Azrieli Group Ltd.

Report Q1/2014

Dated 31 March, 2014

Part A Board Report

Part B Update of the Description Corporation's Business

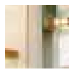
Part C Consolidated Financial Report Dated 31 March, 2014

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

AZRIELI GROUP

Part A

Board Report



Azrieli Group

Azrieli Group Ltd.

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

for the three months ended March 31, 2014

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors’ Report for the three months ended March 31, 2014 (hereinafter: the "**Report Period**" and the “**Quarter**” respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the “**Regulations**”).

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, the effect of which is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2013, 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 2013") and the update to the Corporation's Business Chapter and the financial statements for March 31, 2014.

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held thereby, directly and/or indirectly, will be referred to below as the "**Group**" or "**Azrieli Group**"), engages both itself and through its investee companies, mainly in the income-producing property in Israel segment, while most of the Group's business activity is in the retail centers and malls in Israel segment and in the office and other space for lease in Israel segment. In addition, the Company has income-producing property outside Israel, and mainly office space for lease in the USA. Also, the Company engages, through its (indirect) holding in Sonol Israel Ltd. ("**Sonol**") also in another business segment, which includes oil distillates via direct marketing and fuelling and retail complexes as well as through its (indirect) holding in Tambour Ltd. (“**Tambour**”) in a business segment that includes paint, finishing and construction. In addition, the Company has other businesses, such as water and other wastewater (through its holding in Granite Hacarmel Investments Ltd.). The Company also has minority holdings in financial corporations.

As a result of organizational changes in the Granite group 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, the Company reports in its reports to the public on five operating segments, which also constitute reportable operating segments in its financial statements.

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

The data appearing in the Board of Directors’ Report are based on the consolidated financial statements as of March 31, 2014. The financial data and the business results of the Company are affected by financial data and business

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

The financial statements attached are prepared according to the International Financial Reporting Standards (IFRS). For further details see Note 2 to the financial statements as of March 31, 2014.

Extended standalone statement – the income-producing property segment

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

Main emphases for the Report Period ended March 31, 2014(*)

Net Profit
Approx. NIS 211 million net profit in the Quarter compared with a net profit of approx. NIS 197 million in the same quarter last year, growth of approx. 7%.
Pre-Tax Profit
Approx. NIS 299 million pre-tax profit in the Quarter compared with a pre-tax profit of approx. NIS 249 million in the same quarter last year, growth of approx. 20%.
FFO from the Income-Producing Property Segment compared with the same quarter
Approx. 4% growth in the FFO attributed to the income-producing property segment (see Section 1.1.6 of the Report).
NOI during the Quarter compared with the same quarter
• Approx. 2% additional growth in the same property NOI in Israel (see Section 1.1.4 of the Report).
NOI in the retail centers and malls in Israel segment
• Approx. NIS 178 million in the Quarter compared with approx. NIS 177 million in the same quarter last year, growth of approx. 1%.
NOI in the office and other space for lease in Israel segment
• Approx. NIS 78 million in the Quarter compared with approx. NIS 74 million in the same quarter last year, growth of approx. 5%.
Business Development and Initiation
• In the Report Period, the Company continued the development work on the properties under construction in accordance with the planned timetables. • At the same time, significant progress has been made in the marketing efforts of

some of the projects under construction and the Company is in advanced negotiations for the lease of tens of thousands of sqm.

- During the Report Period, the Company invested approx. NIS 239 million in the purchase of properties, improvement of existing properties and initiation.

- For further developments, see Section 1.1 below.

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

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

1.1 General

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

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

Transactions related to Investment Property

Closing of the purchase of land for the construction of senior housing in Modiin

On February 17, 2014, the Company engaged with unaffiliated third parties in an agreement for the purchase of 100% of the shares of a private company which holds the right (subject to payment of long-term rent) to a capitalized long-term lease of approx. 12,000 sqm in Modiin, on which, according to the zoning plan in effect, a senior housing facility may be built, in consideration for the sum of approx. NIS 51.5 million (plus V.A.T, if applicable) (including by way of provision of a shareholder loan to the company). The closing of the transaction was conditioned on conditions precedent. On May 1, 2014, the Company closed the transaction after fulfillment of all of the conditions precedent determined in the agreement.

Further developments

Class Actions

On August 8, 2013, the Company received a motion for an appraisal remedy and a motion for cancellation of a tender offer, and a motion for class certification thereof, against the Company and against the subsidiary, in connection with a full tender offer for shares of Granite Hacarmel (even though the six (6)-month period determined in the law for the filing of a claim for an appraisal remedy has lapsed). The Company has filed a motion for summary dismissal of the motion. On March 19, 2014, a hearing was held at which the petitioner withdrew, in view of the Court's comment, his motion for the remedy of cancellation of the tender offer and the relisting of the shares on TASE. At the Court's request, the Parties shall file additional summations in connection with the motion for summary dismissal. For details, see Note 3b1 to the Financial Statements as of March 31, 2014.

<u>Engagement in a loan agreement – financing of Ramla mall</u>

In order to finance its current operations and its investments, the Company entered into a loan agreement (the "**Loan Agreement**") with several companies in the group of an institutional body, affiliated neither with the Company nor with its controlling shareholders (the "**Lender**"), to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest of 0.74%. It was agreed that if Ramla Azrieli mall (the "**Mall**") does not open to the public by the end of Q3/2015, the Company will have the option of either paying interest compensation in relation to the period from the end of the said quarter until the date of the opening of the Mall only, or providing the Lender with other collateral at a similar LTV, to the Lender's satisfaction.

For further details, see the immediate report of May 21, 2014 (ref.: 2014-01-069621), included in this report by way of reference.

<u>Current Operations</u>

As the Company has reported in the past, during the Report Period and until the date of release thereof, the Group has continued to explore business opportunities in Israel and overseas, in connection with the expansion of its business, mainly in the field of real estate, including tangential fields of real estate and the retirement home sector, through the purchase of land reserves, the purchase of additional properties and/or the improvement of the existing properties, some of which have been consummated as stated in the Company's reports. The Company has further begun to identify opportunities for expanding retail/office space as an addition to existing projects and is acting for the promotion of improvement of these properties. In addition, the Company may explore, from time to time, additional options for expanding its fields of business while taking advantage of market situations and/or crisis situations in leading and cash flow generating target companies in other segments. In addition, the Company examines, on an ongoing basis, the holdings which are not in its core business in the field of income producing properties, including a sale of its holdings in Granite Hacarmel (in whole or its various parts), at its discretion in connection with the timing, the structure and the consideration in the transaction.

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

1.1.2 **<u>Developments in Initiation and Development</u>**

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period totaled approx.

NIS 239 million. Thus, the Company also continued to pro-actively manage its existing properties, the improvement thereof, maintaining the high occupancy rate unique to the Group and strengthening the cash flow generated from such properties. As of the date of this Report, the Company operates towards the development of several properties under construction, as specified below.

