Marketable shares	927,101	-	-	927,101
Non-marketable shares	-	-	611,027	611,027
Financial assets designated at fair value through profit and loss				
Marketable shares	175	-	-	175
Non-marketable investments	-	19,300	-	19,300
	1,031,716	21,282	611,027	1,664,025
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	12,852	-	12,852
Derivatives used for hedging:				
Interest rate Swap	-	42	-	42
	-	12,894	-	12,894

Note 6 - Fair Value (contd.)

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trade:				
Securities	470,757	-	-	470,757
Restricted investments	48,650	-	-	48,650
Derivatives not used for hedging:				
Forward contracts	-	130	-	130
Derivatives used for hedging:				
Interest rate Swap	-	960	-	960
Financial assets available for sale:				
Marketable shares	896,608	-	-	896,608
Non-marketable shares	-	-	612,923	612,923
Financial assets designated at fair value through profit and loss				
Marketable shares	1,069	-	-	1,069
Non-marketable investments	-	19,019	-	19,019
	1,417,084	20,109	612,923	2,050,116
Financial liabilities:				
Forward contracts on CPI not used for hedging	-	497	-	497
Derivative instruments not used for hedging	-	11,170	-	11,170
Interest rate Swap used for hedging	-	703	-	703
Embedded derivatives	-	-	370	370
	-	12,370	370	12,740

Note 6 - Fair Value (contd.)

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

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

	For the nine month period ended September 30 2013 NIS in Thousands	For the year ended December 31 2012 NIS in Thousands
Financial assets available for sale:		
Balance as of beginning of the year	612,923	534,491
Total profits (losses) recognized:		
in other comprehensive income	(1,220)	44,133
in the income statement	1,435	(1,450)
Sales	(2,111)	(69)
Investments	-	1,873
Carried to level 3	-	33,945
	611,027	612,923

Note 7 – Segment Reporting

a. General:

The Company applies the IFRS 8 "Operating Segments" ("IFRS 8"). In accordance with the provisions of the Standard, operating segments are identified on the basis of the internal reports in respect of the components of the Group, which are reviewed on a regular basis by the Group's chief operational decision maker for the purpose of the allocation of resources and the evaluation of the performances of the operating segments.

The Company's business activity focuses primarily on the income-producing property segment, where most the Group's business activity is in the retail centers and malls segment, primarily in Israel, and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (primarily office space for lease). In addition, the Company is engaged, through its holding in Granite Hacarmel, in an additional operating segment, which includes the paint, energy, water, environment and others.

Note 7 – Segment Reporting (contd.)

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.
Segment B – Office and other space for lease in Israel.
Segment C – Income-producing property in the USA.
Segment D – Granit Hacarmel.

b. Operating segments:

	For the period of nine months ended September 30, 2013 (unaudited)					
	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	656,046	270,810	132,382	5,506,404	728	6,566,370
Total segment expenses	127,421	47,346	56,211	5,245,544	51	5,476,573
Segment profit (NOI)	528,625	223,464	76,171	260,860	677	1,089,797
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	99,093	23,971	(5,210)	(415)	-	117,439
Unallocated costs						(73,349)
Financing expenses, net						(289,996)
Other revenues, net						10,701
The Company's share in results of associated companies, net of tax						(5,664)
Income before income taxes						848,928
Additional information:						
Segment assets	9,887,520	5,283,747	1,506,350	6,183,282	-	22,860,899
Unallocated assets (*)						1,921,647
Total consolidated assets						24,782,546

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.4 billion.

Note 7 – Segment Reporting (contd.)

	For the period of nine months ended September 30, 2012 (unaudited)					
	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 income from adjustment of fair value of investment property and investment property under construction	38,320	54,876	87	5,720	-	99,003
Unallocated costs						(58,102)
Financing expenses, net						(316,006)
Other revenues, net						10,687
The Company's share in results of associated companies, net of tax						(10,777)
Income before income taxes						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 approx. NIS 0.4 billion and financial assets available for sale in the sum of approx. NIS 1,259 million.

