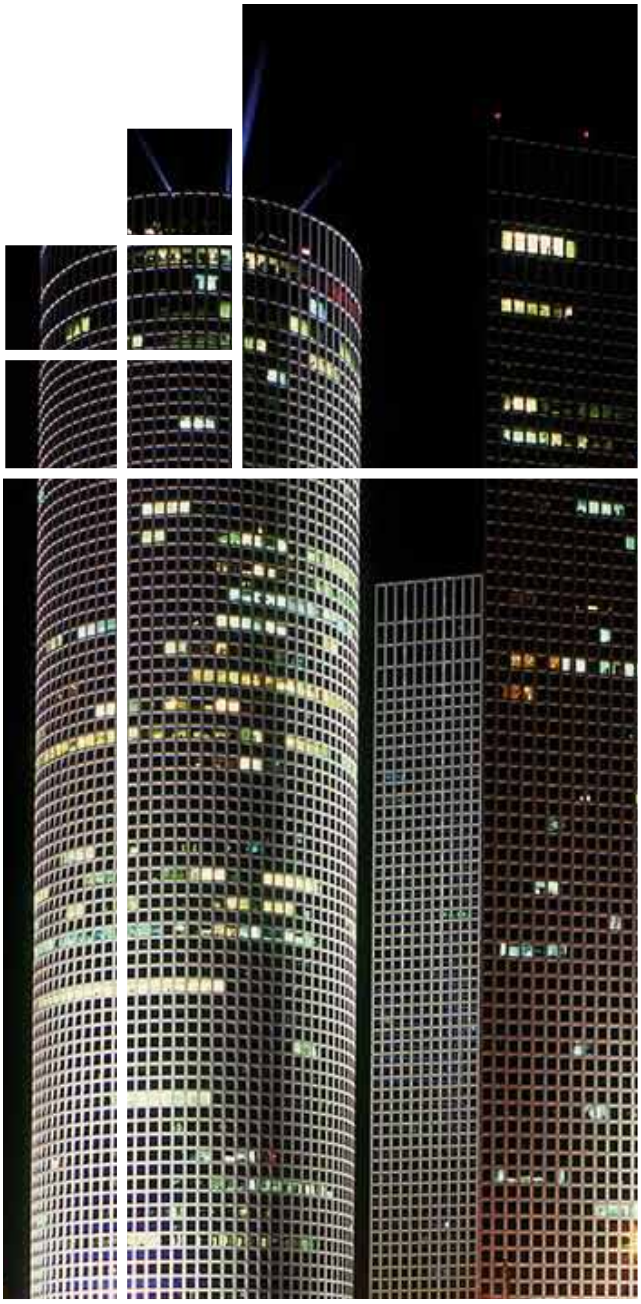
AZRIELIGROUP

Azrieli Group Ltd.

Quarterly Report
Q1/2015
Dated 31 March 2015



Part A Board Report

Part B Update of the Description of the Corporation's Business

Part C Consolidated Financial Statements
Dated 31 March 2015

Part D Effectiveness of Internal Control over the Financial Reporting and Disclosure

AZRIELI GROUP

CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of the quarterly report and financial statements for Q1/2015 (the "**Report**") of the Azrieli Group Limited. Please note that this document should not be regarded as a substitute for the complete, original, Hebrew version of the Report.

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

This translation was neither performed by the Company, nor checked by it, and accordingly, the Company does not undertake that the translation fully, correctly or accurately reflects the Report and its content. The full and legal version of the Report, in Hebrew, was released by the Company on May 20, 2015, and may be viewed on the MAGNA website.

The translation of the financial statements in the Report (the "**Financial Statements**") was neither performed by Brightman, Almagor, Zohar and Co., Accountants (the "**Company's Auditors**"), nor checked by the Company's Auditors, and accordingly, they do not undertake that the translation of the Financial Statements fully, correctly or accurately reflects their content, and the Company's Auditors' report on the Financial Statements relates solely to the Company's Financial Statements in Hebrew. The full and legal version of the Financial Statements was released by the Company, as part of the Report, on May 20, 2015, and may be viewed on the MAGNA website.

Part A

Board Report

AZRIELIGROUP

Azrieli Group Ltd.

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

for the three months ended March 31, 2015

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the three months ended March 31, 2015 (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, whose effect is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2014, 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 2014") and the update to the Corporation's Business Chapter and the financial statements for March 31, 2015.

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held thereby, directly and/or indirectly, shall hereinafter be referred to as the "**Group**" or "**Azrieli Group**"), engages, both itself and through its subsidiaries and investee companies, mainly in the various real estate segments, 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 overseas, and mainly office space for lease in the U.S., as well as land designated for the construction of senior housing facilities in Israel. The Company further engages, through its (indirect) holding in Sonol Israel Ltd. ("**Sonol**"), also in another business segment, which includes oil distillates via direct marketing and fuelling and retail complexes. In Q2/2014, the Company closed the sale of Tambour Ltd. ("**Tambour**") which constituted, until such date, a separate operating segment of the Company, and is presented in the financial statements, according to GAAP, as discontinued operations (for further details, see Note 5 to the financial statements for March 31, 2015). In addition, the Company has other businesses, such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd. ("**Granite**" or "**Granite Hacarmel**")). The Company also has minority holdings in financial corporations.

As a result of organizational changes in Granite which affect the decision making process of the Chief Operating Decision Makers ("**CODM**"), the reporting format was updated such that from the annual report as of December 31, 2013, and in the quarterly report as of March 31, 2014, the Company reported in its reports to the public on five operating segments, which also constitute reportable business segments in its financial statements. From the June 30, 2014 quarterly report, according to GAAP, and in view of the closing of a transaction for the sale of the Group's holdings in Tambour, Tambour's operations, which operations included paint, finishing and construction, were rendered discontinued operations of the Company, and therefore it is no longer reported as an operating segment (see Note 5 to the financial statements for March 31, 2015, Chapter C hereof).

The data appearing in the Board of Directors' Report are based on the consolidated financial statements as of March 31, 2015. The financial data and business results of the Company are affected by the financial data and business results of the companies held thereby. In certain cases, details are presented which review events that occurred after the date of the financial statements and in proximity to the date of release of the Report, with such fact being stated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included herein was examined from the Company's viewpoint. In some cases, an additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's opinion, material for purposes of this Report.

The attached financial statements are prepared according to the International Financial Reporting Standards (IFRS). For further details, see Note 2 to the financial statements as of March 31, 2015.

Extended standalone statement – the income-producing property business

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bondholders and analysts and deems all of the above as its partners. Therefore, the Company had decided to adopt a policy whereby, in the Company's Board of Directors' Report, disclosure shall be made regarding a summary of extended standalone financial statements of the Company, i.e. a summary of the Company's balance sheets and income statements on a consolidated basis, presented according to the IFRS, except for the Company's investment in Granite Hacarmel, which is presented based on 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). The Company's management believes that this Report adds considerable information which helps to understand the large contribution of the real estate business to the total profit of the Company, while excluding material items 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 ended March 31, 2015 and until the Report Release Date (*)

Improvement in the NOI in the Quarter compared with the same quarter
• Approx. 6.5% growth in the NOI (approx. NIS 298 million) compared with the same quarter last year (approx. NIS 280 million);
Improvement in the same-property NOI in the Quarter compared with the same quarter
• Approx. 4% additional growth in the same-property NOI, compared with the same quarter. (See Section 1.1.4 of the Report)**;**
FFO from the income-producing property operations compared with the same quarter
• Approx. 7% growth in the FFO attributed to the income-producing property operations (see Section 1.1.6 of the Report);
Comprehensive Income
• Approx. NIS 279 million comprehensive income in the Quarter, compared with comprehensive income of approx. NIS 182 million in the same quarter last year;
Net Profit
• Approx. NIS 191 million net profit in the Quarter, compared with a net profit of approx. NIS 211 million in the same quarter last year;
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 most of the projects under construction and the Company is in advanced negotiations for the lease of tens of thousands of sqm. • In the Report Period, the Company invested approx. NIS 355 million in the

purchase of properties, improvement of existing properties and initiation.

- For further developments, see Section 1.1 below.

Disposition of Assets in Granite Hacarmel

- As of the Report Release Date, the Company is continuing to hold negotiations from time to time with various entities for the disposition of its holdings which are not in its core business in the income-producing property sector, including in relation to Granite on the whole and/or its subsidiaries.

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

1. The Board's explanations for the state of the corporation's business

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) of this Report.

Transactions related to Investment Property

Winning a Tender for the Purchase of Land Designated for Retail and Offices in Holon

On February 24, 2015, the Company won a tender conducted by the Israel Land Authority, for the purchase of 4 plots designated for industry in Holon's industrial zone, of a total area of 12,400 sqm, in consideration for approx. NIS 64 million. According to the terms and conditions of the tender, the purchase of two of the Plots of a total area of 7,200 sqm requires the approval of the Minister of the Interior. The Company intends to build an office and retail project on the Plots at a total scope of up to 55 thousand sqm above-ground (subject to the zoning plan restrictions) and underground parking areas. For further details, see the Company's immediate report of February 24, 2015 (ref.: 2015-01-037618), included herein by way of reference.

Termination of agreement for the purchase of a retail center in Afula

On January 7, 2015, the Company entered into a transaction with an unaffiliated third party for the purchase of 51% of the rights in a strip mall (power center) known by the name of G Be'Emek in Afula. On February 5, 2015, the Company received notice from the seller that the partner holding the remainder of the rights in the project had exercised the right of first refusal conferred thereon, and therefore the condition precedent to the transaction had not been fulfilled and the closing of the purchase of rights in the retail center by the Company would not be consummated. For details, see the Company's immediate reports of January 7, 2015 and February 5, 2015 (ref.: 2015-01-006838 and 2015-01-026548, respectively), included herein by way of reference.

Transactions in connection with held properties

Agreement for the sale of all of the rights in Via Maris Desalination (Holdings) Ltd.

On August 6, 2014, Global Environmental Solutions Ltd. ("**GES**") engaged with an unaffiliated third party in an agreement, whereby GES will sell all of its rights in the Via Maris desalination plant in Palmachim in consideration for NIS 429 million, linked to the January 2014 index. The closing of the transaction is contingent upon fulfillment of the conditions precedent set forth in the agreement, which were to be fulfilled by December 31, 2014. As of the Report Date, due to non-fulfillment of all of the conditions precedent that were determined in the agreement by December 31, 2014, the parties decided upon postponement of the closing date to May 31, 2015. It is clarified that the parties may agree on further postponements of the last date for the closing of the transaction, in accordance with progress in obtaining all of the approvals required and fulfillment of the conditions precedent. For further details, see Note 6 to the financial statements for March 31, 2015.

Further developments

Senior Officers

Details regarding changes in the office of officers in the Report Period were included in a specification in the Company's Annual Report for December 31, 2014, and in the Company's reports of March 1, 2015 (ref.: 2015-01-040498), March 18, 2015 (ref.: 2015-01-053536) and March 18, 2015 (ref.: 2015-01-053563), included herein by way of reference.

Class Actions

On August 8, 2013, a motion was received, filed with the Economic Department at the Tel Aviv District Court, against the Company and against the subsidiary, Canit Hashalom, for an appraisal remedy, and a motion for revocation of the tender offer, pursuant to Section 338 of the Companies Law, in connection with a full tender offer completed by the Company in September 2012, for shares of the public in Granite Hacarmel. On February 19, 2015, the court ruled that the claim for an appraisal remedy had prescribed, and summarily dismissed it. The court did not summarily dismiss the motion on grounds of a misleading detail, and ruled that a hearing would be held on this issue. For further details, see the Company's immediate report of August 8, 2013 (ref.: 2013-01-113148), included herein by way of reference, and Note 3A.1 to the financial statements for March 31, 2015.

Offering of a New Series B Bond Series

On February 8, 2015, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 700 million par value of a new Series B bond series (the "**Shelf Offering Report**"). The Shelf Offering Report was published by virtue of a shelf prospectus of the Company, published on May 14, 2013 ("Shelf Prospectus"). On February 10, 2015, the Company announced that according to the terms and conditions of the Shelf Offering Report, approx. NIS 623 million par value of a Series B bond series had been allotted in consideration for approx. NIS 623 million (approx. NIS 619 million after attribution of issue expenses). For further details regarding the Series B bonds, see Note 4B to the financial statements for March 31, 2015.

Extension of shelf prospectus

On May 10, 2015, the ISA extended the Company's shelf prospectus of May 14, 2013 by an additional 12 months, i.e. until May 14, 2016.

Current Operations

As the Company has reported in the past, during the Report Period until the date of release hereof, the Group has continued to explore business opportunities in Israel and overseas, in connection with the expansion of its business, mainly in the real estate sector, including tangential real estate sectors and development of the senior housing sector and the storage and logistics sector. These opportunities are examined also through the purchase of land reserves and the development of properties, as well as through the purchase of properties and/or business from third parties and/or improvement of the properties owned by the Group, some of which have been consummated as stated in the Company's reports. The Company engages, on an ongoing basis, in identifying opportunities for expanding retail/office space in its existing properties as an addition to existing projects and is acting to promote the same, and is expected to continue this activity also in 2015. In addition, after the sale of Tambour, the sale of the solar business in Supergas and an agreement for the sale of the desalination plant (insofar as this transaction is closed), the Company is continuing to examine, on an ongoing basis, the other holdings which are not in its core business in the field of income producing properties, and in this context the sale its holdings in Granite Hacarmel (in whole or its various parts) and/or its financial holdings, at its discretion in connection with the timing, the structure and the consideration in the transaction.

As of the Report Date, the Company is conducting initial contacts only with several entities in Israel and overseas with respect to the aforesaid, which are not certain to mature into advanced negotiations. The Company shall report in the future, insofar as there shall be developments which shall require reporting pursuant to law. As of the Report Release Date, there are no short-term plans which deviate from

the Company's ordinary course of business and which may have material repercussions on the Company's business and results.

1.1.2 **Developments in Initiation and Development**

In 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. As of the date of this Report, the Company is acting for the development of several properties under construction that are expected to add marketable space, to the Group, in the aggregate, of 507,500 sqm (approx. 55,000 sqm of which in 2015), as specified below. The Company's total investments in the Report Period were approx. NIS 355 million.