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

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of March 31, 2014[1] (NIS in millions)	Estimated cost of completion of construction with no expected capitalizations (NIS in millions)
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	2017	720	779-824
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	53,000	December 2011 (permit for construction of temporary parking and an excavation and shoring permit)	2016	217	419-449
Azrieli Center Holon[2]	Holon	Jun. 2008	Offices	83%	34,000	57,500	Phase B – beginning of 2014.	Phase B – 2015	204	68-98
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	2013	March 2015	109	82-112
Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	March 2015	231	131-151

Clalit Health Fund Land[3]	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	141	810-910
Yedioth Ahronoth House[3]	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Not yet determined	Not yet determined	109	890-910
Modiin Senior Housing Land[4]	Modiin	February 2013	Senior Housing	100%	12,000	35,000	End of 2014	End of 2016	52	215
Total						**442,500**			**1,783**	**3,394-3,669**

(1) The figure reflects the value of the project on the books if a valuation was made or the costs invested without capitalizations. Capitalizations in projects presented at cost total NIS 71 million.
(2)The figures are for 100%.
(3) As of the Report Release Date, the Company has not received possession of this property.
(4) After the balance sheet date on May 1, 2014, the Company received possession of this property.

During the Report Period, the Company proceeded with the development and construction work in her aforementioned properties and with obtaining the necessary approvals for the purpose of their continued development, in accordance with the scheduled timetables and without substantial delays. In addition, there has been progress in negotiations for the lease of the areas under construction in the scope of tens of thousands of sqm, mainly in Holon (phase B) and in Rishonim. For further details, see Section 2 of Chapter B of this Report, update of the description of the corporation's business.

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

1.1.3 The NOI (Net Operating Income) index

As stated in the Board of Directors' Report for December 31, 2013[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, 2014	**March 31, 2013**	**Dec. 31, 2013**
Retail centers and malls in Israel	178	177	705
Rate of increase	1%		
Office and other space for lease in Israel	78	74	301
Growth rate	5%		
Income-producing property in the USA	24	26	99
Rate of increase (decrease)	(8%)		
Total NOI	280	277	1,105
Growth rate	1%		
	For explanations pertaining to the increase in NOI, see Sections 1.10.1, 1.10.2 and 1.10.3.		

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

1.1.4 Same property NOI Index[2]

NIS in Millions	For the three months ended	
	March 31, 2014	**March 31, 2013**
Retail centers and malls in Israel segment	178	177
Office and other space for lease in Israel segment	78	74
Income-producing property in the USA segment	24	25
Total	**280**	**276**
Growth rate	**1%**	

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

	2014	2013			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**
Same property NOI in all of the periods(*)	280	278	275	276	276
NOI from acquired (completed) properties	-	-	1	-	-
NOI from properties sold during the period	-	-	1	1	1
Total NOI for the period	**280**	**278**	**277**	**277**	**277**
(*) In all of the Company's operating segments					

1.1.5 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property of the Group as of March 31, 2014**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex C) (*)	17,495
Net of value attributed to construction rights not utilized yet	(5)
Net of value attributed to investment property under construction	(1,562)
Net of value attributed to advance payments on account of land purchase	(302)
Net of the value attributed to land	(23)

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

reserves	
Total value of income-producing investment properties (including fair value of the vacant space)	**15,603**
Actual NOI for the quarter ended on March 31, 2014	280
Addition to future quarterly NOI (**)	15
Total standardized NOI	295
Pro-forma annual NOI based on standardized NOI	**1,180**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.6%**

(*) As of the report date, the Company has carried out no new valuations, and the data are based on the valuations as of December 31, 2013.

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

(**) The figure mainly includes estimates for an addition of NOI for vacant space for population for one year for which value was credited in the valuations as of December 31, 2013 and which have not yet been fully populated (mainly Azrieli Center Holon).

This figure does not constitute a forecast of the Company for the NOI of 2014 and all of its purpose is to reflect the NOI under the assumption of full population for a whole year of all of the income-producing property.

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

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

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, 2014**	**March 31, 2013**
Net profit for the period attributed to shareholders	**209**	**194**
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	**(32)**	**(31)**
Adjustments to profit (1):		
Decrease in investment property value	3	8
Depreciation and amortizations	1	1
Net non-cash flow financing and other revenues (2)	(26)	(8)
Tax expenses (3)	35	10
Adjustments for associated companies	-	1
Interest and dividend from financial assets held for trade, net of tax (4)	-	(4)
Impairment of financial assets held for trade, net	-	(1)
Plus benefit recorded for employee option plan	-	3
Net of dividend received from financial assets available for sale	(10)	(6)
Total adjustments to profit	**3**	**4**
Plus interest paid for real investments - (5)	**12**	**17**
Total FFO attributed to the income-producing property segment (6)	**192**	**184**

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite HaCarmel since its profits were discounted in full.
2. In order that the FFO index reflect the Company's operations, the Company discounted, for the first time in this quarter and in comparison figures, fluctuations between the quarters during the year which derive only from the difference in the timing of the payments of interest on the loans, and used the interest expenses included in the income statement on an accrual basis in lieu of the interest actually paid.

3. In order that the FFO index reflect the Company's operations, the Company discounted, for the first time in this quarter and in comparison figures, fluctuations between the quarters due to the effect of the changes in the CPI on the current tax results, and calculated the said tax results according to the projected annual index forecast, linearly divided over the quarters.
4. Net of interests and dividends in respect of transactions and actions in securities which were written off from the real estate operations.
5. 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.
6. Which is attributed to shareholders only.

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

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

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

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

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

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

EPRA NAV (NIS in millions)	**As of**	
	March 31, 2014	**March 31, 2013**
Equity attributed to the Company's shareholders in the financial statements	12,535	11,798
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,723	2,381
EPRA NAV	**15,258**	**14,179**
EPRA NAV per share (NIS)	**126**	**117**

EPRA NNNAV (NIS in millions)	As of	
	March 31, 2014	December 31, 2013
EPRA NAV	15,258	15,336
Adjustment of assets' value to fair value (net of the minority)	23	24
Adjustment of the value of financial liabilities to fair value (net of the minority)	(398)	(374)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,723)	(2,701)
EPRA NNNAV	**12,160**	**12,285**
EPRA NNNAV per share (NIS)	**100**	**101**

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, 2014	March 31, 2013	Dec. 31, 2013
Net profit for the period attributed to the shareholders	**209**	**194**	**930**
Net profit attributed to the shareholders and non-controlling interests	**211**	**197**	**944**
Basic profit per share (in NIS)	**1.72**	**1.60**	**7.66**
Comprehensive income for shareholders and non-controlling interests	**182**	**191**	**1,038**

The net profit attributed to the shareholders for the three months ended on March 31, 2014 totaled to an amount of approx. NIS 209 million versus net profit attributed to the shareholders in the amount of approx. NIS 194 million in the same period last year.

The increase in profit in the period mainly derived from a decrease in the net financing expenses, a decreased loss from adjustment to fair value of investment property, an increase in net other revenues and an increase in the NOI, as shall be explained below in Sections 1.3-1.10.

b. The Comprehensive Income

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

The comprehensive income for the three months ended March 31, 2014 amounted to the sum of approx. NIS 182 million compared with a net profit (including non-controlling interests) in the sum of approx. NIS 211 million in the same period. The said difference between the comprehensive income and the net profit mainly derives from a decline in the fair value of assets available for sale (a change in the fair value of the investment in Bank Leumi Le-Israel), net of tax in the amount of approx. NIS 32 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, 2013, except as specified below.