Note 7 – Segment Reporting (contd.)

b. Operating segments: (contd.)

	For the three months ended September 30, 2013 (unaudited)					
	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	220,212	93,549	43,670	1,816,257	244	2,173,932
Total segment expenses	44,692	18,054	19,071	1,714,433	14	1,796,264
Segment profit (NOI)	175,520	75,495	24,599	101,824	230	377,668
Net income (loss) from adjustment of fair value of investment property and investment property under construction	388	(312)	1,505	648	-	2,229
Unallocated costs						(23,396)
Financing expenses, net						(113,205)
Other revenues, net						2,193
The Company's share in results of associated companies, net of tax						(2,903)
Income before income taxes						242,586

Note 7 – Segment Reporting (contd.)

	For the three months ended September 30, 2012 (unaudited)					
	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 income (loss) from adjustment of fair value of investment property and investment property under construction	156	556	1,464	(293)	-	1,883
Unallocated costs						(17,058)
Financing expenses, net						(102,411)
Other expenses, net						(1,068)
The Company's share in results of associated companies, net of tax						(4,103)
Income before income taxes						252,180

Note 7 – Segment Reporting (contd.)

	For the year ended December 31, 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	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:						
Total external income	874,483	340,079	181,199	7,658,564	1,029	9,055,354
Total segment expenses	172,599	58,367	78,351	7,367,843	77	7,677,237
Segment profit (NOI)	701,884	281,712	102,848	290,721	952	1,378,117
Net income from adjustment of fair value of investment property and investment property under construction	84,478	142,359	88,099	13,960	-	328,896
Unallocated costs						(87,176)
Financing expenses, net						(374,983)
Other revenues, net						25,596
The Company's share in results of associated companies, net of tax						(12,033)
Income before income taxes						1,258,417
Additional information:						
Segment assets	9,601,137	4,751,465	1,570,099	5,978,628	-	21,901,329
Unallocated assets (*)						2,129,180
Total consolidated assets						24,030,509
Capital expenditures	85,124	340,531	411,596	123,312	-	960,563

(*) Mainly financial assets held for trade in the sum of approx. NIS 0.4 billion and financial assets available for sale in the sum of approx. NIS 1.4 billion.

Note 8 - Continuing Engagement for a Different Consideration

In June 2013, the Company engaged in a new agreement between the Company and the management companies for the provision of services which are provided to the Company by companies controlled by Mr. David Azrieli (*in lieu* of the previous management agreement). For a description of the agreements, see Note 5D above and Note 38C(1) to the consolidated financial statements as of December 31, 2012.

Below is the effect of the change in the terms of the new management fee agreement, had it been applicable in previous reporting periods.

a. Effect on the net profit for the period

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)		(unaudited)		
Net profit for the period attributed to shareholders of the parent company	522,510	569,055	54,585	194,021	938,526
Management fees to companies controlled by Mr. David Azrieli according to a previous agreement until June 2, 2013 and from such date according to a new agreement	12,705	17,369	2,134	6,155	23,072
Management fees to companies controlled by Mr. David Azrieli according to a new agreement, for the entire period	6,113	5,660	1,917	2,030	7,505
	6,592	11,709	217	4,125	15,567
Tax effect	(1,648)	(2,927)	(54)	(1,031)	(3,892)
Total proforma effect	4,944	8,782	163	3,094	11,675
Proforma net profit for the period attributed to the shareholders of the parent company	527,454	577,837	54,748	197,115	950,201

Note 8 - Continuing Engagement for a Different Consideration (contd.)