Set forth below is a summary of the data regarding properties under construction and expansions as of March 31, 2015

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of March 31, 2015[1] (NIS in millions)	Estimated cost of completion of construction (NIS in millions)
Azrieli Center Holon[2] – Phase B	Holon	June 2008	Offices	83%	34,000	55,000	Beginning of 2014	Y2015	328	2-27
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	53,000	December 2011	Y2016	389	301-331
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	Y2017	884	636-696
Modi'in Senior Housing Land	Modi'in	June 2014	Senior Housing	100%	12,000	35,000*	April 2015	Y2017	56	204-214
Azrieli North [3]	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	142	860-910
Expansion of Azrieli Center Tel Aviv[3]	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Not yet determined	Not yet determined	111	890-940
Holon land[4]	Holon	Feb. 2015	Commerce and Offices	100%	12,400	55,000	Not yet determined	Not yet determined	64	Not yet determined

Lehavim Senior Housing Land	Lehavim	Dec. 2014	Senior housing	100%	28,300	44,000*	End of 2015 (estimated)	2017-2018	21	229-249
Total						**507,500**			**1,995**	**3,122-3,367**

(1) The figure reflects the value of the project on the books if a valuation was made, or the costs that were invested without capitalizations and as a shell. The total capitalizations in projects that are presented at cost is approx. NIS 92 million.
(2) The figures are for 100%.
(3) As of the Report Release Date, the Company has not yet received possession of this property, the data presented relate to the existing zoning plan for the land. With respect to the Azrieli North land, it is noted that in November 2014, an addendum to the agreement was signed, whereby the handover date was postponed to August 2016.
(4) As of the Report Release Date, the Company has not yet received possession of two of the lots of a total area of 7,200 sqm.
(*) The figure constitutes the scope of building rights in sqm.

During the Report Period, the Company continued the development and construction work on its properties specified above, and obtaining the approvals required for their continued development, in accordance with the planned timetables and without significant delays. In addition, there has been progress in negotiations for the lease of the areas under construction in relation to tens of thousands of sqm. For further details, see Section 4 of Chapter B hereof, the 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, 5728-1968, 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 in prices of construction inputs.

1.1.3 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2014[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 year ended**
	March 31, 2015	March 31, 2014	December 31, 2014
Retail centers and malls in Israel	180	178	709
Growth rate	1%		
Office and other space for lease in Israel	84	78	318
Growth rate	8%		
Income-producing property in the USA	34	24	107
Growth rate	42%		
Total NOI	**298**	**280**	**1,134**
Growth rate	6%		
For explanations pertaining to the change in NOI, see Sections 1.10.1, 1.10.2 and 1.10.3 below.			

[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, 2014.

1.1.4 Same property NOI Index[2]

NIS in millions	For the three months ended	
	March 31, 2015	March 31, 2014
Retail centers and malls in Israel segment	178	178
Office and other space for lease in Israel segment	84	78
Income-producing property in the USA segment	29	24
Total	**291**	**280**
Growth rate	4%	

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

	2015	2014			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**
Same property NOI in all of the periods (*)(**)	291	288	284	281	280
NOI from properties acquired/launched	7	5	1	-	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**298**	**293**	**285**	**281**	**280**

(*) In all of the Company's operating segments.'
(**) Same property NOI includes the figures of Azrieli Center Holon which was under lease-up throughout the periods, and its lease-up has not yet been completed.

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

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 March 31, 2015**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex C) (*)	19,221
Net of value attributed to investment property under construction	1,698
Net of value attributed to advance payments on account of land purchase	285
Net of the value attributed to land reserves	137
Total value of income-producing investment properties (including fair value of the vacant space)	**17,101**
Actual NOI for the quarter ended on March 31, 2015	298
Addition to future quarterly NOI (**)	24
Total standardized NOI	**322**
Pro-forma annual NOI based on standardized NOI	**1,288**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.5%**

(*) As of the Report Date, the Company has performed no new valuations and the data is based on the valuations as of December 31, 2014. The data 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 that has not yet been leased-up and space leased-up during Q1/2015, for lease-up for one year for which value was credited in the valuations as of December 31, 2014.

This figure does not constitute a forecast of the Company for the NOI of 2015 and all of its purpose is to reflect the NOI under the assumption of full lease-up 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	
NIS in Millions	**March 31, 2015**	**March 31, 2014**
Net profit for the period attributed to shareholders	188	209
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	(18)	(32)
Adjustments to profit (1):		
Impairment of investment property	13	3
Depreciation and amortizations	1	1
Net non-cash flow financing and other revenues	(39)	(26)
Tax expenses	50	35
Adjustments for associated companies	-	-
Plus benefit recorded for employee option plan	2	-
Net of dividend received from financial assets available for sale	-	(10)
Total adjustments to profit	27	3
Plus interest paid for real investments - (2)	8	12
Total FFO attributed to the income-producing property segment (3)	**205**	**192**

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. 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.
3. 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 should be emphasized that the indices specified above do not include the expected profit component in respect of 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	
	March 31, 2015	March 31, 2014
Equity attributed to the Company's shareholders in the financial statements	13,207	12,535
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,782	2,723
EPRA NAV	**15,989**	**15,258**
EPRA NAV per share (NIS)	**132**	**126**
EPRA NNNAV (NIS in millions)	**As of**	
	March 31, 2015	**March 31, 2014**
EPRA NAV	15,989	15,258
Adjustment of assets' value to fair value (net of the minority)	10	23
Adjustment of the value of financial liabilities to fair value (net of the minority)	(364)	(398)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,782)	(2,723)
EPRA NNNAV	**12,853**	**12,160**
EPRA NNNAV per share (NIS)	**106**	**100**

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 year ended
	March 31, 2015	March 31, 2014	Dec. 31, 2014
Net profit for the period attributed to the shareholders	188	209	849
Net profit attributed to the shareholders and non-controlling interests	191	211	860
Basic profit per share (in NIS)	1.55	1.73	7.01
Basic profit per share from continued operations (in NIS)	1.55	1.63	6.41
Comprehensive income for shareholders and non-controlling interests	279	182	913

The net profit attributed to the shareholders for the three months ended on March 31, 2015 totaled to an amount of approx. NIS 188 million versus net profit attributed to the shareholders in the amount of approx. NIS 209 million in the same period last year.

In the Report Period, the Company recorded growth in the NOI from the real estate operations and a reduction in the financing expenses. Conversely, due to cessation of inclusion of Tambour's figures as a result of the sale of Tambour's business in 2014, due to the recording of inventory losses at Sonol and due to revenues from a dividend from Leumi Card which were recorded in the same quarter last year, the net profit decreased in the period compared with the same period last year.

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 and by funds due to translation differences from foreign operations.

The total comprehensive income for the three months ended March 31, 2015 amounted to approx. NIS 279 million, compared with a net profit (including non-controlling interests) of approx. NIS 191 million in the same period. The said difference between the comprehensive income and the net profit mainly derives from 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 of approx. NIS 67 million and from the profit from translation differences from foreign operations of approx. NIS 21 million.

c. 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, 2014, except as specified below.

In Israel – the Report Period was characterized by a continuation of the trend of slowdown in general market growth, similarly to the trend in 2013-2014, and the business indicators in Q1/2015 show that the market is continuing to grow at the moderate pace of the last two years. In the income-producing property sector in Israel, stability has been preserved both on the level of demand and on the level of rental prices and occupancy rates. The (known) CPI recorded a decline of 1.6% in Q1/2015. Bank of Israel interest dropped in February 2015 by 0.15% to 0.1%. The Prime interest is 0.6%.

The slowdown in general market growth was not apparent in the business environment and/or business and operating results of the Company, but from time to time a more challenging environment is felt in negotiations with tenants when signing new lease agreements or renewing existing contracts, particularly in the Beer

Sheva region and in the north of Israel, where changes have occurred in the past year in the competitive balance between the market players, *inter alia* due to the opening of new retail centers and expansion of the supply of retail space in the region, which pose challenges to the sector, including the need to adjust rental prices in Azrieli Hanegev mall and Azrieli Kiryat Ata mall. The past months were characterized by stability with an average moderate rise in revenues[3] at the Group's malls. In March, the second floor of the Azrieli Ayalon mall and the Azrieli Ramla mall were opened to the public. The office sector continued to demonstrate stability and even a rise in demand, mainly at the Azrieli Holon Center.

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 and the Company's investments in improving its properties to maintain such advantage, the high occupancy rates, the broad range of businesses existing in the malls and retail centers of the Group and the suitable mix of businesses and the stable capital structure of the Company contribute to reducing the scope of the exposure of the Group's business to significant crisis and/or instability due to the materialization of any of the Company's risk factors.

<u>In the U.S.</u> –

In Q1/2015, the office market in Houston is demonstrating signs of balancing, *inter alia*, in the stabilization of rent, a reduction in the number of lease transactions and a decline in the commencement of construction of offices for lease, despite a decline in the oil prices which began in the second half of 2014, and particularly due to the strong connection of Houston's economy to the energy market. It should be pointed out that the Company estimates that a consistent continuation of low energy prices or further drops in oil prices, may, in the long-term, adversely affect Houston's economy, and as of the Report Date, the Company is unable to estimate the future effect on its business in the sector (if any) and the duration of the effect, if any.

[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.

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

Summary of the Group's operating segments[4]

- **The Retail Centers and Malls in Israel Segment** – The Company has 15 malls and retail centers in Israel, at a comprehensive leasable area of approx. 301 thousand sqm (consolidated) and 300 thousand sqm (the Company's share) leased to approx. 1,800 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 11 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 352 thousand sqm (consolidated) and 349 thousand sqm (the Company's share) leased to approx. 500 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. 187 thousand sqm (consolidated) and approx. 177 thousand sqm (the Company's share) leased to approx. 300 tenants;

- **Fuelling and Retail Complexes and Direct Marketing (Sonol) Segment** – The Group operates in two sectors, fuelling and retail complexes and direct marketing, through Sonol Israel Ltd.

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.

[4] "On a consolidated basis" – excluding Granite Hacarmel; "the Company's share" – net of minority holdings in certain companies.

In this Report, the Company specifies the causes which contributed to the business stability and the 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. 508 thousand sqm income-producing properties in Israel, is at approx. NIS 3.1-3.4 billion, in addition to approx. NIS 2.0 billion that was invested until the Report Period. For specification regarding the projects under construction see Section 1.1.2 above.

The estimated scope of the Group's investments in future growth engines and the estimated addition to the income-producing property areas owned by the Company, are forward-looking information, as defined in the Securities Law, 5728-1968, based on subjective estimations of the Company's management as of the Report Date. These estimations may not materialise, in whole or in part, or they may materialise in a materially different manner than the Company estimated. The main factors which may have an effect thereon are: changes in the Company's plans, delays in the granting of permits or approvals required for the advancement of the projects under construction and the Company's or any of the Group's companies' encountering financing or other difficulties, in a manner which shall affect the feasibility of the projects.

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is approx. 99% in the retail centers and malls segment and approx. 99% in the office and other space for lease segment[5]. The average occupancy rate in the income-producing property in the USA is approx. 93%.

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, and to look into development of tangential and/or synergetic sectors.

[5] Excluding the Azrieli Center Holon, part of which opened in July 2013 and another part opened in March 2014, and which are in advanced stages of being leased up. The occupancy percentage in the retail centers and malls segment, including the Azrieli Center Holon, is approx. 97%. The occupancy percentage in the office and other space for lease segment, including the Azrieli Center Holon, is approx. 98%.

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, the construction period and the costs of the raw materials.

1.2.2 Sonol segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Sonol. In Q1/2015, net of inventory profit/loss effects and exchange rate effects, there was improvement in Sonol's results of operations compared with the same quarter last year. The improvement mainly derives from an increase in the white fuel quantities sold, growth in the profit from convenience stores as well as a decline in the company's real financing expenses, as specified in Section 1.10.4 hereof below.

1.2.3 Additional Businesses

In addition, the Group has additional businesses, which include, *inter alia*, through Granite Hacarmel, Supergas – which mainly engages in marketing and the supply of LPG, GES – which mainly engages in water and waste infrastructures[6], material changes in whose business may affect the Group's results, and investments in corporations in the banking and finance sector, whose market price changes, investments in venture capital companies, start-ups and investment funds.

[6] For details regarding GES's engagement in an agreement for the sale of the Desalination Plant, see Section 1.1.1 hereof above.

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, 2014	Investments during the three months ended March 31, 2015	Total investment as of March 31, 2015 before adjustment for changes in the fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of March 31, 2015	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	**945**	**-**	**945**	**1,043**	**98**	**-**
Investment in Leumi Card Ltd. (**)	**593**	**-**	**593**	**593**	**-**	**-**
Total	**1,538**	**-**	**1,538**	**1,636**	**98**	**-**

* 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 March 31, 2015;

** 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, 2014.

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:		Rate of the segment's profit from the total consolidated net profit in the three months ended:	
Retail centers and malls in Israel	180	178	94%	84%
Office and other space for lease in Israel	84	78	44%	37%
Income-producing property in the USA	34	24	18%	11%
Sonol	-	16	-	8%
Others	30	35	16%	17%
Total attributed profit	**328**	**331**	**172%**	**157%**
Changes in fair value	(13)	(4)	(7%)	(2%)
Net financing expenses	(6)	(34)	(3%)	(16%)
Tax expenses	(97)	(83)	(51%)	(39%)
Administrative and other expenses, net	(21)	(11)	(11%)	(5%)
Profit from discontinued operations	-	12	-	5%
Net profit for the period	**191**	**211**	**100%**	**100%**

* From the financial statements for June 30, 2014, the results of the investment in Tambour are presented in the financial statements separately, as discontinued operations.

The Group's revenues from the business segments for the three-month period ended March 31, 2015 amounted to approx. NIS 1,497 million, compared with approx. NIS 1,802 million in the same period last year, a decrease of approx. NIS 305 million, deriving mainly from a decrease of a similar amount in the revenues of Sonol as a result of a decline in oil prices, and a decline in Supergas's revenues in the sum of approx. NIS 28 million due to a decline in gas prices and the decline in construction revenues in the solar business, offset against an increase of approx. NIS 28 million in the income-producing property sector. As of March 31, 2015, the total assets on the balance sheet were approx. NIS 26.1 billion compared with approx. NIS 25.4 billion as of December 31, 2014, which increase is attributed mainly to investments in the income-producing property segments.

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	
	March 31, 2015	**Dec. 31, 2014**	**March 31, 2015**	**Dec. 31, 2014**
Retail centers and malls in Israel	10,703	10,595	41%	42%
Office and other space for lease in Israel	6,362	6,134	24%	24%
Income-producing property in the USA	2,079	2,026	8%	8%
Sonol	2,177	2,208	8%	9%
Others and adjustments	4,806	4,466	19%	17%
Total	**26,127**	**25,429**	**100%**	**100%**

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

	As of March 31, 2015	As of March 31, 2014	As of Dec. 31, 2014
Current assets	3,473	3,908	3,249
Non-current assets	22,653	21,733	22,180
Current liabilities	5,248	5,310	5,099
Non-current liabilities	7,576	7,701	6,981
Capital attributed to the Company's shareholders	13,207	12,535	13,252
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**51%**	**49%**	**52%**

The Group finances its business activity mostly by its equity, cash and by using non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial paper. In the Report Period, the Company issued, based on a shelf prospectus, Series B bonds to the public. The Group's financial solidity, which is characterised by low leverage and significant non-mortgaged properties, 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 March 31, 2015, 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 638 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 15.0 billion in addition to approx. NIS 638 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 March 31, 2015 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	7,896
Properties in the office and other space for lease in Israel segment	4,236
Other Properties	127
Company's holdings in Leumi Card	593
Company's holdings in Granite Hacarmel	1,141
Company's holdings in Bank Leumi	1,043
Total	15,036

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 16, 2015, the Company's board of directors approved a cash distribution in a total sum of NIS 320 million (approx. NIS 2.6 per share). On May 4, 2015, the Company paid the dividend to its shareholders. According to the Company's financial statements as of March 31, 2015, the Company has surplus of approx. NIS 10.6 billion (including revaluation fund of financial assets available for sale).