In Israel – during the Report Period, the stability in the income-producing property industry in Israel remained, both in the demand level as well as in the level of rent prices and occupancy rates. The consumer price index recorded a decrease in the quarter, the Bank of Israel interest rate decreased by 25 percentage points during the quarter, and further increase was recorded in the expense for private consumption. During the Report Period, the relative stability continued in the average of turnover[3] at the Group's malls (due to the timing of the Passover holiday, which fell in April this year compared with the previous year in which it fell in March, the comparison was made for the period of January to April) compared with the same period last year. The construction work on the second floor in the Azrieli Ayalon mall is at its height. Naturally, some of the work requires construction work and preparations also on the first floor and to this end, some of the tenants are vacating the stores for limited periods.

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

[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.

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

<u>In the U.S.</u> - the local economy in Houston continues to present good figures, mainly thanks to the strong connection that the local economy has with the energy market. Foreign investors continue to recognize Houston as one of the most attractive investment destinations. The labor market in Houston continues to present strong figures employment figures rose by 81,300 jobs compared with last year. This rise continues to lead to a further decline in the unemployment rate in Houston, which continues to be significantly lower than the unemployment rate in the entire U.S., and is, as of Q1, 5.7%[4].

These positive trends have led to significant improvements in the real estate market in Houston which are expressed in a large number of new areas that have been leased in new properties whose construction was completed in the quarter and in existing properties, a rise in rent prices and a rise in construction commencements of real estate for offices in view of the improvement in the other parameters.

In this quarter, for the first time in a long time there is a small rise in the rate of vacant space (from 11.8% to 11.9%). Of course in an analysis according to the quality of the buildings and the various markets, the picture is more complicated and in a large part of the areas, the occupancy rates continue to rise[5].

[4] According to figures appearing in MarketView, Houston, Office published by CBRE in Q1/2014.
[5] According to figures appearing in MarketView, Houston, Office published by CBRE in Q1/2014.

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

Summary of the Group's operating segments

- ☒ **The Retail Centers and Malls in Israel Segment –** The Company has 14 malls and retail centers in Israel, at a comprehensive leasable area of approx. 266 thousand sqm (consolidated) and 265 thousand sqm (the Company's share) leased to approx. 1,700 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. 353 thousand sqm (consolidated) and 350 thousand sqm (the Company's share) leased to approx. 500 tenants;

- ☒ **Income-Producing Property Segment in the USA –** The Company has 5 income-producing properties in this segment at a comprehensive leasable area of approx. 166 thousand sqm (consolidated) and approx. 156 thousand sqm (the Company's share) leased to approx. 270 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.;

- ☒ **Tambour Segment –** The Group operates in the paint and building-finishing sector through Tambour Ltd. and the consolidated companies thereof.

1.2.1 The income-producing property segments

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

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

In this Report, the Company specifies the causes which contributed to the consistent improvement in its business activity, mainly in the income-producing property segment which constitutes its main business. In addition, as of the Report Date, the estimated investment scope of the Group, in future growth engines, through the development and construction of new income-producing properties which are expected to add to the Group approx. 443 thousand sqm income-producing properties in Israel, is at approx. NIS 3.4-3.7 billion, in addition to approx. NIS 1.8 billion that was invested until the Report Period. For specification regarding the projects under construction see Section 1.1.2 above.

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is approx. 98% in the retail centers and malls segment and close to 100% in the office and other space for lease segment[6]. The average occupancy rate in the income-producing property in the USA is approx. 91%.

In Q1/2014, the Group maintained stability in its main business activity in the income-producing property sectors compared with the same quarter last year.

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

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

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

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

[6] Excluding the Azrieli Center Holon, part of which opened in July 2013, and the offices in Kiryat Ata, which opened in early 2014 and are in the process of being populated. The occupancy percentage in the retail centers and malls segment, including the Azrieli Center Holon, is approx. 96%. The occupancy percentage in the office and other space for lease segment, including the Azrieli Center Holon and the offices in Kiryat Ata, is approx. 93%.

Q1/2014, there was improvement in Sonol's results of operations compared with the same quarter last year. The improvement mainly derives as a result of growth in the profitability of the retail complexes in view of growth in the fuel quantities sold and improvement in the results of the convenience stores as well as a decline in the financing expenses, as specified in Section 1.10.4 of this Report below.

1.2.3 Tambour segment:

The Company's position and results may be affected to a certain degree also by the business position of Tambour. Tambour presented, in the Report Period, growth in revenues and improvement in profitability in the paint sector, as specified in Section 1.10.5 of this Report below.

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 and investments in corporations in the banking and financing segment, investments in venture capital companies, start-ups and investment funds.

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, 2013	Investments during the three months ended March 31, 2014	Total investment as of March 31, 2014 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, 2014	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	**1,002**	**-**	**1,002**	**961**	**(41)**	**-**
Investment in Leumi Card Ltd. (**)	**588**	**-**	**588**	**588**	**-**	**10**
Total	**1,590**	**-**	**1,590**	**1,549**	**(41)**	**10**

* 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 ;

** 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, 2013.

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:	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Retail centers and malls in Israel	**178**	**177**	**84%**	**90%**
Office and other space for lease in Israel	**78**	**74**	**37%**	**37%**
Income-producing property in the USA	**24**	**26**	**11%**	**13%**
Sonol	**17**	**24**	**8%**	**12%**
Tambour	**18**	**18**	**9%**	**9%**
Others	**35**	**39**	**16%**	**20%**
Total attributed profit	**350**	**358**	**165%**	**181%**
Changes in fair value	**(4)**	**(9)**	**(2%)**	**(5%)**
Net financing expenses	**(36)**	**(81)**	**(17%)**	**(41%)**
Tax expenses	**(89)**	**(51)**	**(42%)**	**(26%)**
G&A expenses, net	**(10)**	**(20)**	**(4%)**	**(9%)**
Net profit per period	**211**	**197**	**100%**	**100%**

The Group's revenues from the business segments for the Report Period amounted to approx. NIS 2,043 million, compared with approx. NIS 2,232 million in the same period last year, a decrease of approx. NIS 189 million, deriving mainly from a decrease of approx. NIS 148 million in the revenues of Sonol mainly from a decline in the quantities of fuel sold in the direct marketing segment (mainly low profit black fuels) and a decline in the revenues of GES and Supergas in the sum of approx. NIS 56 million, which was mainly offset against an increase in revenues of approx. NIS 10 million in the Tambour segment and an increase of approx. NIS 4 million in the income-producing property for office and other space for lease in Israel segment (mainly due to an increase in revenues from existing properties).

As of March 31, 2014, the total assets on the balance sheet were approx. NIS 25.6 billion, similarly to as of December 31, 2013.

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, 2014	**Dec. 31, 2013**	**March 31, 2014**	**Dec. 31, 2013**
Retail centers and malls in Israel	10,194	10,123	40%	40%
Office and other space for lease in Israel	5,721	5,608	22%	22%
Income-producing property in the USA	1,528	1,518	6%	6%
Sonol	2,396	2,333	9%	9%

Tambour	1,063	1,059	4%	4%
Others	4,739	4,911	19%	19%
Total	**25,641**	**25,552**	**100%**	**100%**

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

	As of March 31, 2014	As of March 31, 2013	As of Dec. 31, 2013
Current assets	3,908	3,124	4,029
Non-current assets	21,733	20,953	21,523
Current liabilities	5,310	5,115	4,972
Non-current liabilities	7,701	7,078	7,850
Capital attributed to the Company's shareholders	**12,535**	**11,798**	**12,635**
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**49%**	**49%**	**49%**

The Group finances its business activity mostly by its equity, cash and by using non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial securities. The Group's financial 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, 2014, 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 281 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 14.6 billion in addition to approx. NIS 281 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, 2014 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**7,913**
Properties in the office and other space for lease in Israel segment	**3,670**
Other Properties	**96**
Company's holdings in Leumi Card	**588**
Company's holdings in Granite Hacarmel	**1,345**
Company's holdings in Bank Leumi	**961**
Total	**14,573**

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 18, 2014, the Company's board of directors approved a cash distribution in a total sum of NIS 280 million (approx. NIS 2.3 per share) which constitutes approx. 36% of the net profit to the shareholders in 2013 (net of real estate revaluation profits, non-cash financing expenses and the tax effect thereon and net of a one-time effect of the increased corporate tax) and approx. 37% of the FFO for the properties business (for the manner of calculation, see Section 1.1.6 above) for 2013. On May 7, 2014, the Company paid the dividend to its shareholders. According to the Company's financial statements as of March 31, 2014, the Company has surplus of approx.