b. Effect on the comprehensive income for the period

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
Net profit for the period attributed to shareholders of the parent company	515,053	590,834	95,582	283,541	1,060,234
Proforma effect	4,944	8,782	163	3,094	11,675
Proforma net profit for the period attributed to the shareholders of the parent company	519,997	599,616	95,745	286,635	1,071,909

c. Effect on G&A

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
G&A as reported	168,709	156,520	53,529	53,498	218,202
Proforma effect	(6,592)	(11,709)	(217)	(4,125)	(15,567)
Proforma G&A	162,117	144,811	53,312	49,373	202,635

d. Effect on Basic Earnings per Share

	For the period of nine months ended September 30		For the period of three months ended September 30		As of December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
Basic earnings per share as reported	4.31	4.69	0.45	1.60	7.74
Proforma effect	0.04	0.07	0.00	0.03	0.10
Proforma basic earnings per share	4.35	4.76	0.45	1.63	7.84

The effect on the diluted earnings per share was not presented, since the diluted earnings are identical to the basic earnings per share.

Note 8 - Continuing Engagement for a Different Consideration (contd.)

e. Effect on the retained earnings

	For the period of nine months ended September 30		As of December 31
	2013	2012	2012
	NIS in thousands		
	(unaudited)		
Retained earnings as reported	9,350,658	8,723,927	9,093,148
Proforma effect	4,944	8,782	11,675
Proforma retained earnings	9,355,602	8,732,709	9,104,823

Note 9 – Subsequent Events

a. In October 2013, a consolidated company, Canit Hashalom Investments Ltd. ("Canit Hashalom") signed an amendment of the indenture for the Series A bonds of Canit Hashalom, whereby against a guaranty in the amount of NIS 100 million which the Company (the parent company) provided for the benefit of the trustee in trust for the bondholders, Canit Hashalom shall not be required to deposit in an account that will be pledged in favor of the trustee, the amount of NIS 50 million (the "Reserved Amount"). The guaranty shall be valid until the repayment of all of the debts of Canit Hashalom to the Series A bondholders or until the deposition of the Reserved Amount by Canit Hashalom, whichever is earlier.

The amendment to the indenture set forth that upon the fulfillment of specific conditions (especially upon a change of structure and control, a reduction of the Company's rating below the AA group, acceleration of liabilities, payment delinquencies and liquidation or striking off of the Company) the guaranty shall automatically expire and the Reserved Amount shall be deposited within 45 days from the occurrence of the event.

For further details with regard to the Series A bonds of Canit Hashalom, see Note 20B(2) to the consolidated financial statements as of December 31, 2012.

Note 9 – Subsequent Events (cont.)

b. After the Report Date, on October 31, 2013, Via Maris received a letter from the Water Desalination Administration which is comprised of representatives of the Ministry of Energy and Water and the Ministry of Finance whereby the State intends to significantly decrease the quantities of desalinated water that will be purchased in 2014 from seawater desalination plants in Israel, including the Palmachim plant which is owned by Via Maris. In the context of the notice, the committee invited Via Maris to voice its response to the aforesaid. A significant reduction of quantities is expected to have an adverse effect on Via Maris' results for 2014. Via Maris has both legal and economic arguments against the aforesaid reduction which it presented to the committee and in addition, Via Maris is examining the legal possibilities that are available thereto.

c. With respect to claims filed after the date of the financial statement – see Note 4 on contingent liabilities.

Annex to Consolidated Financial Statements

Separate Interim Financial Information
as of September 30, 2013
(unaudited)

Azrieli Group Ltd.

Separate Interim Financial Information

as of September 30, 2013

(unaudited)

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

Azrieli Group Ltd.

Contents

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

Dear Sir/Madam,

Re: Special report on the 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 in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of September 30, 2013 and for the three and nine month periods then ended. 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 total investments in which amounted to approx. NIS 990 million as of September 30, 2013, and the profit from which investee companies amounted to approx. NIS 103 million and approx. NIS 39 million for the three and nine month periods then ended, respectively. The financial statements of such companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, insofar as it relates to the financial statements in respect of such companies, is based upon the review reports of the other auditors.