For further details, see the immediate report of March 18, 2015 (ref.: 2015-01-053497), included herein by way of reference.

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

Leumi Card: In the Report Period, Leumi Card did not distribute a dividend.

Bank Leumi: In the Report Period, Bank Leumi did not distribute a dividend.

(c) Cash flows

Net cash flows generated for the Group from current operations in the three months ended March 31, 2015, amounted to the sum of approx. NIS 223 million, which mainly derived from the operating profit of the income-producing property in the sum of approx. NIS 298 million which was offset against income taxes paid.

The increase in the sum of approx. NIS 66 million in cash flow from current operations in the three months ended March 31, 2015 compared with the same period last year mainly resulted from an increase in Sonol's current cash flow as a result of a decline in the working capital due to a decline in oil prices and a decrease in inventory.

The cash flow derived by the Group from current operations in the three months ended March 31, 2015 were used by the Group mainly for financing investments required for projects under construction and the purchase of land, and the payment of long-term liabilities.

Net cash flows used by the Group for investment activity in the three months ended March 31, 2015 amounted to approx. NIS 258 million compared with approx. NIS 274 million in the same period last year.

The cash flow in the Report Period was mainly used for the purchase of and investment in investment property and investment property under construction in the sum of approx. NIS 375 million, offset against proceeds received from the sale of the solar business in the sum of approx. NIS 151 million. The cash flow in the same period last year was mainly used for the purchase of and investment in investment property and investment property under construction in the sum of approx. NIS 246 million.

Net cash flows that the Group derived from financing activity in the three months ended March 31, 2015 amounted to approx. NIS 430 million compared with cash used for financing activity in the sum of approx. NIS 112 million in the same period last year. The increase mainly derived from a bond offering in the sum of approx. NIS 619 million in the Report Period, offset against an increase in the repayment of long-term loans in the sum of approx. NIS 55 million.

Following is the composition of the Group's financing sources

	March 31, 2015		December 31, 2014	
	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	2,898	11%	2,962	12%
Long-term credit from banks and other credit providers	3,160	12%	3,176	12%
Long-term bonds	1,509	6%	958	4%
Total	**7,567**	**29%**	**7,096**	**28%**

The increase in the sum of approx. NIS 471 million in the Report Period mainly derives from the offering of bonds as stated in Section 1.1.1 above.

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1.8 billion, resulting mainly from the decision of the Group's management, at this stage, to finance its business also through short-term credit in view of the business opportunity, due to the low interests for such credit.

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 in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the Company's board of directors determined that the said deficit in the working capital does not affect its ability to repay its liabilities on time.

The Company's estimations mentioned in this Section 1.5 of the board of directors' report in relation to its liquidity and the availability of its financing resources, particularly with respect to the eventuality of converting the short-term debt into long-term debt, is forward-looking information, as defined in the Securities Law, 5728-1968, which is based on the Company's estimations with regards to developments in markets, inflation levels and projected cash flows, its financial strength and on the conditions and possibilities for credit raising on the Report Date. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The principal factors which may affect this are: changes in the capital market which will impact the conditions and possibilities for raising credit, changes in the Company's plans, including use of liquid balances that shall exist for the purpose of utilizing business opportunities, changes in the advantageousness of holding of the various investment avenues or the advantageousness of use of various financing avenues, exacerbation of the economic situation in Israel or in the U.S. and entry into severe recession, and the Company's or any of the Group's companies' encountering

financing or other difficulties, in a manner affecting the Company's cash flow.

(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	September 21, 2014
	Maalot	AA+ stable	January 20, 2015
Series B Bonds of the Company	Maalot	AA+ stable	January 20, 2015
Commercial paper	Maalot	A-1+	January 20, 2015
Private loan	Midroog	Aa2 with a stable outlook	September 21, 2014

For further details, see Note 21 to the financial statements as of December 31, 2014. To review Midroog's annual monitoring report, and to review Midroog's private loan report, see the Company's immediate report of September 21, 2014 (ref.: 2014-01-161508), included herein by way of reference. To inspect Maalot's report for the Company's Series A bonds, see the Company's immediate report of January 20, 2015 (ref.: 2015-01-015679), included herein by way of reference. To inspect Maalot's report for the Company's Series B bonds, see the Company's immediate report of January 20, 2015 (ref.: 2015-01-015688), included herein by way of reference. To inspect Maalot's full report, see the Company's immediate report of February 11, 2015 (ref.: 2015-01-029467), included herein by way of reference. For the rating of the commercial paper by Maalot, see the Company's immediate report of June 23, 2014 (ref.: 2014-01-096798) and Maalot's ratification of this rating of January 20, 2015 (ref.: 2015-01-015679), included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of March 31, 2015, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	25	797	-	822	822
Long Term Loans	3,918	1,153	11	-	-	5,082	-	5,082
Total	3,918	1,153	11	25	797	5,082	822	5,904

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of March 31, 2015, in NIS in millions:

Year	Principal	Interest	Total
1	1,818	146	1,964
2	1,814	127	1,941
3	278	62	340
4	222	58	280
5 forth	1,772	113	1,885
Total	5,904	506	6,410

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and current assets, mainly 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 March 31, 2015, 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 223 million in the three months ended March 31, 2015, compared with the sum of approx. NIS 157 million in the same period last year.

- 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 amount of the loan for which is significantly 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, 2014.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) amounted to approx. NIS 23 million in the Report Period, similarly to the same period last year. In the Report Period, there was a decrease in consideration in respect of the management services paid to Canadian companies wholly owned and controlled by Mr. David Azrieli, OBM (as stated in Note 38c1 to the consolidated financial statements as of December 31, 2014) and in donations in the sum of approx. NIS 3 million. Conversely, there was an increase in marketing expenses in the sum of approx. NIS 3 million.

1.8 The Net Financing Expenses

The Group’s net financing expenses in the Report Period amounted to the sum of approx. NIS 6 million, compared with approx. NIS 34 million in the same period last year (a decrease of approx. NIS 28 million). The decrease in the net financing expenses results mainly from the effect of the decrease in the rate of the index on loans and bonds in the Report Period, compared with the same period last year (which derived from a decline of approx. 1.6% in the rate of the rise in the known index in the Report Period compared with a decline of approx. 0.7% in the same period last year), higher revenues from dollar hedging transactions and a decrease in real terms in the interest rate. The effect of the decline in the index on the financing expenses was not fully expressed in the Quarter’s results since it is impossible to revaluate loans and bonds below the original loan amount. The Company estimates that this effect will be

expressed in the following periods (assuming that the index rises above the base index, in the loan period until repayment thereof) and is estimated at approx. NIS 27 million.

The Company's estimate mentioned in this Section 1.8 of the Board of Directors' Report in connection with expected effects on the net financing expenses, is forward-looking information as defined in the Securities Law, 5728-1968, based on the Company's estimates with respect to changes in the index in the loan period. These estimates may not materialize, in whole or in part, or they may materialize in a materially different manner than the Company estimated, since they originate from factors beyond the Company's control.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 97 million, compared with tax expenses in the sum of approx. NIS 84 million in the same period last year. The increase in tax expenses in the Report Period derives, *inter alia*, due to an increase in the current tax expenses in the period as a result of an increase in the current profit (primarily pursuant to the decrease in the financing expenses).

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. With respect to the income-producing property segments, the NOI figure is one of the most important parameters in valuations of income-producing property companies (for the manner of calculation of the figure, see Section 1.1.5 of the Board of Directors' Report for December 31, 2014). In addition, the contribution to the results takes into account the Company's share in the results of the company held by the Company (indirectly), Sonol, 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 year ended
	March 31, 2015	**March 31, 2014**	**Dec. 31, 2014**
	NIS in **Millions**		
Revenues	**221**	**218**	**877**
% change	**1%**		
NOI	**180**	**178**	**709**
% change	**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.

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

	For the three-month period ended	
	March 31, 2015	**March 31, 2014**
For the segment's properties owned by the Company as of the beginning of the period[7]	**178**	**178**
For properties whose construction was completed in 2014	**-**	**-**
For properties that were purchased or whose construction was completed in 2015	**2**	**-**
Total	**180**	**178**

The same property NOI in the malls and retail centers in Israel segment was favorably affected primarily by:

- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).

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 turnover in some of the malls.
- A real decline in rent at the time of renewal of contracts in some of the properties due to increased competition mainly in the Beer Sheva region and the north (due to the exercise of options by the tenants and/or the execution of new contracts).
- Expansion orders in the cleaning and security sectors which took effect in 2014, increased the cleaning and security costs in the Group's properties and offset part of the increase in the revenues from rent.

The balance of the assets of retail centers and malls in Israel segment – amounted as of March 31, 2015, to the sum of approx. NIS 10.7 billion, compared with approx. NIS 10.6 billion on December 31, 2014. The change mainly derives 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

The loss due to fair value adjustment of investment property and

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

investment property under construction of the segment amounted, in the Report Period, to approx. NIS 11 million. The assets are presented according to the valuations performed by an independent appraiser as of December 31, 2014.

1.10.2 Office and other space for lease in Israel segment:

	For the three-month period ended		For the year ended
	March 31, 2015	March 31, 2014	Dec. 31, 2014
NIS in millions			
Revenues	**102**	**93**	**387**
% change	**10%**		
NOI	**84**	**78**	**318**
% change	**8%**		

The increase in revenues and in the NOI derives mainly from growth in revenues from existing office space for lease (mainly continued lease-up of the offices in the Azrieli Holon Center).

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

	For the three-month period ended	
	March 31, 2015	March 31, 2014
Due to the segment's properties owned by the Company as of the beginning of the period[8]	**84**	**78**
Due to properties which were purchased or whose construction was completed in 2014	**-**	**-**
Due to properties which were purchased or whose construction was completed in 2015	**-**	**-**
Total	**84**	**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 office and others in Israel segment was favorably affected primarily by:

- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).

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

- Continued lease-up of Azrieli Holon Center.

The same property NOI in the office and other space in Israel segment was negatively affected primarily by:

- Expansion orders in the cleaning and security sectors which took effect in 2014, increased the cleaning and security costs in the Group's properties and offset part of the increase in the revenues from rent.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on March 31, 2015 to the sum of approx. NIS 6.4 billion compared with approx. NIS 6.1 billion on December 31, 2014. The change mainly derives from investments in the segment's properties.

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

The loss from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 1 million, compared with a loss of approx. NIS 3 million in the same period last year. The assets are presented according to an update to the valuations carried out by an independent appraiser as of December 31, 2014.

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 year ended
	March 31, 2015	**March 31, 2014**	**December 31, 2014**
NIS in millions			
Revenues	**60**	**44**	**191**
% change	**36%**		
NOI	**34**	**24**	**107**
% change	**42%**		

The increase in revenues in 2015 results mainly from the acquisition of a leased-up office building in Houston, Texas, U.S. in September 2014 and from the rise in the rate of the dollar.

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

	For the three-month period ended	
	March 31, 2015	**March 31, 2014**
Due to the segment's properties owned by the Company as of the beginning of the period[9]	**29**	**24**
Due to properties purchased in 2014	**5**	**-**
Total	**34**	**24**

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 by:

- The average exchange rate of the U.S. dollar in the Report Period is approx. 13% higher than the average exchange rate of the U.S. dollar in the same period last year.
- Continued lease-up of vacant space.

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

- Space not leased-up in periods of lessee turnover in some of the office buildings.

The investment properties balance of the Group in the segment – amounted on March 31, 2015 to the sum of approx. NIS 2.1 billion compared with approx. NIS 2.0 billion on December 31, 2014. The change mainly derives from the rise in the Dollar exchange rate.

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

In the Report Period, almost no change occurred due to fair value adjustment of investment property of the segment, similarly to the same period last year.

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

1.10.4 Sonol segment

The Company's share in the Sonol segment results amounted, in the Report Period, to a negligible profit, compared with a profit of approx. NIS 17 million in the same period last year.

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

	For the three-month period ended		Percentage of the Change	For the year ended Dec. 31, 2014
	March 31, 2015	March 31, 2014		
	NIS in millions		%	NIS in millions
Net Revenues	891	1,196	(26%)	4,818
Gross profit	144	161	(11%)	642
Operating Profit	2	16	(88%)	54
Pre-tax profit (loss)	(1)	6		38

Summary of Sonol's business results:

The decline in Sonol's revenues in the Report Period compared with the same period last year mainly derived from a decline in oil prices.

Gross profit

Sonol's gross profit amounted in the Report Period to approx. NIS 144 million compared with approx. NIS 161 million in the same period last year, a decline of approx. 11% in the Report Period.

The decrease in the Report Period compared with the same period last year mainly derives from the effect of inventory losses (drop in the price of oil) and an increase in the sale cost as a result of the effect of exchange rates and was offset, in part, by an increase in the white fuel quantities sold at fuelling complexes and in direct marketing and in the results of the convenience stores.

Operating profit:

Sonol's operating profit in the Report Period was approx. NIS 2 million compared with approx. NIS 16 million in the same period last year, a decline of approx. 88%.

The decrease in the operating profit in the reported period derives from the decrease in the gross profit as aforesaid and was offset by a decline in the G&A expenses and the recording of other income.

Pre-tax profit:

Sonol's pre-tax loss in the Report Period was approx. NIS 1 million compared with a profit of approx. NIS 6 million in the same period last year. The decrease in pre-tax profit in the reported period derives from a decline in the operating profit as aforesaid, which was partly offset by a decrease in the net financing expenses.

Comment regarding forward-looking information

The Company's intentions mentioned in the introduction to the Board of Directors' Report, the main emphases for the report and Sections 1.1 to 1.10 of the Board of Directors' Report, inter alia*, in connection with taking advantage of business opportunities and expanding the business, liquidity, financing sources and net financing expenses, the pace of the progress of the projects under construction, the projected costs for their construction, the effects of the economic situation on the Company's operating segments and with respect to the possibility of converting the short-term debt into long-term debt and/or raising debt, are forward-looking information, as defined in the Securities Law, 5728-1968, based on the Company's plans as of the Report Date, the Company's estimates with respect to developments in the markets, inflation levels, expected cash flows, and on the conditions and the possibilities for raising credit on the Report Date.*

These estimates may not materialize, in whole or in part, or may materialize in a materially different manner than the Company estimated. The main factors which may have an effect thereon are: changes in the capital market which affect the conditions and the possibilities for raising credit, changes in the Company's plans, including use of liquid balances that shall exist for the purpose of taking advantage of business opportunities, changes in the advisability of the holding in various investment channels or the advisability of using various financing channels, delays in the granting of permits or approvals required for progress in the projects under construction, changes in the regulation relating to the Company's business, including in the field of zoning, raw materials used for construction becoming more expensive, changes in the CPI, worsening of the economic situation in Israel or in the U.S. and entering a harsh recession and the Company's or any of the Group's companies' facing financing or other difficulties, in a manner that affects the Company's cash flow.