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

NIS 10.1 billion (including revaluation fund of financial assets available for sale).

For further details, see the immediate report of March 19, 2014 (ref.: 2014-01-017451) included herein by way of reference.

Leumi Card: To the best of the Company's knowledge, on May 24, 2010, the Leumi Card's board of directors adopted annual dividend policy according to which each year an amount which shall equal 30% of Leumi Card's net current profit shall be distributed, subject to the instructions of the Supervisor on the Banks, regulatory provisions and the requirements of the Companies Law. This policy was updated on May 22, 2011 so as to allow the dividend distribution subject to limitations of a "risk appetite" and the requirements of the Office of the Supervisor of Banks. Accordingly, Leumi Card's board of directors approved, on February 26, 2014, the distribution of a dividend to Leumi Card's shareholders in the total sum of NIS 50 million, which was distributed on March 2, 2014. During the Report Period, the Company received a dividend in the sum of NIS 10 million from Leumi Card.

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

(c) Cash flows

Net cash flows generated for the Group from current operations in the three months ended March 31, 2014, amounted to the sum of approx. NIS 157 million, compared with the sum of approx. NIS 422 million which derived from current operations in the same period last year (a decline of approx. NIS 265 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property (approx. NIS 280 million).

The decline in cash flow from current operations in the three months ended March 31, 2014 compared with the same period last year mainly resulted from a decrease in cash flow from the sale of financial assets held for trade of approx. NIS 153 million in the Report Period compared with the same period last year. In addition, there was a decline of approx. NIS 160 million in the cash flow from current operations in the Sonol segment as well as a decline in the current cash flow as a result of payments to suppliers for construction work on solar facilities at Supergas.

The cash flow derived by the Group from current operations in the three months ended March 31, 2014 were used by the Group mainly for financing investments required for projects under construction and purchase of land and payment of long-term liabilities.

<u>Net cash flows used by the Group for investment activity</u>

In the three months ended March 31, 2014 amounted to approx. NIS 274 million compared with approx. NIS 174 million used for investment activity in the same period last year.

The increase in the quarter mainly derived from the purchase of and investment in investment property and investment property under construction and advance payments on account of investment property in the sum of approx. NIS 247 million in the Quarter, compared with approx. NIS 124 million in the same quarter last year.

<u>Net cash flows used by the Group for financing activity</u> in the three months ended March 31, 2014 amounted to approx. NIS 112 million compared with approx. NIS 236 million cash, net, used by the Group for financing activity in the same period last year. The decline mainly derived from the increase in short- and long-term loans received (net of loans repaid) consolidated in the sum of approx. NIS 108 million, compared with the same period last year.

<u>Following is the composition of the Group's financing sources</u>

	March 31, 2014		**December 31, 2013**	
	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	2,640	10.3%	2,567	10.1%
Long-term credit from banks and other credit providers	3,482	13.6%	3,563	13.9%
Bonds	1,357	5.3%	1,441	5.6%
<u>Total</u>	**7,479**	**29.2%**	**7,571**	**29.6%**

The decrease in the sum of approx. NIS 92 million in the Report Period mainly derives from net repayment of long-term loans and bonds.

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1.4 billion, resulting mainly from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits. The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the said deficit in the working capital may not affect its ability to repay its liabilities on time.

(d) Rating

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

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

For further details, see Note 21 to the financial statements as of December 31, 2013. To review Midroog's annual monitoring report, see the Company's immediate reports of June 25, 2013 (ref.: 2013-01-073392). To review Maalot's annual follow-up report, see the Company's immediate report of October 16, 2013 (ref.: 2013-01-167901). To review Midroog's private loan report see the Company's immediate report dated August 19, 2013 (ref.: 2013-01-120351).

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of March 31, 2014, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	**USA Dollar Linked**	**Not Linked**	**Sterling Linked**	**Not Linked**	**Fixed Interest**	**Variable Interest**	
Short Term Loans	-	-	-	24	696	-	720	720
Long Term Loans	3,332	819	17	-	-	4,168	-	4,168
Total	**3,332**	**819**	**17**	**24**	**696**	**4,168**	**720**	**4,888**

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of March 31, 2014, in NIS in millions:

Year	Principal	Interest	Total
1	1,022	160	1,182
2	1,022	122	1,144
3	1,694	107	1,801
4	178	44	222
5 forth	972	107	1,079
Total	4,888	540	5,428

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and current assets, by long-term loans, index-linked with a fixed interest, in order to minimize market risks resulting from changes in the interest rates in the economy and neutralize the market risk resulting from changes in the CPI, while using the fact that most of the Company's revenues are index-linked.

Nonetheless, in light of the low interest rates for short-term loans with variable interest, the Company decided to finance its activity also by using short-term loans as specified above.

As of March 31, 2014, short-term loans accounted for approx. 15% 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 157 million in the three months ended March 31, 2014, compared with the sum of approx. NIS 269 million in the same period last year. The decline is mainly attributed to Sonol – see explanation regarding the cash flows above;

- The liquid means and the non-pledged assets as specified in

Section 1.5(a) above.

- In addition, the Group has income-producing pledged properties, the 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, 2013.

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 NIS 23 million in the same period last year. In the Report Period, there was an increase in contributions in the sum of NIS 3 million and an increase in the marketing expenses by approx. NIS 3 million, which was offset against a decline in consideration in respect of the management services paid to Canadian companies wholly owned and controlled by Mr. David Azrieli (as stated in Note 38c1 to the consolidated financial statements as of December 31, 2013) in the sum of approx. NIS 4 million and a decline in share-based payment expenses in the sum of approx. NIS 4 million.

1.8 **The Net Financing Expenses**

The Group’s net financing expenses in the Report Period amounted to the sum of approx. NIS 36 million, compared with approx. NIS 81 million in the same period last year (a decrease of approx. NIS 45 million). The decrease in the net financing expenses results mainly from a decrease in interest and linkage expenses for loans and bonds during the Report Period, compared with the same period last year. The decrease in interest expenses for loans and bonds as aforesaid resulted from a decrease in the amount of credit, from the refinancing of loans for the Azrieli Center at considerably lower interest rates than before, as well as a decrease in expenses which derived from a decrease of approx. 0.68% in the rate of the rise in the index known in the Report Period compared with a rise of approx. 0.01% in the same period last year. Conversely, in the Report Period the Company recorded no profits from marketable securities compared with a profit of approx. NIS 5 million in the same period last year.