The Scope of the Review

We have carried out our review according 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 affairs, and of the implementation of analytical and other review procedures. A review is significantly narrower in scope than an audit carried out according to Generally Accepted Auditing Standards in Israel and therefore does not allow us to obtain assurance that we shall become aware of all of the significant matters that could have been identified through an audit. Accordingly, we do not provide an audit opinion.

Conclusion

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

Without qualifying our above conclusion, attention is drawn to Note F regarding a legal action against the Company and an investee company, for which a motion for class certification has been filed.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, November 19, 2013

Azrieli Group Ltd.

Information on the Financial Position

	As of September 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	210,334	56,138	57,413
Financial assets held for trade	30,032	442,044	421,847
Trade accounts receivable	7,118	9,179	8,090
Other receivables	109,238	64,265	78,345
Current tax assets	-	5,215	1,077
Total current assets	356,722	576,841	566,772
Non-current assets			
Financial assets available for sale	1,442,490	1,259,172	1,412,114
Financial assets designated at fair value through profit and loss	19,474	22,038	20,088
Investment property and investment property under construction	6,604,086	6,227,650	6,284,162
Investments in investee companies	5,387,777	4,792,807	5,106,678
Loans to investee companies	3,123,426	1,967,391	2,035,492
Fixed assets	5,341	4,960	4,816
Receivables	6,582	7,412	7,196
Total non-current assets	16,589,176	14,281,430	14,870,546
Total assets	16,945,898	14,858,271	15,437,318
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	1,057,478	575,248	793,101
Trade payables	14,735	7,807	8,335
Payables and other current liabilities	30,695	35,974	41,380
Current tax liabilities	8,101	-	-
Total current liabilities	1,111,009	619,029	842,816
Non-current liabilities			
Loans from banks	2,030,389	1,225,909	1,074,410
Bonds	584,394	620,895	616,843
Other liabilities	17,310	18,225	18,147
Deferred tax liabilities	1,067,337	955,160	990,386
Employee benefits	10,634	13,454	19,876
Total non-current liabilities	3,710,064	2,833,643	2,719,662
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	278,280	185,785	285,805
Retained earnings	9,350,658	8,723,927	9,093,148
Total capital attributed to shareholders of the Company	12,124,825	11,405,599	11,874,840
Total liabilities and capital	16,945,898	14,858,271	15,437,318

November 19, 2013

Date of approval of the separate financial information	**David Azrieli** **Chairman of the Board of Directors**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **Chief Financial Officer**

Azrieli Group Ltd.

Information on Profit or Loss and Other Comprehensive Income

	For the nine month period ended September 30		For the three month period ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Revenues					
From rent and management and maintenance fees	333,441	330,901	109,722	112,215	442,878
Net profit from adjustment to fair value of investment property and investment property under construction	40,430	35,666	196	145	26,600
Financing income	132,423	134,983	54,453	62,838	159,414
Other, net	6,000	7,793	-	-	7,793
Total revenues	512,294	509,343	164,371	175,198	636,685
Costs and expenses					
Cost of revenues from rent and management and maintenance fees	7,580	6,935	2,498	2,139	9,318
Sales and marketing	4,549	3,964	3,157	448	5,141
General and administrative	44,375	34,701	8,502	7,891	54,179
Financing expenses	94,165	119,599	42,391	40,425	132,068
Total costs and expenses	150,669	165,199	56,548	50,903	200,706
Profit before Company's share in the profits of investee companies	361,625	344,144	107,823	124,295	435,979
Share in profits of investee companies, net of tax	294,567	287,738	26,765	93,809	599,733
Income before income taxes	656,192	631,882	134,588	218,104	1,035,712
Expenses for taxes on income	133,682	62,827	80,003	24,083	97,186
Net profit for the period	522,510	569,055	54,585	194,021	938,526
Other comprehensive income (loss), net of tax					
Amounts that will not be classified in the future to profit or loss, net of tax					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(11)
	-	-	-	-	(11)
Amounts that will be classified in the future to profit or loss, net of tax:					
Share in the other comprehensive profit (loss) of investee companies, net of tax.	(12,114)	10,300	(5,139)	(2,763)	(90)
Change in fair value of financial assets available for sale, net of tax	26,014	4,947	55,096	91,110	129,280
Translation differences from foreign operations	(21,357)	6,532	(8,960)	1,173	(7,471)
Other comprehensive Income (loss) for the period, net of tax	(7,457)	21,779	40,997	89,520	121,708
Total comprehensive income for the period attributed to the shareholders of the Company	515,053	590,834	95,582	283,541	1,060,234