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

2.1 General

The specification below pertains to the Company and subsidiaries wholly owned thereby as well as material held companies of the Company, whose exposure to market risks may materially affect the Company.

The person in charge of market risk management in the Company is the CFO, Ms. Irit Sekler-Pilosof. In the quarter ended March 31, 2015, 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, 2014 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 March 31, 2015, 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, 2014.

2.4 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, the corporate organ in charge of governance, appointed a Financial Statements Review Committee (the "**Committee**") whose members are Prof. Niv Ahituv (Chairman of the Committee and an outside director, with accounting and financial expertise), Mr. Efraim Halevy (an outside director with professional qualifications), Mr. Joseph Ciechanover (an independent director with accounting and financial expertise), Mr. Oran Dror (independent director with accounting and financial expertise), and Ms. Tzipa Carmon (an independent director with accounting and financial expertise). Prior to their appointment, the five 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 2014.

Financial Statement Approval Procedure

The Committee convened on May 17, 2015 to review the financial statements for March 31, 2015 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 May 17, 2015. In addition, at the request of the Committee's Chairman, Ms. Danna Azrieli, Chairman of the Board, opened the meeting, and Mr. Yuval Bronstein, the Company's CEO, General Counsel, Ms. Michal Kamir, Ms. Irit Sekler-Pilosof, the CFO, representatives of the Company's auditor and relevant position holders at the Company such as the Company's Controller and the Internal Auditor, Mr. Gali Gana, were present at the meeting. 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 why it does not indicate a liquidity problem in the Company and is

therefore not 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 participants who are not members of the Committee left the meeting (with the exception of the Company’s CEO, CFO and general counsel), at which point the Committee's chairman 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 March 31, 2015. The Committee's recommendations were forwarded to the Board members, at the end of the Committee’s meeting, in preparation for the Board meeting which was held on May 19, 2015.

On May 19, 2015, the Company's board of directors, the corporate organ in charge of governance, approved the Company's financial statements for March 31, 2015. For details regarding the members of the Board of Directors, see Section 26 of Chapter D. of the Company's Periodic Report for 2014. 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 May 19, 2015. The Board members who were present at the said meeting (including via any media) are: Ms. Danna Azrieli, 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), Mr. Oran Dror (independent 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 March 31, 2015 were approved and the persons authorized to sign them were empowered.

3.2 **Contribution Policy**

For details regarding the summoning of a general meeting, to be held on May 21, 2015, concerning approval of renewal of the engagement in an agreement between the Company and The Azrieli Foundation (Israel) (R.A), a not-for-profit association registered in Israel (the "**Association**"), which is an interested party of the Company, whereby the Association's existing contribution arrangement will be extended, *mutatis mutandis*, for an additional five-year period, commencing on June 1, 2015 and ending on May 31, 2020, see a report on the convening of a special meeting of April 16, 2015 (ref.: 2015-01-000186), included herein by way of reference.

3.3 **Designated Disclosure of Series B Bonds**

For details regarding designated disclosure for the holders of the Company's Series B bonds, see Section 5 hereof below.

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, see Chapter B of this Report – updates to the Description of the Corporation's Business Chapter as of December 31, 2014 and Note 4 to the financial statements as of March 31, 2015.

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 hereof.

4.3 Lawsuits

For details see Note 3 to the consolidated financial statement for March 31, 2015.

4.4 Disclosure pertaining to Very Material Valuations

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2014. The Company updated the valuations of its assets in Israel as of December 31, 2014. (For details regarding the parameters for the update of the valuations in the quarterly statements, see Note 3C1 to the Periodic Report as of December 31, 2014).

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 December 31, 2014, was attached to the Company’s financial statements as of December 31, 2014, as released on March 18, 2015 (ref. 2015-01-053431), and the Company estimate that no material changes occurred in this valuation.

As of March 31, 2015, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2014) was in the sum of approx. NIS 4.8 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 19.2 billion (approx. 25% of the Company's total investment properties).

4.5 Subsequent events

See Note 9 to the financial statements.

4.6 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.

4.7 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 3 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.

5. Designated Disclosure to the Bondholders

Set forth below are details regarding the bonds of the Company that are held by the public:

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Fair Value in the Financial Statements	Market Cap	Type of Interest	Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
		[NIS in millions]											
Series B	February 8, 2015	623.3	623.3	623.3	0.6	623.3	635	Fixed	0.65	April 1st in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*.	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv; Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Idan Kanoval.
Total		623.3	623.3	623.3	0.6	623.3	635						

* The Series B bonds are protected, such that if the known index on the relevant payment due date is lower than the base index (stated in the table), the payment index will be the base index.

Further details regarding the bonds of the Company held by the public:

1. The Series B bond series of the Company is material to the Company and is not secured by any collateral.

2. The Company will be entitled, at its sole discretion, to perform (partial or full) early redemption of the Series B bonds. For details, see Section 9.2 of the terms and conditions overleaf in the indenture for the Series B bonds (the "**Indenture**"), which was attached to the shelf

offering report that was published by the Company on February 8, 2015 (ref.: 2015-01-027136).

3. As of the Report Release Date, the Company has fulfilled all of the terms and conditions and undertakings according to the Indenture for the Series B bonds and no conditions establishing grounds for acceleration of the Series B bonds have been fulfilled.

4. For details regarding an undertaking that the Company assumed in the framework of the Series B bonds of the Company, see Sections 5.2-5.6 of the Indenture.

Rating of the bonds of the Company held by the public:

Series	**Name of Rating Company**	**Rating Set on the Date of the Issue**	**Rating Set as of the Report Release Date**	**Date of Issuance of the Current Rating**	**Additional Ratings Set between the Date of the Issue and the Report Date**	
					Rating	**Date of Rating**
Series B	Maalot	AA+ stable	AA+ stable	January 20, 2015	-	-

The Company's board of directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, on their blessed contribution to the Group's achievements in the quarter ended March 31, 2015.

Danna Azrieli	**Yuval Bronstein**
Chairman of the Board	**CEO**

Date: May 19, 2015

Annex A

The Group's Positions in Derivatives as of March 31, 2015

Annex A
The Group's Derivative Positions
as of March 31, 2015

The Group's derivative positions as of March 31, 2015

Granite Hacarmel and consolidated companies sometimes enter into financial hedging against the rise of the index, due to the difference between index-linked, NIS-denominated assets and liabilities.

As of March 31, 2015, Granite Hacarmel has no outstanding index hedges.

During the year, consolidated companies of Granite Hacarmel entered into future currency transactions for hedging purposes.

Below is a specification of the engagements as of March 31, 2015:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
106,000	Dollar	NIS	April-May 2015	2,354

The maximum holding of derivatives, during the Report Period, of all of the purchase positions for purposes of hedging the dollar-NIS exchange rate was US$114,000 thousand.

Collection of the figures for purposes of the aforesaid measurements was based on their par value upon measurement. The measurement is tracked at least once a month.

Annex B

Reporting according to Linkage Bases as of March 31, 2015 (IFRS 7)

Annex B

Reporting According to Linkage Bases as of March 31, 2015 (IFRS 7)

(NIS thousands)

	As of March 31, 2015					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	471,670	-	111,236	3,363	-	586,269
Financial assets held for trading	660	154	-	-	-	814
Short-term deposits and investments	50,878	-	-	-	-	50,878
Trade accounts receivable	1,247,102	2,873	36,123	-	-	1,286,098
Other receivables	35,811	11,319	27,168	-	101,266	175,564
Inventory	-	-	-	-	187,395	187,395
Current tax assets	-	-	-	-	7,867	7,867
Assets of a disposal group held for sale	315,858	521,806	57,929	133,597	149,300	1,178,490
Total Current Assets	2,121,979	536,152	232,456	136,960	445,828	3,473,375
Investments and loans in associates	33,775	8,879	-	-	-	42,654
Investments, loans and receivables	45,175	69,758	2,816	-	76,123	193,872
Financial assets	1,702,279	-	23,934	-	-	1,726,213
Long-term receivables in respect of a franchise arrangement	-	30,478	-	-	-	30,478
Investment property and investment property under construction	-	-	-	-	19,202,064	19,202,064
Fixed assets	-	-	-	-	983,405	983,405
Intangible assets	-	-	-	-	383,210	383,210
Pre-paid long-term rent	-	-	-	-	39,450	39,450
Deferred tax assets	-	-	-	-	51,865	51,865
Total Non-Current Assets	1,781,229	109,115	26,750	-	20,736,117	22,653,211
Total Assets	3,903,208	645,267	259,206	136,960	21,181,945	26,126,586

(1) Mainly Euro.

Annex B

Reporting According to Linkage Bases as of March 31, 2015 (IFRS 7)

(NIS thousands)

(Contd.)

	As of March 31, 2015					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	1,811,062	1,006,773	55,461	24,792	-	2,898,088
Trade payables	331,626	13,442	308,797	801	-	654,666
Payables and other current liabilities	68,999	10,296	9,734	159	276,404	365,592
Deposits from customers	-	107,012	-	-	-	107,012
Provisions	-	-	-	-	39,797	39,797
Declared dividend	320,000	-	-	-	-	320,000
Current tax liabilities	-	-	-	-	83,764	83,764
Liabilities of a disposal group held for sale	194,462	388,960	57,490	108,916	28,789	778,617
Total Current Liabilities	2,726,149	1,526,483	431,482	134,668	428,754	5,247,536
Non-Current Liabilities						
Loans from banks and other credit providers	146,383	1,879,129	1,134,695	-	-	3,160,207
Bonds	-	1,509,475	-	-	-	1,509,475
Employee benefits	-	-	-	-	20,563	20,563
Other liabilities	7,490	36,157	8,348	-	75	52,070
Deferred tax liabilities	-	-	-	-	2,833,681	2,833,681
Total Non-Current Liabilities	153,873	3,424,761	1,143,043	-	2,854,319	7,575,996
Total Liabilities	2,880,022	4,951,244	1,574,525	134,668	3,283,073	12,823,532
Total Exposure in the Statement of Financial Position	1,023,186	(4,305,977)	(1,315,319)	2,292	17,898,872	13,303,054

(1) Mainly Euro & GBP.

Annex C

Financial Statements
(Extended Standalone)
as of March 31, 2015
(unaudited and unreviewed)

Annex C

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS, except for the investment in Granite which is presented on the basis of the equity method *in lieu* of consolidation of its reports with the Company's reports (all other investments are presented with no change to the report presented pursuant to the IFRS). These statements do not constitute separate financial statements within the meaning thereof in the 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 obtain valuable information from the presentation of such figures.

The figures in this annex have not been audited nor reviewed by the Company's auditors.

Balance sheet:

	As of March 31		As of December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	507,129	184,407	110,229
Financial assets held for trading	814	1,263	657
Trade accounts receivable	44,813	30,288	36,200
Other receivables	80,530	47,151	76,759
Current tax assets	3,662	7,873	6,392
Total Current Assets	636,948	270,982	230,237
Non-Current Assets			
Investment in investee companies	1,140,161	1,344,740	1,161,819
Loans and receivables	78,267	65,871	76,753
Financial assets	1,660,521	1,571,800	1,563,180
Investment property and investment property under construction	19,151,144	17,433,319	18,763,462
Fixed assets	43,890	43,627	43,583
Deferred tax assets	1,087	1,343	1,110
Total Non-Current Assets	22,075,070	20,460,700	21,609,907
Total Assets	22,712,018	20,731,682	21,840,144

Annex C

Extended Standalone Financial Statements

Balance Sheet: (Contd.)

	As of March 31		As of December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	1,818,149	1,024,691	1,792,795
Trade payables	204,221	86,905	195,645
Payables and other current liabilities	66,693	106,992	115,139
Declared dividend	320,000	280,000	-
Current tax liabilities	66,942	61,016	92,195
Total Current Liabilities	2,476,005	1,559,604	2,195,774
Non-Current Liabilities			
Loans from banks and other credit providers	2,980,432	3,013,091	2,979,605
Bonds	1,105,209	850,118	538,577
Other liabilities	40,090	38,800	39,983
Employee benefits	3,762	14,379	8,518
Deferred tax liabilities	2,805,829	2,641,097	2,734,856
Total Non-Current Liabilities	6,935,322	6,557,485	6,301,539
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	475,215	312,182	387,878
Retained earnings	10,195,477	9,686,872	10,327,571
Total equity attributable to shareholders of the Parent Company	13,206,930	12,535,292	13,251,687
Not-controlling interests	93,761	79,301	91,144
Total Capital	13,300,691	12,614,593	13,342,831
Total Liabilities and Capital	22,712,018	20,731,682	21,840,144

Annex C

Extended Standalone Financial Statements

Income Statement:

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues:			
From rent, management and maintenance fees	385,285	356,124	1,462,586
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(12,929)	(2,227)	36,701
Financing	2,952	2,855	11,000
Share in results of held companies, net of tax	19,946	20,533	67,494
Other	-	10,000	10,035
Total Revenues	395,254	387,285	1,587,816
Costs and Expenses:			
Cost of revenues from rent, management and maintenance fees	85,630	75,839	321,251
Sales and Marketing	6,130	3,626	18,718
General and Administrative	17,256	18,926	65,220
Financing	4,523	18,688	118,744
Other	57	41	141
Total Costs and Expenses	113,596	117,120	524,074
Income before income taxes	281,658	270,165	1,063,742
Expenses for taxes on income	(90,465)	(71,468)	(277,708)
Income from continued operations, including minority	191,193	198,697	786,034
Income from discontinued operations, including the minority(*)	-	12,123	73,505
Net Profit for the period, including the minority	191,193	210,820	859,539

(*) On June 12, 2014, the transaction for the sale of Tambour was closed, and it is presented in the financial statements as discontinued operations. (For further details see Note 5 to the consolidated financial statements).

Part B

Update of the Description of the Corporation's Business

AZRIELIGROUP

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, 2014 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a description of material developments that have occurred in the Company's business during the three months ended March 31, 2015 and until the Report Release Date, with respect to which developments disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "**Report Release Date**" – May 20, 2015; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – March 31, 2015. "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the three months ended March 31, 2015**.**

1. Developments that occurred in the Group's structure and business until the Report Release Date

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

For details with respect to (1) a winning bid in a tender for the purchase of retail and office-designated land in the city of Holon; (2) the termination of an agreement for the purchase of a strip mall in Afula; (3) an agreement for the sale of all of the rights in Via Maris Desalination; (4) class actions; (5) changes in the office of an executive officer; and (6) the issue of a new bond series (Series B), see Section 1.1.1 of Chapter A of this report.

Extension of Shelf Prospectus

On May 10, 2015, the Israel Securities Authority extended the Company's shelf prospectus of May 14, 2013 by 12 additional months, i.e., until May 14, 2016.