1.9 **Taxes on Income**

The Group’s income tax expenses in the Report Period, amounted to the sum of approx. NIS 89 million, compared with tax expenses in the sum of approx. NIS 51 million in the same period last year. The increase in tax expenses in the quarter mainly derives from the increase in pre-tax profit, from a rise in the corporate tax rate and from an increase in the deferred taxes recorded following the decrease in the CPI in Q1/2014.

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

The Company implemented in its financial statements the International Financial Reporting Standard 8 concerning Operating Segments (IFRS8). The Company's division into segments is based on the managerial and internal reports of the Company. In addition, the contribution to the results takes into account the Company's share in the results of the companies held by the Company (indirectly), Sonol and Tambour, which constitute operating segments.

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, 2014	**March 31, 2013**	**Dec. 31, 2013**
	NIS in millions		
Revenues	**218**	**218**	**873**
% change	**-**		
NOI	**178**	**177**	**705**
% 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, 2014	**March 31, 2013**
For the segment's assets owned by the Company as of the beginning of the period[8]	**178**	**177**
For assets that were purchased or whose construction was completed in 2013	**-**	**-**
For assets that were purchased or whose construction was completed in 2014	**-**	**-**
Total	**178**	**177**

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

- Most lease contracts are linked to the CPI, most of which rose in

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

the Report Period, as compared to the same period last year, by approx. 2% (known index).

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

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

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

The balance of the assets of retail centers and malls in Israel segment – amounted as of March 31, 2014, to the sum of approx. NIS 10.2 billion, compared with approx. NIS 10.1 billion on December 31, 2013. 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 –

In the Report Period, there was almost no change due to fair value adjustment of investment property and investment property under construction of the segment, similarly to the same period last year. The assets are presented according to the valuations performed by an independent appraiser as of December 31, 2013.

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment’s business results:

	For the three months ended		For the year ended
	March 31, 2014	**March 31, 2013**	**Dec. 31, 2013**
	NIS in millions		
Revenues	**93**	**89**	**365**
% change	**4%**		
NOI	**78**	**74**	**301**
% change	**5%**		

The increase in revenues and in the NOI derives mainly from growth in revenues from existing office space for lease.

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

	For the three-month period ended	
	March 31, 2014	**March 31, 2013**
Due to the segment's assets owned by the Company at the beginning of the period[9]	**78**	**74**
Due to assets whose purchase was completed in 2013	**-**	**-**
Due to assets which were purchased or whose construction was completed in 2014	**-**	**-**
Total	**78**	**74**

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:

- Most lease contracts are linked to the CPI, most of which rose in the Report Period, as compared to the same period last year, by 2% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).
- Operational streamlining of the management companies.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on March 31, 2014 to the sum of approx. NIS 5.7 billion compared with approx. NIS 5.6 billion on December 31, 2013. 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 3 million, compared with a loss of approx. NIS 4 million in the same period last year. The assets are presented according to the valuations carried out by an independent appraiser as of December 31, 2013.

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

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 on
	March 31, 2014	March 31, 2013	December 31, 2013
	NIS in millions		
Revenues	44	45	179
Percentage of change	(2%)		
NOI	24	26	99
Percentage of change	(8%)		

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

	For the three-month period ended on	
	March 31, 2014	March 31, 2013
Due to the segment's assets owned by the Company at the beginning of the period[10]	24	25
Due to assets whose purchase was completed in 2013	-	-
Due to assets sold in 2013	-	1
Due to assets that were purchased or whose construction was completed in 2014	-	-
Total	24	26

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

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

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

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

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

The investment properties balance of the Group in the segment – amounted on March 31, 2014 to the sum of approx. NIS 1.5 billion similarly to the balance on December 31, 2013.

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

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

In the Report Period, there was almost no change due to fair value adjustment of investment property of the segment, compared with a loss in the sum of approx. NIS 4 million in the same period last year, which mainly resulted from changes in the exchange rate.

1.10.4 Sonol segment

The Company's share in the Sonol segment results amounted, in Q1, to a profit of approx. NIS 17 million, compared with a profit of approx. NIS 24 million in the same period last year.

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

	For the three-month period ended		Increase/ Decrease	For the year ended
	March 31, 2014	March 31, 2013		Dec. 31, 2013
	NIS in millions		%	NIS in millions
Revenues	**1,196**	**1,344**	**(11%)**	**5,309**
Gross Profit	**161**	**165**	**(3%)**	**694**
Operating Profit	**16**	**24**	**(33%)**	**108**
Pre-Tax Profit	**6**	**5**	**20%**	

Summary of Sonol's business results:

The decline in Sonol's revenues during the Report Period compared with the same period last year mainly derived from a decline in the quantity of fuels sold in the direct marketing segment (mainly low profit black fuels), which was partly offset against an increase in the quantity of fuels sold at the fuelling complexes.

Gross profit

Sonol's gross profit amounted in Q1/2014 to approx. NIS 161 million compared with approx. NIS 165 million in the same period last year, a decline of approx. 3% in the Report Period.

The decline mainly derives from the following factors:

- A more moderate effect of a decline in the cost of sale as a result of the effect of exchange rates compared with the same quarter. Sonol uses future currency transactions for financial hedging of changes in the exchange rate of the dollar, which is the purchase currency for the oil distillates. The results of the transactions are included in the financing section.

- A decline in the inventory profits in the Report Period compared with the same period last year in the sum of approx. NIS 1 million.

Operating profit:

The operating profit in Q1/2014 was approx. NIS 16 million compared with approx. NIS 24 million in the same period last year, a decline of approx. 33%, which decline derives from a decline in the gross profit as aforesaid as well as from increased G&A expenses, mainly due to the recording of revenues from doubtful debts in the same quarter.

Pre-tax profit:

The pre-tax profit in Q1/2014 was approx. NIS 6 million compared with approx. NIS 5 million in the same period last year, a rise of approx. 20%, which rise derives from a decrease in the financing expenses compared with the same quarter (mainly due to the recording of losses from dollar hedging transactions in the same quarter and a real decrease in interest in the present quarter), and was partially offset by a decline in the operating profit as aforesaid.

1.10.5 Tambour segment:

The Company's share in the Tambour segment results amounted, in Q1, to a profit of approx. NIS 18 million, similarly to a profit of approx. NIS 18 million in the same period last year.

Set forth below is a summary of data from Tambour's consolidated statement: (NIS in millions)

	For the three-month period ended		Increase/ Decrease	For the year ended
	March 31, 2014	March 31, 2013		Dec. 31, 2013
	NIS in millions		%	NIS in millions
Revenues	241	231	4%	920
Gross Profit	65	63	3%	251
Operating Profit	20	19	5%	71

Summary of Tambour's business results:

The increase in Tambour's sales derives from all of the main operating segments of Tambour.

Gross profit

Tambour's gross profit amounted, in Q1/2014, to approx. NIS 65 million compared with approx. NIS 63 million in the same period last year, a rise of approx. 3%. The rise mainly derives from improvement in profitability in the domestic paint segment and was partially offset by a decline in profitability in the other operating segments.

The operating profit

The operating profit in Q1/2014 amounted to approx. NIS 20 million, compared with approx. NIS 19 million in the same period last year, an increase of approx. 5%. The increase in the operating profit mainly stems from the rise in the gross profit as aforesaid.