Azrieli Group Ltd.

Information on the Cash Flows

	For the nine month period ended September 30		For the three month period ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Cash flows from current operation					
Net profit for the period	522,510	569,055	54,585	194,021	938,526
Depreciation and amortization	638	592	248	203	775
Net profit from adjustment to fair value of investment property	(40,430)	(35,666)	(196)	(145)	(26,600)
Financing and other expenses (revenues), net	(44,058)	(6,885)	(11,634)	982	(11,079)
Dividend received from financial assets available for sale	6,000	8,000	-	-	8,000
Interest and dividend received from financial assets held for trade	5,936	33,026	4	6,721	36,911
Share in profits of investee companies, net of tax	(294,567)	(287,738)	(26,765)	(93,809)	(599,733)
Taxes recognized in the income statement	133,682	62,827	80,003	24,083	97,186
Income tax paid, net	(34,984)	(40,661)	(16,841)	(16,261)	(58,354)
Change in financial assets held for trade	391,815	880,039	(27,628)	271,458	900,236
Change in trade and other receivables	(30,817)	(34,544)	(23,182)	(7,870)	(40,118)
Change in trade and other payables	(3,847)	(2,293)	5,214	3,294	3,013
Recording benefit in respect of share-based payment	7,808	(4,389)	444	(5,324)	1,938
Change in financial assets designated as at fair value through profit and loss	348	(1,696)	515	(592)	254
Change in employee provisions and benefits	(17,273)	23	(10,502)	120	376
Net cash – current operation	602,761	1,139,690	24,265	376,881	1,251,331
Cash flows - investment activities					
Investment in investment property and investment property under construction	(69,452)	(38,243)	(24,816)	(13,329)	(54,265)
Down payments on account of investment property	(181,574)	-	(18,821)	-	(48,502)
Purchase of fixed assets	(1,163)	(276)	(221)	(136)	(315)
Investment in company consolidated for the first time	-	(46,035)	-	-	(46,035)
Interest received	5,671	1,344	283	434	1,816
Return of investment in an investee company	-	-	-	-	4,666
Institutions pertaining to purchase of real estate	(2,663)	-	15,368	-	(8,245)
Investment in investee companies	(363)	(374)	(361)	-	(374)
Consideration from liquidation of investments in financial assets available for sale	2,913	-	-	-	3,616
Investment in financial assets designated at fair value through profit and loss	(1,633)	(3,605)	-	(481)	(3,605)
Consideration from financial assets designated at fair value through profit and loss	1,899	-	484	-	-
Repayment (granting) of long-term loans to investee companies, net	(1,005,586)	(369,139)	(917,117)	(263,718)	(465,501)
Net cash - investment activities	(1,251,951)	(456,328)	(945,201)	(277,230)	(616,744)

Azrieli Group Ltd.