[1] As released on March 18, 2015 (Ref. no. 2015-01-053431) and amended on May 7, 2015 (Ref. no. 2015-01-015303).

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

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

For details with respect to changes that occurred in holdings in corporations through which the Company's controlling shareholders hold control of the Company, see the Company's immediate report of April 15, 2015 (Ref. no.: 2015-01-078715), which is incorporated herein by way of reference.

For details with respect to changes that occurred in the holdings of Migdal Insurance and Financial Holdings Ltd., an interested party in the Company, see the Company's immediate report of April 20, 2015 (Ref. no.: 2015-01-002214), which is incorporated herein by way of reference.

3. Dividends

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

On May 4, 2015, the Company paid a dividend to its shareholders in the total amount of approx. NIS 320 million. For details, see Section 1.5(b) of Chapter A of this Report.

4. Properties under Construction

Update to Section 7.7 of the Description of the Corporation's Business chapter:

Land for Senior Housing in Modi'in

As of the Report Release Date, the Company has obtained an excavation and shoring permit and has commenced performance of the work.

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

Expansion of the Azrieli Tel Aviv Center

As of the Report Release Date, the Local Committee has decided to recommend to the District Committee to deposit the urban zoning plan under a mixed urban designation, which allows uses of retail, hotelkeeping, residence and senior housing with building rights on land in a gross amount of 145,200 sqm. In the framework of the decision of the Local Committee, the Company has undertaken, to the extent that the plan is approved, to allocate a public floor in the project for the City of Tel Aviv-Jaffa, and has also undertake to perform various tasks in the vicinity of the project, including the Azrieli Center.

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

5. Developments pertaining to the Azrieli Center in Tel Aviv

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

Azrieli Towers in Tel Aviv

(Data according to 100%) (*)	For the Quarter Ended March 31, 2014	For the Year Ended December 31, 2013
Value of property (NIS in thousands)	2,782,749	2,780,410
NOI in the period (NIS in thousands)	51,900	202,571
Revaluation profits in the period (NIS in thousands)	-	53,845
Average occupancy rate in the period (%)	99.9%	100%
Rate of return (%)	7.5%	7.3%
Average rent per sqm per month (NIS) (**)	100	98
Average rent per sqm per month in contracts signed during the period (NIS)	121	120

(*) 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 at the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month would have amounted in Q1/2015 was approx. NIS 96 per sqm, and in 2014 approx. NIS 94 per sqm.

The valuation for this property and details regarding the valuation were released in the Company's financial statements as of December 31, 2014.

6. Additional Business

Update to Section 13.1.1 of the Description of the Corporation's Business chapter – Supergas

Under regulations published recently by the Ministry of National Infrastructures, Energy and Water Resources (Arrangements in the Economy of the State Regulations (Legislation Amendments) (the Provision of Information with respect to Gas Supply), 5775-2015), as of July 2, 2015, LPG suppliers shall be required to report to the Gas Administration, at the beginning of every month, of the average prices of gas supply services they charged their household consumers and shall also be required to publish such data on their websites. Furthermore, gas suppliers shall be required to provide central gas consumers with information on the gas invoice, in accordance with the provisions of the regulations. Supergas is preparing for compliance with the regulations and for the provision of data as required by the regulations.

Update to Section 13.2.1 of the Description of the Corporation's Business chapter – Investment in Leumi Card

In April 2015, the Antitrust Commissioner released an updated list of the significant financial bodies under the Competition Promotion and Concentration Reduction Law, 5774-2013, and listed Leumi Card thereon. Insofar as the Group continues to be deemed a significant real corporation, and insofar as Leumi Card continues to be deemed a significant financial body, by December 11, 2019, the Group shall be required to reduce its holdings of Leumi Card shares to below a holding rate of 10%.

7. Non-bank Financing for the Company

Update to Section 18.5 of the Description of the Corporation's Business chapter:

Commercial Paper

During the Report Period, the Company issued a new unrated CP series in the amount of NIS 116 million par value, in addition to the existing rated series in the total amount of NIS 480 million par value. For details with respect to the Company's commercial paper, see Note 21A to the financial statements as of December 31, 2014. For details with respect to the rating of the Company's commercial paper, see Section 18.11.3 of Chapter A of the Periodic Report.

Series A Bonds of the Company (Non-Negotiable)

During the Report Period, principal and interest payments were made, in accordance with their payment schedules. As of the Report Date, the balance of nominal value of the Company's Series A Bonds which are in circulation is NIS 444 million.

Series B Bonds of the Company (Negotiable)

On February 8, 2015, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 700 million par value of a new bond series (Series B), under a shelf prospectus of the Company. On February 10, 2015, the Company announced that according to the terms of the issue, approx. NIS 623 million par value of Series B Bonds had been allotted in consideration for approx. NIS 623 million (approx. NIS 619 million after the attribution of the issuance expenses). For further details regarding the Series B Bonds, see Note 4B to the financial statements.

As of the Report Date, the balance of par value of the Company's Series B Bonds which are in circulation is NIS 623 million.

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

Update to Section 18.6 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. Canit Hashalom's Series A Bonds which are in circulation, in the amount of approx. NIS 312 million, shall expire at the end of June 2015.

9. Financing of the Granite Group

Update to Section 18.6.3 of the Description of the Corporation's Business chapter:

As the Company was informed by Supergas shortly before the date of release of this report, a second-tier subsidiary of Supergas in equal parts with a third party that is not related to the Company, signed a financing agreement, whereby a banking corporation shall extend financing for the establishment of a natural gas distribution chain in the central region, in a total amount of approx. NIS 135 million, according to milestones. The loan was extended for a period of approx. 16 years, and includes quarterly repayments of principal and interest.

10. Environmental Risks and the Management thereof

Update to Section 21 of the Description of the Corporation's Business chapter:

Azrieli Sarona Center – As of the report date, the Company has finished all of the drilling and water penetration work at the site.

11. Restrictions and Monitoring of the Corporation

Update to Section 22.1.2 of the Description of the Corporation's Business chapter:

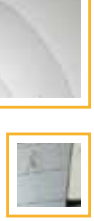
For details, see the update with respect to the release of the updated list of significant financial bodies in Section 6 above (update to Section 13.2.1 of the Description of the Corporation's Business chapter).

12. Legal Proceedings

For an update in connection with the legal proceedings being conducted against the Group's companies, see Note 3 to the financial statements as of March 31 2015 and this report.

Part C

Consolidated Financial Statements
Dated 31 March 2015



AZRIELIGROUP

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2015

(Unaudited)

Azrieli Group Ltd.

Contents

Deloitte.

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

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "Group") which includes the Condensed Consolidated Statements of Financial Position as of March 31, 2015 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the three-month period then ended. The Board of Directors and management are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of interim financial information under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the interim financial information, based on our review.

We did not review the condensed interim financial information of a consolidated company whose consolidated assets constitute approx. 16.3% of all the consolidated assets as of March 31, 2015, and whose consolidated revenues constitute approx. 74.7% of the total consolidated revenues for the three-month period then ended. The condensed interim financial information 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 the 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, we refer to Note 3 regarding legal claims of significant amounts, in the aggregate, against the Company and consolidated companies, in respect of which a motion for class certification has been filed.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, May 19, 2015

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Azrieli Group Ltd.
Condensed Consolidated Statements of Financial Position

	As of March 31		As of December 31
	2015	2014	2014
	NIS in thousands (Unaudited)		NIS in thousands
ASSETS			
Current Assets			
Cash and cash equivalents	586,269	232,542	163,578
Financial assets held for trading	814	1,263	657
Short-term deposits and investments	50,878	46,516	45,845
Trade accounts receivable	1,286,098	1,833,346	1,260,249
Other receivables	175,564	196,394	320,780
Inventory	187,395	423,366	241,291
Current tax assets	7,867	18,423	9,377
	2,294,885	2,751,850	2,041,777
Assets of disposal group held for sale	1,178,490	1,156,120	1,207,134
Total Current Assets	3,473,375	3,907,970	3,248,911
Non-current Assets			
Investments and loans of associates	42,654	43,165	32,647
Investments, loans and receivables	193,872	184,434	197,608
Financial assets	1,726,213	1,673,623	1,628,872
Long-term receivables in respect of franchise arrangement	30,478	273,750	29,288
Investment property and investment property under construction	19,202,064	17,514,568	18,838,463
Fixed assets	983,405	1,434,070	981,374
Intangible assets	383,210	483,268	384,401
Pre-paid long-tern rent	39,450	69,182	34,871
Deferred tax assets	51,865	57,296	52,676
Total Non-current Assets	22,653,211	21,733,356	22,180,200
Total Assets	26,126,586	25,641,326	25,429,111

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Financial Position
(Continued)

	As of March 31		As of Dec. 31
	2015	2014	2014
	NIS in thousands		NIS in thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	2,898,088	2,639,536	2,962,143
Trade payables	654,666	855,913	705,749
Payables and other current liabilities	365,592	463,997	358,464
Deposits from customers	107,012	108,305	108,730
Provisions	39,797	56,732	43,881
Dividend declared	320,000	280,000	-
Current tax liabilities	83,764	72,900	116,803
	4,468,919	4,477,383	4,295,770
Liabilities of disposal group held for sale	778,617	832,218	803,346
Total current liabilities	5,247,536	5,309,601	5,099,116
Non-current liabilities			
Loans from banks and other credit providers	3,160,207	3,481,578	3,176,134
Bonds	1,509,475	1,356,911	957,532
Employee benefits	20,563	38,438	25,661
Other liabilities	52,070	58,217	52,485
Deferred tax liabilities	2,833,681	2,765,679	2,769,629
Total non-current liabilities	7,575,996	7,700,823	6,981,441
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	475,215	312,182	387,878
Retained earnings	10,195,477	9,686,872	10,327,571
Total equity attributable to the shareholders of the parent company	13,206,930	12,535,292	13,251,687
Non-controlling interests	96,124	95,610	96,867
Total Capital	13,303,054	12,630,902	13,348,554
Total Liabilities and Capital	26,126,586	25,641,326	25,429,111

May 19, 2015			
Date of approval of the financial statements	**Danna 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 three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From sales, labor and services	1,114,063	1,443,398	5,660,407
From rent, management and maintenance fees	383,025	359,096	1,471,111
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(12,929)	(3,615)	28,913
Financing	22,454	16,095	55,202
Other	4,859	16,096	67,989
Total revenues	1,511,472	1,831,070	7,283,622
Costs and Expenses			
Cost of revenues from sales, labor and services	898,203	1,208,049	4,774,469
Cost of revenues from rent, management and maintenance fees	85,614	77,735	329,110
Sales and marketing	165,843	160,921	664,579
G&A	42,650	47,346	189,788
Share in results of associates, net of tax	1,833	1,727	9,545
Financing	28,901	49,841	205,117
Other	129	3,077	12,664
Total Costs and Expenses	1,223,173	1,548,696	6,185,272
Income before income taxes	288,299	282,374	1,098,350
Taxes on income	(97,106)	(83,677)	(312,316)
Profit from continued operations	191,193	198,697	786,034
Profit from discontinued operations (after tax)	-	12,123	73,505
Net profit for the year	191,193	210,820	859,539
Other comprehensive income:			
Amounts that will not be classified in the future to profit or loss, net of tax:			
Actuarial gain due to defined benefit plan, net of tax	-	-	221
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	66,909	(32,367)	(38,471)
The effective share of the change in fair value of cash flow hedge, net of tax	-	(129)	(270)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	259	265
Balance of fair value of cash flow hedge carried to the income statement as a result of disposition of subsidiary, net of tax	-	-	102
Translation differences from foreign operations	21,178	3,377	91,239
Total	88,087	(28,860)	52,865
Other comprehensive income (loss) for the period, net of tax	88,087	(28,860)	53,086
Total Comprehensive Income for the Period	279,280	181,960	912,625

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

The Azrieli Group Ltd.
Condensed Consolidated Statements of the Profit or Loss and of Other Comprehensive Income
(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Net income for the year attributable to:			
Shareholders of the parent company	187,906	209,005	849,487
Non-controlling interests	3,287	1,815	10,052
	191,193	210,820	859,539
Total comprehensive income for the year attributable to:			
Shareholders of the parent company	275,243	180,007	899,128
Non-controlling interests	4,037	1,953	13,497
	279,280	181,960	912,625
	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 attributable to shareholders of the parent company:			
Continued operations	1.55	1.63	6.41
Discontinued operations	-	0.10	0.60
	1.55	1.73	7.01
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital

	For the three-month period ended March 31, 2015										
	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, 2015	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554
Net profit for the period	-	-	-	-	-	-	-	187,906	187,906	3,287	191,193
Change in fair value of financial assets available for sale, net of tax	-	-	66,909	-	-	-	-	-	66,909	-	66,909
Translation differences from foreign operations	-	-	-	20,428	-	-	-	-	20,428	750	21,178
Total comprehensive income for the period	-	-	66,909	20,428	-	-	-	187,906	275,243	4,037	279,280
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	-	(320,000)
Write-off of non-controlling interest due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(4,780)	(4,780)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	(4,780)	(324,780)
Balance as of March 31, 2015	18,223	2,518,015	440,162	49,482	(30,974)	18,641	(2,096)	10,195,477	13,206,930	96,124	13,303,054

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

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

	For the three-month period ended March 31, 2014										
	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, 2014	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019
Net profit for the period	-	-	-	-	-	-	-	209,005	209,005	1,815	210,820
Change in fair value of financial assets available for sale, net of tax	-	-	(32,367)	-	-	-	-	-	(32,367)	-	(32,367)
The effective share of the change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(128)	-	(128)	(1)	(129)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	257	-	257	2	259
Translation differences from foreign operations	-	-	-	3,240	-	-	-	-	3,240	137	3,377
Total comprehensive income for the period	-	-	(32,367)	3,240	-	-	129	209,005	180,007	1,953	181,960
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(280,000)	(280,000)	-	(280,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,077)	(1,077)
Capital reserve for transactions with related parties	-	-	-	-	(1)	-	-	-	(1)	1	-
Total transactions with shareholders of the Company	-	-	-	-	(1)	-	-	(280,000)	(280,001)	(1,076)	(281,077)
Balance as of March 31, 2014	18,223	2,518,015	379,366	(55,515)	(30,982)	21,375	(2,062)	9,686,872	12,535,292	95,610	12,630,902