1.11 Note with Regard to Forward-Looking Information

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

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

2.1 **General**

The person in charge of market risk management in the Company is the CFO. As of May 1, 2013, Irit Sekler-Pilosof serves as the Company's CFO, having taken the position *in lieu* of Mr. Bronstein, who serves as the Company's CEO, as of the Report Date. In the quarter ended March 31, 2014, 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, 2013 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, 2014, 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, 2013.

Linkage bases table

See Annex B to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

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

Financial Statement Approval Procedure

The Committee convened on May 19, 2014 to review the financial statements for March 31, 2014 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, with the exception of Ms. Tzipa Carmon participated in the Committee's meeting of May 19, 2014. In addition, Mr. Menachem Einan, Active Deputy Chairman of the Board, Mr. Yuval Bronstein, the Company's CEO, Ms. Irit Sekler-Pilosof, the CFO, the internal auditor Mr. Gali Gana, General Counsel Ms. Michal Kamir, representatives of the Company's auditor and relevant position holders at the Company such as the Company's comptroller, were present at the meeting, at the request of the Committee's chairperson. During the meeting, the Company's CEO and the CFO reviewed the statements and additional issues and answered the Committee members' questions, as necessary.

At the meeting, the Committee discussed, *inter alia*, the financial results, including assessments and estimates made in connection with the financial statements, the internal controls relating to the financial reporting, the integrity and fairness of the disclosure in the financial statements and the manner of presentation of data and comparison thereof with corresponding data in the previous reporting year as well as the deficit in the working capital and the reasons for it not constituting a warning sign. The Committee further discussed the accounting policy adopted in the framework of its financial statements and whether there were changes therein, the accounting treatment that was implemented on the corporation's material affairs, on which data in the financial statements are based.

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

After a discussion was held at the Committee as aforesaid, the Committee's chairperson put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's financial statements for March 31, 2014. The Committee's recommendations were forwarded to the Board members, in preparation for the Board meeting which was held on May 21, 2014.

On May 21, 2014, the Company's Board of Directors, which is the organ responsible for overall control of the Company, approved the Company's financial statements for March 31, 2014. For details regarding the members of the Board of Directors, see Section 26 of Chapter D. of the Company's Periodic Report for 2013. 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 21, 2014. The Board members who were present at the said meeting (including via any media) are: Mr. David Azrieli, Chairman of the Board, Ms. Danna Azrieli, Active Vice Chairman of the Board, Mr. Menachem Einan, Active Deputy Chairman of the Board, Dr. Sharon Azrieli, Director, Dr. Naomi Azrieli, Director, Mr. Joseph Ciechanover, Independent Director, Ms. Tzippa Carmon, Independent Director, Prof. Niv Ahituv (Outside Director) and Mr. Efraim Halevy (Outside Director).

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the financial statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. At the end of the discussion at the Board of Directors, a vote was held during which the Company's financial statements for March 31, 2014 were approved.

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

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

For events and developments in the Report Period and updates to the Description of the Corporation's Business Chapter as of December 31, 2013, see Chapter B of this Report and Note 4 to the financial statements as of March 31, 2014.

4.2 **Report on the Group's liabilities**

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

4.3 **Lawsuits**

For details see Note 3 to the consolidated financial statement for March 31, 2014.

4.4 **Critical accounting estimates**

In the quarter ended March 31, 2014, no changes occurred compared with the description in the Board of Directors' Report for the year ended December 31, 2013.

4.5 **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 2013. The Company has not updated the valuations of its assets in Israel of December 31, 2013. (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, 2013).

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, 2013, was attached to the Company's financial statements as of December 31, 2013, as published on March 23, 2014 (ref. no.: 2014-01-021204), and the Company estimates that no material changes have occurred in this valuation.

As of March 31, 2014, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2013) was in the sum of approx. NIS 4.7 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 17.4 billion (approx. 27% of the Company's total investment properties).

4.6 Subsequent events

See Note 9 to the financial statements.

4.7 Financial figures attributed to the Company as a parent company

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

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

Without qualifying their opinion, the auditors drew attention to the provisions of Note 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.

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, 2014.

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

Date: May 21, 2014

Annex A

The Group's positions in its derivatives
March 31, 2014

Annex A
The Group's Positions in Derivatives
As of March 31, 2014

The Group's positions in derivatives as of March 31, 2014:

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

Below is a specification of the transactions as of March 31, 2014:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
175,000	NIS	April– May 2014	(916)

The maximum holding of derivatives, during the period of the report, of all of the NIS purchase positions was NIS 175,000 thousand.

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

Below is a specification of the transactions as of March 31, 2014:

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
27,600	NIS	2014-2016	637

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

Below is a specification of the engagements as of March 31, 2014:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
187,100	Dollar	NIS	April– July 2014	(3,874)
500	Euro	NIS	April 2014	14

The maximum holding of derivatives, during the report period, of all of the purchase positions for purposes of protection of the dollar-NIS exchange rate was US$188,000 thousand, and of the total purchase positions for purposes of protection of the Euro-NIS exchange rate was €1,000 thousand.

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

Annex B

Reporting according to Linkage Bases

March 31, 2014

(IFRS 7)

Annex B
Reporting according to Linkage Bases
as of March 31, 2014 according to IFRS 7
(NIS thousands)

	As of March 31, 2014					
	Israeli Currency		Foreign Currency		Others	Total
	Non linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	170,815	-	59,592	2,135	-	232,542
Financial assets held for trade	1,105	158	-	-	-	1,263
Short-term deposits and investments	46,516	-	-	-	-	46,516
Trade receivables	1,776,953	4,616	47,875	3,902	-	1,833,346
Accounts receivables	37,796	29,951	42,695	-	85,952	196,394
Inventory	-	-	-	-	423,366	423,366
Current tax assets	-	-	-	-	18,423	18,423
Assets of a disposal group held for sale	295,604	553,845	61,953	147,674	97,044	1,156,120
Total Current assets	2,328,789	588,570	212,115	153,711	624,785	3,907,970
Investments and loans in associates	18,501	12,152	-	-	12,512	43,165
Investments, loans and receivables	46,391	69,872	2,672	-	65,499	184,434
Financial assets	1,650,039	-	20,771	2,813	-	1,673,623
Long-term receivables in respect of a franchise arrangement	-	273,750	-	-	-	273,750
Investment property and investment property under construction	-	-	-	-	17,514,568	17,514,568
Fixed assets	-	-	-	-	1,434,070	1,434,070
Intangible assets	-	-	-	-	483,268	483,268
Pre-paid long-term rent	-	-	-	-	69,182	69,182
Deferred tax assets	-	-	-	-	57,296	57,296
Total Non-Current Assets	1,714,931	355,774	23,443	2,813	19,636,395	21,733,356
Total Assets	4,043,720	944,344	235,558	156,524	20,261,180	25,641,326

(1) Mainly Euro

Annex B
Reporting according to Linkage Bases
as of March 31, 2014 according to IFRS 7
(NIS thousands)
(Contd.)