Information on the Cash Flows

	For the nine month period ended September 30		For the three month period ended September 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Cash flows from financing activities					
Dividend distribution to the shareholders	(265,000)	(240,000)	-	-	(240,000)
Repayment of bonds	(44,108)	(43,475)	-	-	(43,475)
Receipt (Repayment) of long-term loans from banks	999,487	(116,418)	1,086,134	(31,605)	(141,301)
Short-term credit from banks, net	192,842	(252,280)	(189)	(3,413)	(152,042)
Deposits from customers, net	(1,143)	(171)	(285)	(335)	(105)
Interest paid	(77,339)	(84,596)	(26,468)	(27,818)	(110,230)
Net cash generated by financing activities	804,739	(736,940)	1,059,192	(63,171)	(687,153)
Increase (decrease) in cash and cash equivalents	155,549	(53,578)	138,256	36,480	(52,566)
Cash and cash equivalents at the beginning of the period	57,413	109,398	72,509	19,699	109,398
Effect of exchange rates changes on cash balances held in foreign currency	(2,628)	318	(431)	(41)	581
Cash and cash equivalents at the end of the period	210,334	56,138	210,334	56,138	57,413
Non-Cash Activities					
Payables for the purchase on credit of non-current assets	2,568	-	2, 568	-	-

Azrieli Group Ltd.

Additional information for the Separate Financial Statements

A. General

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

This separate financial information must be inspected in the context of the Company's separate financial information as of December 31, 2012, and for the year ended on such date, and the additional figures that were attached thereto.

B. Definitions

The Company - Azrieli Group Ltd.

Investee company - Consolidated company, company under proportionate consolidation and an associated company.

C. Accounting Policy

The separate financial information is prepared in accordance with the accounting policy specified in Note B of the Company's separate financial information as of December 31, 2012 and the year then ended, other than changes in the accounting policy as specified in Note 2C to the condensed consolidated financial statements released concurrently with this separate financial information.

D. Events during the Report Period

1. See Note 5 to the condensed consolidated financial statements released concurrently with this separate financial information.

2. During the Report Period, the Company granted an investee company loans in the sum of approx. NIS 1 billion, bearing an interest as set in the matter of Section 3(J) of the Income Tax Ordinance.

E. Subsequent Event

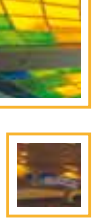
See Note 9A to the condensed consolidated financial statements released concurrently with this separate financial statement.

F. Contingent liability:

The parties	Amount of claim	Nature of claim	Prospects of claim
Claim against the Company and an investee company	If case is not certified as class action – NIS 4,561. Should it be certified as class action only in relation to the class of offerees whose shares were force purchased – approx. NIS 18 million. Should it be certified as class action in relation to all of the offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Division in the Tel Aviv District Court by a petitioner claiming to have been an offeree the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company, in the tender offer, at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the tender offer were not fulfilled, and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion to summarily dismiss the motion and the hearing was scheduled for February 2014. In this preliminary stage, it is impossible to estimate the chances of the claim.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure



Azrieli Group

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

Attached hereto 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, the members of management are:

1. Yuval Bronstein, CEO;
2. Irit Sekler-Pilosof, CFO;
3. Michal Kamir, General Counsel and Company Secretary;
4. Yair Horesh, 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, 2013 (hereinafter – the Last Quarterly Report on Internal Control) the internal control was found to be effective.

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

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

Statement of Managers:

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

I, Yuval Bronstein, represent that:

(1) I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for the Q3/2013 (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, 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. No event or matter had been brought to my attention which occurred during the period between the date of the Last Quarterly Report and the date of this report, which may change the conclusion of the board of directors and the management pertaining to 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 19, 2013

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Yuval Bronstein, CEO

Statement of Managers:

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

I, Irit Sekler-Pilosof, represent that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the reports for the interim period of Azrieli Group Ltd. (the "Corporation") for Q3/2013 (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 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, 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 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. No event or matter had been brought to my attention which occurred during the period between the date of the Last Quarterly Report and the date of this report, referring to the interim financial statements and any other financial information included in the Interim Period Reports, which may, in my estimation, change the conclusion of the board of directors and the management pertaining to 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 19, 2013

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Irit Sekler-Pilosof , CFO