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

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

For the year ended December 31, 2014

	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 attributable to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
Balance as of January 1, 2014	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019
Net income for the year	-	-	-	-	-	-	-	849,487	849,487	10,052	859,539
Change in fair value of financial assets available for sale, net of tax	-	-	(38,480)	-	-	-	-	-	(38,480)	9	(38,471)
Actuarial profit due to defined benefit plan, net of tax	-	-	-	-	-	-	-	217	217	4	221
Translation differences from foreign operations	-	-	-	87,809	-	-	-	-	87,809	3,430	91,239
The effective share of the change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(269)	-	(269)	(1)	(270)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	263	-	263	2	265
Balance of fair value of cash flow hedge carried to the income statement as a result of disposition of subsidiary, net of tax	-	-	-	-	-	-	101	-	101	1	102
Total comprehensive income for the year	-	-	(38,480)	87,809	-	-	95	849,704	899,128	13,497	912,625
Dividend to shareholders of the Company	-	-	-	-	-	-	-	(280,000)	(280,000)	-	(280,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,389)	(1,389)
Capital reserve for transactions with related parties	-	-	-	-	7	-	-	-	7	(7)	-
Acquisition of non-controlling interest in a consolidated company	-	-	-	-	-	(2,734)	-	-	(2,734)	(24)	(2,758)
Write-off of non-controlling interest due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(9,943)	(9,943)
Total transactions with shareholders of the Company	-	-	-	-	7	(2,734)	-	(280,000)	(282,727)	(11,363)	(294,090)
Balance as of December 31, 2014	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	191,193	210,820	859,539
Depreciation and amortization	25,972	34,959	122,770
Impairment of intangible assets	-	-	765
Net loss (gain) from fair value adjustment of investment property and investment property under construction	12,929	3,615	(28,913)
Financing and other expenses (revenues), net	(27,049)	16,600	115,231
Impairment of financial assets available for sale	-	253	5,932
Gain from liquidation of fixed assets, investment property and intangible assets, net	(3,301)	(2,412)	(6,218)
Share in losses of associates accounted for by the equity method	1,833	1,727	9,545
Change in recording of benefit in respect of share-based payment and employee benefits	1,993	108	902
Tax expenses recognized in the income statement	97,106	88,522	319,810
Change in financial assets	(192)	(133)	256
Profit from realizing investments in associates	-	-	(587)
Loss (profit) from realizing investment in subsidiary (Annex A)	42	-	(96,937)
Income taxes paid, net	(91,638)	(20,352)	(102,756)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	598	(1,996)	(6,760)
Change in inventory	53,896	844	10,055
Change in trade and other receivables	(48,699)	(105,800)	95,445
Change in receivables in respect of franchise arrangement	32,593	(92)	37,103
Change in trade and other payables	(14,467)	(66,355)	(162,925)
Change in employee provisions and benefits	(9,699)	(3,735)	(18,246)
Net cash - current operations	223,110	156,573	1,154,011

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 three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash flows - Investment Activity			
Proceeds from liquidation of fixed and intangible assets	5,361	6,307	19,845
Proceeds from liquidation of investment property	-	2,174	2,174
Down payments on account of investment property	(31,289)	(51,862)	(2,081)
Purchase of and investment in investment property and investment property under construction	(335,708)	(194,022)	(1,202,168)
Purchase of fixed and intangible assets	(43,703)	(49,831)	(141,389)
Investment in and granting of loans to associates	(11,818)	(2,876)	(13,746)
Change in short-term deposits	(5,027)	3,778	4,704
Change in restricted investments	-	(24,282)	(31,764)
Grant received	-	-	6,126
Receipt (payment) for settlement of derivative financial instruments, net	5,178	(3,005)	40,619
Change in financial assets available for sale	-	-	(3,476)
Change in financial assets designated at fair value through profit and loss, net	253	35	782
Change in marketable securities, net	(7,098)	4,823	(8,893)
Granting of long-term loans	(296)	(1,319)	(9,185)
Collection of long-term loans	4,334	9,724	20,921
Interest and dividend received	14,578	24,664	74,542
Proceeds from liquidation of financial assets available for sale	-	1,716	37,296
Acquisition of companies consolidated for the first time (Annex B)	-	-	(54,589)
Proceeds from liquidation of investment in subsidiary, net (Annex A)	52,265	-	475,862
Institutions for purchase of property	(8,226)	-	-
Proceeds from sale of investments	115,174	-	-
Income tax paid for sale of companies	(12,114)	-	-
Net cash - investment activity	(258,136)	(273,976)	(784,420)

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 three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash flows - Financing Activity			
Acquisition of non-controlling interests	-	-	(2,758)
Dividend distribution to shareholders	-	-	(280,000)
Repayment of bonds	(66,531)	(67,631)	(215,210)
Bond offering net of issue expenses (see Note 4b)	618,871	-	-
Receipt of long-term loans from banks and others	102,030	106,891	655,995
Repayment of long-term loans from banks and others	(196,502)	(141,147)	(516,783)
Short-term credit from banks and others, net	32,515	62,884	(1,747)
Repayment of deposits from customers	(1,684)	(346)	(6,705)
Deposits from customers that were received	2,196	831	7,954
Payment for settlement of derivatives used for cash flow hedging	-	(33)	(54)
Dividend to holders of non-controlling interests	(125)	(1,077)	(1,264)
Interest paid	(61,268)	(72,240)	(286,758)
Net cash - Financing Activity	429,502	(111,868)	(647,330)
Increase (decrease) in cash and cash equivalents	394,476	(229,271)	(277,739)
Cash and cash equivalents at beginning of period	163,578	460,984	460,984
Change in net cash classified as disposal group held for sale	24,174	783	(23,528)
Effect of exchange rate changes on cash balances held in foreign currency	4,041	46	3,861
Cash and cash equivalents at end of period	586,269	232,542	163,578

(*) Non-cash transactions include other payables in respect of a dividend in the sum of NIS 320,000 thousand (March 31, 2014 – NIS 280,000 thousand), other payables in respect of purchases on credit of non-current assets in the sum of NIS 95,442 thousand (March 31, 2014 – NIS 57,954 thousand, December 31, 2014 – NIS 151,123 thousand).

In addition, as of December 31, 2014, non-cash transactions include balance of liabilities for works in the sum of NIS 13,000 thousand (March 31, 2014 – NIS 52,000 thousand), receivables for the sale of an investment in a consolidated company in the sum of NIS 47,558 thousand, receivables for the sale of shareholder loans in a consolidated company in the sum of NIS 99,630 thousand and receivables for the sale of an investment in an associate in the sum of NIS 14,254 thousand.

(**) See note 5 in respect of cash flows from discontinued operations.

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 three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Annex A -			
Proceeds from sale of investment in previously-consolidated Green Anchors Ltd.:			
Working capital (excluding cash and cash equivalents)	(2,975)	-	-
Fixed and intangible assets, net	105	-	-
Investment property	24,081	-	-
Long-term liabilities including current maturities	(7,317)	-	-
Reserve for deferred taxes, net	(4,365)	-	-
Non-controlling interests	(4,780)	-	-
Loss from liquidation of investment in subsidiary	(42)	-	-
	4,707	-	-
Proceeds from sale of investment in previously-consolidated Tambour (see Note 5 below):			
Working capital (excluding cash and cash equivalents)	-	-	213,783
Investments and loans	-	-	7,582
Fixed and intangible assets, net	-	-	491,095
Employee benefits and provisions	-	-	(7,834)
Long-term liabilities including current maturities	-	-	(199,485)
Reserve for deferred taxes, net	-	-	(67,389)
Non-controlling interests	-	-	(4,255)
Profit from liquidation of investment in subsidiary	-	-	54,815
	-	-	488,312
Proceeds from sale of investment in previously-consolidated S. Super Solar Ltd.:			
Working capital (excluding cash and cash equivalents)	-	-	(121,738)
Receivables in respect of franchise arrangement	-	-	245,665
Pre-paid long-term rent	-	-	32,245
Restricted investments	-	-	4,900
Fixed and intangible assets, net	-	-	2,469
Long-term liabilities including current maturities	-	-	(160,932)
Reserve for deferred taxes, net	-	-	(3,935)
Non-controlling interests	-	-	(5,688)
Profit from liquidation of investment in subsidiary	-	-	42,122
Receivables for the sale of an investment in a consolidated company	-	-	(47,558)
	-	-	(12,450)
Total proceeds from the sale of investments, net	-	-	475,862
Annex B -			
Acquisition of companies consolidated for the first time:			
Working capital (excluding cash and cash equivalents)	-	-	9
Investment property	-	-	(54,598)
	-	-	(54,589)

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

Note 1 - General

a. Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 25 Index. The Group's consolidated financial statements as of March 31, 2015 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associates and in jointly-controlled entities.

As of the Report Release Date, Azrieli Holdings Inc., the controlling shareholder of the Company ("Azrieli Holdings"), directly and/or indirectly holds (through its holding of the entire share capital of Nadav Investments Inc. (the "Parent Company")) (both private companies registered in Canada), approx. 55.62% of the Company's share capital and approx. 61.31% of the Company's voting rights.

As the Company was informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("David's Holding Corporation") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David's Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and they jointly hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party of the Company), which following the distribution of the estate holds (indirectly, through a holding of shares of David's Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 13.55% of the capital and voting rights in the Company.

As the Company has been informed, all of the shareholders of Azrieli Holdings are bound by a shareholder agreement between them which, *inter alia*, confers on each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli the right to appoint one of the three directors on the boards of directors of Azrieli Holdings and Nadav Investments.

In view of the aforesaid, as of the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling shareholders of the Company.

b. These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2014, and for the year then ended, and the notes accompanied thereto.

Note 2 - Significant Accounting Policies

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 applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2014 and for the year then ended, except for changes in the accounting policy deriving from the application of new standards, amendments to standards and interpretations, which took effect in 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.

b. Use of estimates and discretion:

In the preparation of the condensed financial statements in accordance with IFRS, the Group's managements are required to use discretion, evaluations, estimates and assumptions which affect the application of the policy and the amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results may differ from such estimates.

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2014.

c. New standards, amendments to standards and interpretations that affect the current period and/or previous reporting periods:

- **Amendment of IFRS 3 "Business Combinations" (clarification of the exception to applicability in respect of a joint transaction)**

  The amendment clarifies that the provisions of IFRS 3 do not apply to the accounting treatment in respect of the creation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment will be implemented through prospective application to annual reporting periods from 2015. Early application is possible.

Note 2 - Significant Accounting Policies (Contd.)

c. New standards, amendments to standards and interpretations that affect the current period and/or previous reporting periods: (Contd.)

- **Amendment of IFRS 8 "Operating Segments" (Disclosures on the Aggregation of Operating Segments)**

  The amendment requires the addition of a disclosure regarding the discretion implemented by the management during the aggregation of operating segments for the purpose of presenting the same as reportable segments, including a brief description of the aggregated operating segments and the issues that were assessed in order to determine whether the economic characteristics of the operating segments are similar. In addition, the amendment clarifies that an adjustment is required between the total assets of the reportable segments and the assets of the entity only if segment assets are regularly reported to the chief operating decision maker. The amendments will be applied retroactively to annual reporting periods starting from 2015. Early application is possible.

- **Amendment of IAS 24 "Related Party Disclosures" (Key Management Personnel)**

  The amendment clarifies that a management company providing key management personnel services to a reporting entity is a "related party" of the reporting entity. The amendment will be applied retroactively to reporting periods starting from 2015. Early application is possible.

- **Amendment of IAS 40 "Investment Property" (Distinction between investment property and a business)**

  The amendment clarifies that discretion is required in determining whether the purchase of investment property constitutes the purchase of an asset / group of assets or a business combination, which is subject to IFRS 3. It was clarified that the discretion in determining whether it is a business combination is not based on the distinction between fixed assets and investment property that is specified in IAS 40, but rather it is necessary to determine whether it is a business according to the provisions of IFRS 3. The amendment will be applied prospectively to reporting periods commencing from 2015. Early application is possible.

Note 2 - Significant Accounting Policies (Contd.)

d. 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 reporting 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 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
	The Euro	The USD	"Due"	"Known"
	(1 Euro = NIS)	(1 USD = NIS)	Basis 1993	Basis 1993
Date of the financial statements:				
March 31, 2015	4.2735	3.98	220.46	219.79
March 31, 2014	4.8124	3.487	222.70	222.05
December 31, 2014	4.7246	3.889	223.36	223.36
Rates of change:	%	%	%	%
For the three-month period ended:				
March 31, 2015	(9.55)	2.34	(1.30)	(1.60)
March 31, 2014	0.64	0.46	(0.49)	(0.68)
For the year ended				
December 31, 2014	(1.20)	12.04	(0.20)	(0.10)

Note 3 – Contingent Liabilities

Set forth below are details regarding new material claims received (if any), claims that have ended and material changes to claims, if any. No material change has occurred in the remaining claims since the audited financial statement as of December 31, 2014 (see Note 34 to the annual financial statements).

A. Class actions:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company	If not certified as a class action – NIS 4,561. If certified as a class action only in relation to the class of offerees whose shares were subject to a forced purchase – approx. NIS 18 million. If certified as a class action in relation to the entire class of offerees – approx. NIS 157 million.	In August 2013, a motion for an appraisal remedy pursuant to Section 338 of the Companies Law, 5759-1999 and a motion for cancelation of the tender offer, as well as a motion for class certification thereof were filed against the Company and against Canit Hashalom with the Economic Division of the Tel Aviv District Court by a petitioner alleging 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 for summary dismissal of the motion as well as its response to the motion, and the hearing was scheduled for March 2014. At the hearing, the petitioner, in view of the court's comment, withdrew his motion for the remedy of cancelation of the tender offer and relisting of the shares on TASE. On February 19, 2015, the court summarily dismissed the motion for an appraisal remedy. However, the court ruled that the same does not preclude claims in respect of misleading or fraud, and limited the hearing of the class certification motion to this issue only. In the estimation of the Company's management, based on its legal counsel, the probability of the class certification motion being granted and the claim being accepted is lower than 50%.

Note 3 – Contingent Liabilities (Cont.)

A. Class actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against a consolidated company of Sonol	A claim and a motion for class certification in the sum of NIS 29 million.	A claim and a motion for class certification of December 2012, alleging that in transactions performed in cash at convenience stores in the "so good" chain, the sum of the purchase is rounded up, contrary to the relevant legal provisions which mandate the rounding down of the sum of the purchase.	The parties signed a settlement agreement which was approved in a judgment of the Court, in which Sonol was charged with payment of an immaterial sum.
3. Claim against a subsidiary of Sonol and other companies	Claim in the sum total of approx. NIS 30 million (Sonol's share is estimated at approx. NIS 10 million)	A claim and a motion for class certification of April 2014, alleging that the defendants breached their duty pursuant to the Consumer Protection Law, which instructs the marking of prices on goods (for the purpose of the claim, ice cream sold at Sonol's convenience stores).	At this preliminary stage, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, the prospects of the class certification motion being granted are higher than 50%. However, the chances of the class action being accepted are lower than 50%.
4. Claim against Sonol	A claim and a motion for class certification in the sum of NIS 50 million	A claim and a motion for class certification of June 2014. The action concerns the allegation that Sonol placed security cameras at its branches contrary to the Protection of Privacy Law, 5741-1981, while committing the tort of negligence pursuant to the Tort Ordinance.	The parties signed a settlement agreement which was approved in a judgment of the Court, in which Sonol was charged with payment of an immaterial sum.

Note 3 – Contingent Liabilities (Cont.)