	As of March 31, 2014					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	2,154,537	379,418	81,139	24,442	-	2,639,536
Trade payables	375,354	12,958	435,068	32,533	-	855,913
Account payables	125,189	27,396	29,702	237	281,473	463,997
Deposits from customers	-	108,305	-	-	-	108,305
Provisions	-	-	-	-	56,732	56,732
Declared dividend	280,000	-	-	-	-	280,000
Liabilities for current taxes	-	-	-	-	72,900	72,900
Liabilities of a disposal group held for sale	195,833	413,506	53,212	132,097	37,570	832,218
Total Current Liabilities	3,130,913	941,583	599,121	189,309	448,675	5,309,601
Non-current liabilities						
Loans from banks and other credit providers	321,187	2,329,412	830,979	-	-	3,481,578
Bonds	-	1,356,911	-	-	-	1,356,911
Employee benefits	-	-	-	-	38,438	38,438
Other liabilities	8,693	43,251	6,085	-	188	58,217
Deferred tax liabilities	-	-	-	-	2,765,679	2,765,679
Total Non-Current Liabilities	329,880	3,729,574	837,064	-	2,804,305	7,700,823
Total Liabilities	3,460,793	4,671,157	1,436,185	189,309	3,252,980	13,010,424
Total Exposure in the Statement of Financial Position	582,927	(3,726,813)	(1,200,627)	(32,785)	17,008,200	12,630,902

(1) Mainly Euro and Pounds Sterling.

Annex C

Financial Statements – expanded Solo
March 31, 2014

Annex C

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS rules, except for the investment in Granite which is presented on the basis of the equity method *in lieu* of consolidation of the reports thereof with the Company's reports (the remaining investments are presented with no change to the report presented pursuant to the IFRS rules). These financial statements do not constitute separate financial statements within the meaning thereof in the IAS 27 and do not constitute separate financial statements pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The reports are not part of the information that is required to be published according to securities laws. However, the Company's management believes that analysts, investors, shareholders and bond holders may receive 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
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	184,407	127,294	376,442
Financial assets held for trade	1,263	281,131	1,211
Trade accounts receivable	30,288	34,292	35,818
Other receivables	47,151	46,145	63,495
Current tax assets	7,873	5,367	6,819
Total Current Assets	270,982	494,229	483,785
Non-Current Assets			
Investment in investee companies	1,344,740	1,226,828	1,311,666
Loans and receivables	65,871	57,567	63,915
Financial assets	1,571,800	1,443,931	1,612,492
Investment property and investment property under construction	17,433,319	15,968,427	17,190,757
Fixed assets	43,627	43,298	42,449
Deferred tax assets	1,343	2,029	1,340
Total Non-Current Assets	20,460,700	18,742,080	20,222,619
Total Assets	20,731,682	19,236,309	20,706,404

Annex C

Extended Standalone Financial Statements

Balance Sheet: Contd.

	As of March 31		As of December 31
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	1,024,691	1,744,303	1,024,679
Trade payables	86,905	48,604	109,054
Payables and other current liabilities	106,992	72,237	119,133
Dividend declared	280,000	265,000	-
Current tax liabilities	61,016	45,147	24,321
Total Current Liabilities	1,559,604	2,175,291	1,277,187
Non-Current Liabilities			
Loans from banks and other credit providers	3,013,091	1,908,417	3,119,643
Bonds	850,118	928,129	914,937
Other liabilities	38,800	39,302	38,553
Employee benefits	14,379	27,928	15,956
Deferred tax liabilities	2,641,097	2,276,862	2,627,195
Total Non-Current Liabilities	6,557,485	5,190,638	6,716,284
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	312,182	239,923	341,181
Retained earnings	9,686,872	9,022,270	9,757,867
Total equity attributed to shareholders of the Parent Company	12,535,292	11,798,431	12,635,286
Not-controlling interests	79,301	71,949	77,647
Total Capital	12,614,593	11,870,380	12,712,933
Total Liabilities and Capital	20,731,682	19,236,309	20,706,404

Annex C

Extended Standalone Financial Statements

Income Statement:

	For the three months period ended March 31		For the year ended December 31
	2014	2013	2013
	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues			
From rent, management and maintenance fees	356,124	351,627	1,421,171
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	(2,227)	(7,788)	427,899
Financing	2,855	8,100	9,392
Share in results of associated companies, net of tax	32,656	32,010	116,431
Other	10,000	6,000	6,004
Total Revenues	399,408	389,949	1,980,897
Costs and Expenses			
Cost of revenues from rent, management and maintenance fees	75,839	74,619	312,449
Sales and Marketing	3,626	1,114	10,509
General and Administrative	18,926	21,836	82,509
Financing	18,688	53,792	207,375
Other	41	-	12
Total Costs and Expenses	117,120	151,361	612,854
Income before income taxes	282,288	238,588	1,368,043
Expenses for taxes on income	(71,468)	(41,213)	(424,241)
Net Profit for the period, including the minority	210,820	197,375	943,802

Part B

Update of the Description Corporation's Business

Azrieli Group

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2013 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a specification of material developments which have occurred in the Company's business during the three months ended March 31, 2014 and until the Report Release Date, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided. In this chapter: the "**Report Release Date**" – May 22, 2014; the "**Date of the Statement of Financial Position**" and the "**Report Date**" –March 31, 2014.

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

Update to Section 1.3.1 of the Description of the Corporation's Business chapter:

Acquisition of Income-Producing Properties

Acquisition of Land for Senior Housing: On May 1, 2014, further to the Company's engagement in an agreement dated February 17, 2014, the Company closed the transaction for the purchase of 100% of the shares of a private company, which has the right to a capitalized long-term lease of land spanning approx. 12,000 sqm situated in the city of Modi'in, on which land a senior housing home may be built, under the currently effective zoning plan. The closing of the transaction was achieved following the satisfaction of all of the conditions precedent set forth in the agreement. See immediate report dated May 1, 2014 (Ref. no. 2014-01-055626).

Update to Section 1.3.2 of the Description of the Corporation's Business chapter:

Class Action regarding the Granite Tender Offer: On March 19, 2014, a hearing took place, wherein, in view of the Court's comments, the Petitioner withdrew his petition for a remedy of revocation of the tender offer and return

[1] As released on March 23, 2014 (Ref. no. 2014-01-021204).

of the shares to trade on TASE. As per the Court's request, the parties are required to file additional summations in connection with the motion for summary dismissal. For further details, see the Company's immediate report of August 8, 2013 (Ref. no.: 2013-01-113148) which is incorporated herein by reference and Note 3B to Chapter C of this report, the financial statements as of March 31, 2014.

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:

On March 24, 2014, Azrieli Holdings transferred to the Azrieli Foundation, a registered charitable foundation, which is domiciled in Canada and whose assets are designated for donations and for financing of philanthropic activity in Israel and in Canada (the "**Azrieli Canada Foundation**") 460,000 Company shares as a donation and for no consideration. Therefore, as of the Report Release Date, Azrieli Holdings holds 55.62% of the Company's share capital (directly and/or indirectly) and approx. 61.31% of the voting rights, the Azrieli Canada Foundation holds 13.68% of the Company's share capital, and the Azrieli Israel Foundation holds 5.69% of the Company's share capital and no voting rights.

For further details, see the Company's immediate reports of March 25, 2014 and May 8, 2014 (Ref. no.: 2014-01-023739, 2014-01-023736 and 2014-01-058983).

3. Dividends

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

On May 7, 2014, the Company paid a dividend to its shareholders. For further details, see Section 1.5 of Chapter A of the Board of Directors' Report.

4. Properties under Construction

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

Azrieli Holon Center

The Company is in advanced negotiations with various entities for lease of tens of thousands of sqm in Phase B of the project, which is currently under construction.