A. Class actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. Claim against a subsidiary of Sonol	A claim in the sum of NIS 12 million	A claim and a motion for class certification against a subsidiary of Sonol of March 2015. The action concerns the plaintiff's allegation that Sonol's subsidiary does not credit its customers with a discount as appears on the invoice at the time of payment in respect of a purchase with a Diners credit card. The plaintiff further alleges that Sonol's subsidiary charges the price per litre of gasoline with full service, even when fuelling is performed at self-service pumps.	In the estimation of Sonol's management and based on its legal counsel, at this preliminary stage, it is impossible to estimate the prospects of the claim and the class certification motion.
6. Claim against Supergas	A claim in the sum total of approx. NIS 10 million.	A claim and a motion for class certification of June 2014. The claim concerns, *inter alia*, an allegation that Supergas over-collects amounts in the bi-monthly invoice, by unlawfully rounding up the agorot in the amounts stated in the invoice.	Supergas's argument was accepted and it was ruled that the petitioner has no personal cause of action against the Company, and therefore it was decided to substitute the class plaintiff. Accordingly, dates were set for the filing of an amended class certification motion as well as a date for the filing of a response on behalf of Supergas. In the estimation of Supergas's management, in reliance on its legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.

Note 3 – Contingent Liabilities (Cont.)

A. Class actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
7. Claim against Supergas and other gas companies	A claim in the sum of approx. NIS 1 billion	A claim and a motion for class certification of December 2003, alleging that between 1994 and 2003 there were restrictive arrangements in the field of the private gas market and the commercial gas market.	The parties filed a motion for approval of a settlement arrangement with the Court. The Court appointed an examiner to review the settlement arrangement, and after receipt of the examiner's opinion, on May 6, 2015, the Court's decision was issued, which stated that the examiner believes that the compensation mechanism proposed in the settlement arrangement will not benefit the entire represented class, and therefore the parties are advised to reach a financial settlement that benefits all of the plaintiffs. In the estimation of Supergas's management, in reliance on its legal counsel, in view of the Court's decision, it will be necessary to look into alternatives to the settlement agreement, and at this stage, it is impossible to estimate the costs that will derive from the alternative agreement.

Note 3 – Contingent Liabilities (Cont.)

B. Other claims:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Sonol	A claim in the sum of approx. NIS 18 million	A monetary claim against Sonol, alleging that it unlawfully cancelled, and breached, an agreement signed between Sonol and the plaintiff in 1996, in which Sonol undertook to build and operate a gasoline station on land owned by the plaintiff.	The parties signed a settlement agreement, a provision in respect of which was included in Sonol's annual financial statements.
2. Claim against GES et al.	Approx. NIS 10 million	A claim from December 2009 regarding damage caused, according to the plaintiff, to an orchard as a result of the introduction of effluent (treated waste water) to the water supplied to the orchard, through the injection thereof by the agricultural sludge treatment plant, in the irrigation water pipes.	The parties signed a settlement agreement, in which GEST was charged with payment of an immaterial amount.

C. With respect to the lawsuits specified in the annual financial statements in Note 34.b.12, 34.c.8 and 34.c.11, in respect of which it was impossible to estimate the prospects of the claims, as of the Report Date Granite's management estimated, in reliance on its legal counsel, the prospects of the claims as lower than 50%.

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 (and in relation to companies in the Granite group, based on estimations of Granite's management), the provisions recorded for the settlement of the outcome of the claims specified above are fair.

Note 4 – Material Events during the Report Period

a. On March 16, 2015, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 320 million (reflecting NIS 2.64 per share), paid on May 4, 2015.

b. In February 2015, the Company issued to the public approx. NIS 623.3 million par value of registered Series B Bonds, based on the Company's shelf prospectus. The bonds are linked (principal and interest) to the rise in the CPI and bear interest at a fixed rate of 0.65% per year.

The principal payments shall be paid in 10 equal annual installments on April 1 of each one of the years 2016 to 2025 (each installment will be 10% of the principal's par value). The interest shall be paid in semiannual installments from October 1, 2015 and on April 1 and October 1 of each one of the years 2016 to 2025. The bonds were issued without a discount.

The issue proceeds totaled approx. NIS 623.3 million, and after attributing the issue expenses, the net proceeds amounted to approx. NIS 618.9 million. The effective interest rate in respect of the bonds is 0.78% per annum.

On January 20, 2015, Maalot gave the Series B bonds an ilAA+ rating (stable outlook).

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to comply with obligations and financial covenants, which are principally as follows:

1) So long as the Series B bonds are not fully repaid, the Company shall neither encumber nor pledge by way of a floating charge all of the Company's existing or future assets and rights, except under certain conditions set forth in the Indenture.

2) Maintaining minimal equity (equity attributable to the shareholders of the Company, without minority rights) of at least NIS 5 billion for two or more consecutive calendar quarters, according to its last consolidated financial statements.

   The net financial debt to net assets ratio, according to the definitions in the Indenture, exceeded 60% for two or more consecutive calendar quarters.

Note 4 – Material Events during the Report Period (Contd.)

The Indenture determines that in lieu of the said financial covenants, the Company may, at its sole discretion, pledge (itself or through an investee company) in favor of the trustee for the Series B bondholders, by way of a fixed charge, permitted assets in accordance with the definitions determined in the Indenture (i.e. insofar as the Company pledges permitted assets as aforesaid, and the pledges are in force and effect, the Company shall not be bound by the said financial covenants).

3) The Company shall not perform a distribution (as defined in the Companies Law) to its shareholders if: (1) The Company's equity (equity attributable to the shareholders of the Company, without minority rights) according to its last published consolidated financial statements, net of the amount of the distribution, falls under NIS 6 billion; (2) the Company's net financial debt to net assets ratio (as defined in Section (2) above), net of the sum of the distribution, shall exceed 50%; (3) there are grounds for acceleration according to the definitions in the Indenture of the Series B bonds on the date of the decision to perform the distribution or as a result thereof.

It was further determined that in the event that the rating of the Company's Series B bonds falls below Maalot's ilAA rating, or a corresponding rating determined by another company that rates the bonds, the rate of the annual interest to be borne by the unpaid balance of the bond principal shall increase, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series B bonds shall be accelerated upon fulfillment of certain conditions, including: striking-off or dissolution of the Company, receivership, delinquency in payments under the bonds, attachments on all or most of the Company's assets, changes in control, a fundamental breach of the terms and conditions of the bonds or the Indenture, non-compliance with the above financial covenants, performance of a distribution contrary to the above restriction on the performance of a distribution, suspension of trading of the bonds (except on grounds of ambiguity), a demand for acceleration by financial creditors above NIS 200 million or another bond series of the Company, cessation of rating of the bonds due to circumstances under the Company's control, a bond rating lower than BBB-, or the sale of most of the Company's assets.

c. On January 20, 2015, Maalot raised the Company's rating to AA+ stable and the rating of the Company's Series A bonds to AA+.

Note 4 – Material Events during the Report Period (Contd.)

d. On February 24, 2015, the Company won a tender conducted by the Israel Land Authority for the purchase of 4 lots designated for industry in Holon's industrial zone, of a total area of 12,400 sqm, in consideration for approx. NIS 64 million. According to the terms and conditions of the tender, the purchase of two of the Lots of a total area of 7,200 sqm requires the approval of the Minister of the Interior.

Note 5 – Discontinued Operations

On June 12, 2014 a consolidated company of the Company, Granite Hacarmel Investments Ltd., closed the transaction for the sale of all of its holdings (100%) in Tambour Ltd. to a third party, in accordance with an agreement signed on May 26, 2014.

The consideration for the sale is NIS 500 million before transaction expenses received in cash. As a result of the sale, the Company recognized a profit in the sum of approx. NIS 55 million, which was carried to the income statement and is presented under the "Profit from discontinued operations (net of tax)" item.

In accordance with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", Tambour's results are presented separately in the income statement as discontinued operations and comparative figures in the income statement have been re-presented according to Section 34 of IFRS 5.

Note 5 – Discontinued Operations (Contd.)

Below are the results attributable to the discontinued operations:

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Results of the discontinued operations			
Revenues	-	241,654	472,482
Expenses	-	224,686	446,296
Income before income taxes	-	16,968	26,186
Income taxes	-	4,845	7,496
Income after income taxes	-	12,123	18,690
Sales costs and expenses	-	-	(10,904)
Profit from sale of discontinued operations, net of tax	-	-	65,719
Profit for the year	-	12,123	73,505
Cash flows from discontinued operations			
Net cash deriving from current operations	-	39,526	38,075
Net cash (used for operations) deriving from investment activity	-	(12,273)	472,181
Net cash used for financing activity	-	(26,014)	(21,484)
Effect of exchange rate fluctuations on cash balances and cash equivalents	-	(115)	(206)
Net cash deriving from discontinued operations	-	1,124	488,566

Note 6 - Disposal Group Classified as Held for Sale

Further to the provisions of Note 9 to the annual financial statements regarding an agreement that was signed for the sale of Via Maris Desalination (Holdings) Ltd., the date for fulfillment of the conditions precedent was extended with the parties' consent until May 31, 2015.

Via Maris's assets and liabilities are presented in the financial statements as a disposal group held for sale.

a. Assets and liabilities of a disposal group held for sale:

	As of March 31		As of December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
Assets of disposal groups classified as held for sale:			
Cash and cash equivalents	27,249	27,112	51,423
Marketable securities	42,174	16,559	35,041
Short-term deposits and investments	413	413	414
Trade accounts receivable	63,246	57,711	37,859
Other receivables	8,437	9,965	13,628
Current tax assets	-	129	-
Long-term investments and loans	3,653	3,869	3,739
Restricted investments	75,745	77,726	75,718
Receivables in respect of franchise arrangement	837,584	897,779	869,882
Fixed assets, net	18,670	14,508	18,098
Intangible assets, net	100,506	49,431	100,513
Deferred tax assets	813	918	819
	1,178,490	1,156,120	1,207,134
Liabilities of disposal groups classified as held for sale:			
Trade payables	6,022	9,163	6,621
Other payables	25,239	25,611	17,546
Current tax liabilities	2,072		12,994
Liabilities to banks	715,130	759,584	732,727
Other long-term liabilities	6,822	1,775	7,278
Deferred tax liabilities	23,332	36,085	26,180
	778,617	832,218	803,346
Assets of disposal groups classified as held for sale, net	399,873	323,902	403,788

Note 6 - Disposal Group Classified as Held for Sale (Contd.)

b. Fair value:

The book value of financial assets and liabilities matches or is close to their fair value, other than as specified below:

Financial instruments that are measured at fair value for disclosure purposes only:

	As of March 31, 2015		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of franchise arrangement	837,584	1,076,910	Cap rate of 1.83%
Liabilities to banks	715,130	791,688	Cap rate of 1.78%

	As of March 31, 2014		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of franchise arrangement	897,779	1,017,853	Cap rate of 3.61%
Liabilities to banks	759,584	801,618	Cap rate of 3.51%

	As of December 31, 2014		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of franchise arrangement	869,882	1,058,772	Cap rate of 2.37%-2.58%
Liabilities to banks	732,727	785,534	Cap rate of 2.52%

Note 7 - Fair Value

a. Fair value vs. Book value

Other than as specified in the following table, the Group believes that the book value of the financial assets and liabilities that are presented in depreciated cost in the financial statements is almost identical to their fair value.

	As of March 31, 2015		As of March 31, 2014		As of December 31, 2014	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS in Thousands					
Non-current assets:						
Receivables in respect of franchise arrangement	31,692	42,101	286,950	312,874	31,987	40,388
	31,692	42,101	286,950	312,874	31,987	40,388
Non-current liabilities:						
Loans from banks and other credit providers (*)	3,912,077	4,111,041	3,986,668	4,196,281	4,006,090	4,166,901
Bonds (*)	1,903,543	2,088,274	1,510,952	1,704,808	1,372,586	1,520,856
	5,815,620	6,199,315	5,497,620	5,901,089	5,378,676	5,687,757
Surplus of liabilities over assets	(5,783,928)	(6,157,214)	(5,210,670)	(5,588,215)	(5,346,689)	(5,647,369)

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

Note 7 - Fair Value (Contd.)

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 March 31		As of Dec. 31
	2015	2014	2014
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	2.97	4.7-5	3.6
Non-current liabilities:			
Loans from banks and other credit providers	(0.04)-3.9	0-4.9	0.4-4.2
Bonds	(0.05)-0.55	(0.05)-1.6	0.4-1.6

c. The levels 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 were 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 7 - Fair Value (Contd.)

a. The levels of fair value: (Contd.)

	As of March 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trading:				
Securities	814	-	-	814
Foreign currency forward contracts	-	2,594	-	2,594
Financial assets available for sale:				
Marketable shares	1,043,366	-	-	1,043,366
Non-marketable shares	-	-	658,912	658,912
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	23,934	-	23,934
Total financial assets	1,044,180	26,528	658,912	1,729,620
Financial liabilities:				
Derivatives not used for hedging:				
Foreign currency forward contracts	-	240	-	240
Total financial liabilities	-	240	-	240

Note 7 - Fair Value (Contd.)

b. The levels of fair value: (Contd.)

	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trading:				
Securities	1,263	-	-	1,263
Derivatives used for hedging:				
Interest swap contracts	-	637	-	637
Financial assets available for sale:				
Marketable shares	960,717	-	-	960,717
Non-marketable shares	-	-	692,136	692,136
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	20,767	-	20,767
Total financial assets	961,980	21,404	692,136	1,675,520
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	916	-	916
Foreign currency forward contracts	-	3,860	-	3,860
Total financial liabilities	-	4,776	-	4,776

Note 7 - Fair Value (Contd.)

c. The levels of fair value: (Contd.)

Financial assets and liabilities

	As of December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**	**NIS in Thousands**
Financial assets held for trading:				
Securities	657	-	-	657
Derivatives not used for hedging:				
Foreign currency forward contracts	-	838	-	838
Financial assets available for sale:				
Marketable shares	945,176	-	-	945,176
Non-marketable shares	-	-	658,912	658,912
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	24,785	-	24,785
Total financial assets	945,833	25,623	658,912	1,630,368
Financial liabilities:				
Foreign currency forward contracts not used for hedging:	-	1,699	-	1,699
Total financial liabilities	-	1,699	-	1,699
Total fair value of financial assets and liabilities	945,833	23,924	658,912	1,628,669

Note 7 - 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 three-month period ended March 31		For the year Ended December 31
	2015	2014	2014
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(unaudited)		
Financial assets available for sale:			
Balance as of beginning of the year	658,912	692,389	692,389
Total profits (losses) recognized:			
in other comprehensive income	-	-	4,366
in the income statement	-	(253)	(5,932)
Sales	-	-	(35,387)
Investments	-	-	3,476
Carried to level 3	-	-	-
	658,912	692,136	658,912

Note 8 – 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 Operating Decision Makers ("CODM") for the purpose of the allocation of resources and the evaluation of the performance of the operating segments.

The Company's business activities focus primarily on the income-producing property segment, while 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 (office space for lease). In addition, the Company engages, through its (indirect) holding in Sonol Israel Ltd., also in another operating segment, which includes oil distillates through direct marketing and fuelling and retail complexes. Furthermore, the Company has other businesses such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd.) and senior housing.

On June 12, 2014, the transaction for the sale of Tambour Ltd. was closed. In view of the aforesaid, Tambour no longer constitutes an operating segment and is presented in the financial statements as discontinued operations (for further details, see Note 5).

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 – Sonol.

Note 8 – Segment Reporting (Contd.)

b. Operating segments:

	For the three-month period ended March 31, 2015 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	220,761	101,827	60,437	890,835	223,228	1,497,088
Total segment expenses	40,816	18,235	26,562	890,495	192,815	1,168,923
Segment profit (NOI)	179,945	83,592	33,875	340	30,413	328,165
Net loss from fair value adjustment of investment property and investment property under construction	(10,719)	(721)	(1,093)	-	(396)	(12,929)
Unallocated costs						(23,387)
Financing expenses, net						(6,447)
Other revenues, net						4,730
The Company's share in results of associates, net of tax						(1,833)
Income before income taxes						288,299
Additional information:						
Segment assets (*)	10,702,507	6,361,715	2,079,323	2,176,985	2,455,057	23,775,587
Unallocated assets (**)						2,350,999
Total consolidated assets						26,126,586

(*) Other segments assets include investment property for senior housing in the sum of NIS 77 million.

(**) Including financial assets available for sale in the sum of approx. NIS 1.7 billion.

Note 8 – Segment Reporting (Contd.)

b. Operating segments: (Contd.)

	For the three-month period ended March 31, 2014 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	218,397	93,186	43,662	1,196,235	251,014	1,802,494
Total segment expenses	40,596	15,203	20,026	1,179,521	216,153	1,471,499
Segment profit (NOI)	177,801	77,983	23,636	16,714	34,861	330,995
Net gain (loss) from fair value adjustment of investment property and investment property under construction	398	(2,817)	191	-	(1,387)	(3,615)
Unallocated costs						(22,552)
Financing expenses, net						(33,746)
Other revenues, net						13,019
The Company's share in results of associates, net of tax						(1,727)
Income before income taxes						282,374
Additional information:						
Segment assets (*)	10,193,618	5,721,213	1,528,182	2,395,546	2,847,639	22,686,198
Unallocated assets (**)						2,955,128
Total consolidated assets						25,641,326

(*) Other segment assets include investment property for senior housing in the sum of NIS 52 million.

(**) Including assets from Tambour's operation which were discontinued in the sum of approx. NIS 1.1 billion and financial assets available for sale in the sum of approx. NIS 1.6 billion.

Note 8 – Segment Reporting (Contd.)

b. Operating segments: (Contd.)

	For the year ended December 31, 2014 (audited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands					
Revenues:						
Total external income	877,464	386,954	191,467	4,818,160	857,473	7,131,518
Total segment expenses	167,995	69,039	84,163	4,769,637	783,175	5,874,009
Segment profit (NOI)	709,469	317,915	107,304	48,523	74,298	1,257,509
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(89,278)	117,106	8,873	(2,853)	(4,935)	28,913
Unallocated costs						(83,937)
Financing expenses, net						(149,915)
Other revenues, net						55,325
The Company's share in results of associates, net of tax						(9,545)
Income before income taxes						1,098,350
Additional information:						
Segment assets (*)	10,595,488	6,134,174	2,026,057	2,207,960	2,654,786	23,618,465
Unallocated assets (**)						1,810,646
Total consolidated assets						25,429,111
Capital expenditures	512,049	458,497	291,282	57,844	147,187	1,466,859

(*) Other segment assets include investment property for senior housing in the sum of NIS 76 million.

(**) Mainly financial assets available for sale in the sum of approx. NIS 1.6 million.

Note 9 – Material Subsequent Events

With regards to claims filed or heard after the date of the financial statement – see Note 3 regarding contingent liabilities.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of March 31, 2015

(unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2015

(unaudited)

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

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2015

(unaudited)

C o n t e n t s

Deloitte.
Brightman Almagor Zohar

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of March 31, 2015 and for the three-month period then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for such interim period, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 862 million as of March 31, 2015 and the profit from such investee companies amounted to approx. NIS 19 million for the three-month period then ended. The financial statements of these companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it is related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

We performed our review pursuant to Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of financial statement for interim periods prepared by the auditor of the entity". Review of separate financial statement for interim periods is comprised of inquiries, mainly with people responsible for the financial and accounting matters, and of the implementation of analytical and other review procedures. A review is significantly narrower in scope than an audit performed pursuant 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 had been brought to our attention that causes us to believe that the aforesaid separate interim financial statement has not been prepared, in all material respects, according to the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our aforesaid conclusion, we refer to Note E regarding a legal claim against the Company and an investee company, in respect of which a motion for class certification was filed.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, May 19, 2015

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Azrieli Group Ltd.

Statement of Financial Position

	As of March 31		As of December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	369,330	125,459	19,330
Financial assets held for trading	814	1,263	657
Trade accounts receivable	7,831	5,655	6,272
Other receivables	128,253	95,858	108,511
Total current assets	506,228	228,235	134,770
Non-current assets			
Financial assets	1,660,521	1,571,797	1,563,180
Investment property and investment property under construction	7,243,008	6,844,544	7,083,177
Investments in investee companies	6,545,827	5,829,342	6,400,214
Loans to investee companies	3,266,846	3,206,605	3,178,104
Down payments on account of acquisition of a company	-	51,500	-
Fixed assets	5,136	5,532	4,989
Receivables	6,728	7,007	6,137
Total non-current assets	18,728,066	17,516,327	18,235,801
Total assets	19,234,294	17,744,562	18,370,571
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	1,463,784	932,489	1,353,965
Trade payables	63,747	40,330	58,944
Payables and other current liabilities	29,186	37,843	29,145
Declared dividend	320,000	280,000	-
Current tax liabilities	32,615	29,071	34,000
Total current liabilities	1,909,332	1,319,733	1,476,054
Non-current liabilities			
Loans from banks and other credit providers	1,845,736	2,206,745	1,969,119
Bonds	1,105,209	535,275	538,577
Employee benefits	3,217	13,155	7,973
Other liabilities	15,462	16,613	15,500
Deferred tax liabilities	1,148,408	1,117,749	1,111,661
Total non-current liabilities	4,118,032	3,889,537	3,642,830
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	515,566	352,533	428,229
Retained earnings	10,195,477	9,686,872	10,327,571
Total capital attributable to shareholders of the Company	13,206,930	12,535,292	13,251,687
Total liabilities and capital	19,234,294	17,744,562	18,370,571

May 19, 2015			
Date of approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board of Directors**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From rent and management and maintenance fees	110,032	110,184	444,446
Net gain, (loss) from fair value adjustment of investment property and investment property under construction	(10,986)	149	(85,688)
Financing	8,019	32,691	154,510
Other	-	10,000	9,914
Total revenues	107,065	153,024	523,182
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	2,231	4,019	15,365
Sales and marketing	5,032	2,647	14,538
General and administrative	14,919	15,978	47,133
Financing	(8,536)	8,785	70,357
Other	47	-	-
Total costs and expenses	13,693	31,429	147,393
Income before the Company's share of the profits of investee companies	93,372	121,595	375,789
Share of profits of investee companies, net of tax	123,076	110,015	483,972
Income before income taxes	216,448	231,610	859,761
Expenses for income taxes	(28,542)	(34,728)	(83,779)
	187,906	196,882	775,982
Net income from continued operations			
Income from discontinued operations (after tax)	-	12,123	73,505
Net income for the year	187,906	209,005	849,487
Other comprehensive income:			
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	66,909	(32,374)	(39,724)
Translation differences from foreign operations	15,027	1,842	65,532
Share of the other comprehensive income of investee companies, net of tax	5,401	1,534	23,887
Total	87,337	(28,998)	49,695
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	-	-	(54)
Other comprehensive income for the period, net of tax	87,337	(28,998)	49,641
Total comprehensive income for the year attributable to the shareholders of the Company	275,243	180,007	899,128

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - current operations			
Net profit for the period	187,906	209,005	849,487
Depreciation and amortization	216	244	939
Loss of capital from liquidation of fixed assets	47	-	5
Net loss (gain) from fair value adjustment of investment property and investment property under construction	10,986	(149)	85,688
Financing and other revenues, net	(18,793)	(31,327)	(87,115)
Share of profits of investee companies, net of tax	(123,076)	(122,138)	(557,477)
Expenses for taxes recognized in the income statement	28,542	34,728	83,779
Change in financial assets	(157)	(52)	554
Income tax paid, net	(22,177)	(5,291)	(49,033)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	598	(1,996)	(6,760)
Change in trade and other receivables	(8,254)	2,902	937
Change in trade and other payables	17	672	1,333
Recording of benefit in respect of share-based payment	1,716	134	1,089
Change in employee provisions and benefits	(5,106)	(47)	(3,104)
Net cash – current operations	52,465	86,685	320,322
Cash flows - investment activities			
Proceeds from liquidation of fixed assets	129	-	319
Down payments on account of investment property	(31,289)	(362)	(2,081)
Purchase of and investment in investment property and investment property under construction	(133,518)	(66,464)	(367,159)
Purchase of fixed assets	(539)	(419)	(895)
Investments in investee companies	-	(349)	(1,036)
Change in financial assets designated at fair value through profit and loss, net	253	35	782
Receipt (granting) of long-term loans investee companies, net	(91,092)	(9,249)	152,247
Interest and dividend received	1,047	10,163	16,193
Return of investment in investee companies	-	-	4,436
Acquisition of investee companies	-	-	(82,439)
Institutions for real estate	(8,226)	-	-
Down payments on account of acquisition of a company	-	(51,500)	-
Net cash - investment activities	(263,235)	(118,145)	(279,633)

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2015	2014	2014
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - financing activities			
Bond offering net of offering expenses	618,871	-	-
Dividend distribution to shareholders	-	-	(280,000)
Repayment of bonds	(44,183)	(44,636)	(44,636)
Receipt of long-term loans from banks and others	-	-	300,000
Repayment of long-term loans from banks and others	(104,254)	(96,327)	(208,948)
Short-term credit from banks and others, net	114,994	238	(12,962)
Deposits from customers, net	217	(413)	(1,618)
Interest paid	(25,548)	(29,711)	(100,930)
Net cash - financing activities	560,097	(170,849)	(349,094)
Increase (decrease) in cash and cash equivalents	349,327	(202,309)	(308,405)
Cash and cash equivalents at beginning of year	19,330	327,837	327,837
Effect of exchange rate changes on cash balances held in foreign currency	673	(69)	(102)
Cash and cash equivalents at end of year	369,330	125,459	19,330

(*) Non-cash transactions include payables for a dividend in the amount of NIS 320,000 thousand (March 31, 2014 – NIS 280,000 thousand) and payables for the purchase on credit of current assets in the amount of NIS 35,303 thousand (December 31, 2014 – NIS 29,233 thousand, March 31, 2014 - NIS 28,086 thousand).

Azrieli Group Ltd.

Notes to the Separate Financial Statement

A. General:

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

This separate financial statement is to be inspected with respect to the Company's separate financial statement as of December 31, 2014, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

The Company	-	Azrieli Group Ltd.
Investee company	-	Consolidated company, consolidated company under proportionate consolidation and an associated company.

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2014 and the year then ended, other than the changes in the accounting policy specified in Note 2C to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

D. Events during the Reporting Period:

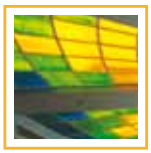
See Note 4 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

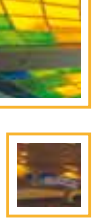
E. Contingent Liability:

The Parties	Amount of the Claim	Nature of the Claim	Chances of the Claim
Claim against the Company and an investee company	If not certified as a class action – NIS 4,561. If certified as a class action only in relation to the class of offerees whose shares were subject to a forced purchase – approx. NIS 18 million. If certified as a class action in relation to all offerees – approx. NIS 157 million.	In August 2013, a motion for an appraisal remedy pursuant to Section 338 of the Companies Law, 5759-1999 and a motion for cancelation of the tender offer, as well as a motion for class certification thereof were filed against the Company and against an investee company with the Economic Division in the Tel Aviv District Court by a petitioner alleging 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 by 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 for summary dismissal of the motion as well as its response to the motion, and the hearing was scheduled for March 2014. At the hearing, the petitioner, in view of the court's comment, withdrew his motion for the remedy of cancelation of the tender offer and relisting of the shares on TASE. On February 19, 2015, the court summarily dismissed the motion for an appraisal remedy. However, the court ruled that the same does not preclude claims in respect of misleading or fraud, and limited the hearing of the class certification motion to this issue only. In the estimation of the Company's management, based on its legal counsel, the probability of the motion for class certification being granted and the claim being accepted is lower than 50%.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure





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

Attached hereto is a quarterly report on the effectiveness of internal control over 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 setting and maintaining proper internal control over financial reporting and disclosure at 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 the Company Secretary;
4. Yair Horesh, Chief Comptroller for Accounting and Financial Statements.

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Corporation, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under 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 by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Corporation is thus required to disclose, 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 decision making in reference to the disclosure requirement.

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure which was attached to the periodic report for the period ended on December 31, 2014 (the "Last Annual Report on Internal Control") the Board of Directors and management evaluated the internal control in the Corporation. Based on this evaluation, the Board of Directors and management of the Corporation reached the conclusion that such internal control, as of December 31, 2014 is 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 found to be in the Last Annual Report on Internal Control.

As of the date of the report, based on the effectiveness evaluation of the internal control in the Last Annual Report on 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 Q1/2015 (the "Reports").

2. To my knowledge, the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.

3. To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for periods and as of the dates covered by the Reports.

4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statements Committee, based on my most current evaluation of internal control over financial reporting and disclosure:

    a. Any and all significant flaws and material weaknesses in the setting or maintaining 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 conformity 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 internal control over financial reporting and disclosure;

5. I, myself or jointly with others at the Corporation:

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

b. Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP.

c. No event or matter had been brought to my attention which occurred during the period between the date of the Periodic Report for 2014 and the date of this report, which may change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over financial reporting and disclosure of the Corporation.

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

May 19, 2015

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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 interim reports of Azrieli Group Ltd. (the "Corporation") for Q1/2015 (the "Reports" or the "Interim Reports");

2. To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.

3. To my knowledge, the Interim Financial Statements and other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;

4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statements Committee, based on my most current valuation of internal control over financial reporting and disclosure:

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

(5) I, myself or jointly with others at the Corporation:

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

Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

b. Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

c. No event or matter had been brought to my attention which occurred during the period between the date of the Periodic Report for 2014 and the date of this report, referring to the Interim Financial Statements and any other financial information included in the interim reports, which may, in my estimation, change the conclusion of the Board of Directors and management with regard to the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

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

May 19, 2015

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Irit Sekler-Pilosof, CFO