Ramla Mall

As of the Report Release Date, the deadline has expired for submission of objections to the plan for modification of the zoning plan concerning the addition of service areas to the car park and arrangements for the unloading and loading zone. The Company is preparing for the process of the plan's publication in the Official Publications (*Reshumot*).

The Company has engaged with many retail chains with respect to lease of a large part of the areas in the Mall, which is scheduled for opening in March 2015.

Azrieli Rishonim Mall

As of the Report Release Date, an amended basement permit has been obtained. Furthermore, the permit for aboveground construction has been conditionally approved and the Company is acting to fulfill the conditions.

The Company is in advanced negotiations with various entities for lease of tens of thousands of sqm in the project.

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

5. Developments 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
Property value (NIS in thousands)	2,718,246	2,718,246
NOI in the period (NIS in thousands)	50,555	196,703
Revaluation profit in the period (NIS in thousands)	-	128,440
Average occupancy rate in the period (%)	~100%	~100%
Rate of return (%)	7.4%	7.2%
Average rent per sqm per month (NIS) (**)	96	96
Average rent per sqm per month in contracts signed in the period (NIS)	120	114

(*) The corporation's share in the property – 99.1%. The remaining rights in the property are held by the Azrieli Foundation (Israel) R.A.;
(**) The figure does not include the rent of the hotel which is located in the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month in Q1/2014 would have amounted to approx. NIS 93 per sqm, and in 2013 approx. NIS 93 per sqm.

The valuation for this property and details of the valuation were published in the Company's financial statements as of December 31, 2013.

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

Update to Sections 18.3 and 18.4 of the Description of the Corporation's Business chapter

Engagement in a Loan Agreement – Financing of the Ramla Mall

On May 21, 2014, for the purpose of financing its current operations and its investments, the Company entered into a loan agreement with several companies of the group of an institutional body, which is not related to the Company or to the controlling shareholders thereof, for receipt of a loan in the amount of NIS 300 million. For further details, see Section 1.1 of Chapter A of the Board of Directors' Report.

7. Commercial Paper

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

The end of June 2014 will see the expiration of a series of rated commercial paper issued by the Company in 2009 in the amount of approx. NIS 222 million. The Company is acting to refinance this series through a private placement of new series of commercial paper, according to current market conditions.

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

Update to Section 18.5 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. As of the Report Date, the balance of the par value of the Series A Bonds of the Company in circulation is NIS 481 million.

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

Update to Section 18.6 of the Description of the Corporation's Business chapter:

In the Report Period, principal and interest payments were made in accordance with their payment schedules. As of the Report Date, the balance of the par value of the Series A Bonds of Canit Hashalom in circulation is approx. NIS 301 million.

10. 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, 2014 and this report.

Part C

Consolidated Financial Report
Dated 31 March, 2014

Azrieli Group

-

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2014

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

Deloitte.
Brightman Almagor Zohar

Review report of the Auditors to the shareholders of
<u>Azrieli Group Ltd</u>.

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, 2014 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the period of three months then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of a consolidated company whose consolidated assets constitute approx. 23.2% of all the consolidated assets as of March 31, 2014, and whose consolidated revenues constitute approx. 82.4% of all the consolidated revenues for the period of three months then ended. The condensed financial information for the interim period 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, attention is drawn to Note 3 regarding legal claims in 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 21, 2014

TEL AVIV - MAIN OFFICE	RAMAT GAN	JERUSALEM	HAIFA	BEER SHEVA	EILAT
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Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of March 31		As of December 31,
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	232,542	193,640	460,984
Financial assets held for trade	1,263	318,255	5,988
Short-term deposits and investments	46,516	96,341	50,294
Trade accounts receivable	1,833,346	1,837,684	1,739,160
Other receivables	196,394	197,666	195,702
Inventory	423,366	462,102	424,201
Current tax assets	18,423	18,547	17,000
	2,751,850	3,124,235	2,893,329
Assets of disposal group held for sale	1,156,120	-	1,135,682
Total Current Assets	3,907,970	3,124,235	4,029,011
Non-current Assets			
Investments and loans in associated companies	43,165	41,815	48,009
Investments, loans and receivables	184,434	248,214	189,004
Financial assets	1,673,623	1,539,761	1,714,568
Long-term receivables in respect of franchise arrangement	273,750	918,976	260,178
The Fuel Administration	-	126,279	-
Investment property and investment property under construction	17,514,568	16,057,291	17,273,315
Fixed assets	1,434,070	1,393,960	1,424,219
Intangible assets	483,268	531,034	484,797
Pre-paid long-tern rent	69,182	43,686	72,751
Deferred tax assets	57,296	51,512	56,572
Total Non-current Assets	21,733,356	20,952,528	21,523,413
Total Assets	25,641,326	24,076,763	25,552,424

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
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current Liabilities			
Credit from banks and other credit providers	2,639,536	3,414,552	2,566,712
Trade payables	855,913	804,895	890,379
Trade and other payables	463,997	427,986	517,217
Deposits from customers	108,305	107,568	109,289
Provisions	56,732	33,760	58,940
Declared dividend	280,000	265,000	-
Current tax liabilities	72,900	61,659	35,025
	4,477,383	5,115,420	4,177,562
Assets of disposal group held for sale	832,218	-	794,615
Total Current Liabilities	5,309,601	5,115,420	4,972,177
Non-current Liabilities			
Loans from banks and other credit providers	3,481,578	3,064,564	3,563,352
Bonds	1,356,911	1,486,138	1,440,967
Employee benefits	38,438	59,701	41,155
Other liabilities	58,217	61,390	58,210
Deferred tax liabilities	2,765,679	2,405,951	2,746,544
Total Non-current Liabilities	7,700,823	7,077,744	7,850,228
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	312,182	239,923	341,181
Retained earnings	9,686,872	9,022,270	9,757,867
Total Equity Attributed to the Shareholders of the Parent Company	12,535,292	11,798,431	12,635,286
Non-controlling interests	95,610	85,168	94,733
Total Capital	12,630,902	11,883,599	12,730,019
Total Liabilities and Capital	25,641,326	24,076,763	25,552,424

May 21, 2014			
Date of approval of the financial statements	**David Azrieli** **Chairman of the Board**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **CFO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the period of three months ended March 31		For the year ended Dec. 31
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
Revenues			
From sales, labor and services	1,683,930	1,877,734	7,362,280
From rent and management and maintenance fees	359,096	354,566	1,433,324
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(3,615)	(8,899)	424,657
Financing	16,597	24,825	95,171
Other	16,716	6,391	21,785
Total revenues	2,072,724	2,254,617	9,337,217
Costs and Expenses			
Costs of revenues from sales, labor and services	1,383,582	1,572,119	6,111,505
Costs of revenues from rent, management and maintenance fees	77,735	76,416	320,472
Sales and marketing	200,723	196,631	803,934
General and administrative	54,002	52,909	239,836
Share in results of associated companies, net of tax	1,727	1,688	6,179
Financing	52,536	105,938	442,388
Other	3,077	188	3,847
Total Costs and Expenses	1,773,382	2,005,889	7,928,161
Income before income taxes	299,342	248,728	1,409,056
Taxes on income	(88,522)	(51,353)	(465,254)
Net profit for the period	210,820	197,375	943,802
Other comprehensive income:			
Amounts that will not be classified in the future to profit or loss, net of tax:			
Actuarial profit due to defined benefit plan, net of tax	-	-	177
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	(32,367)	7,993	138,114
The effective share of the change in the fair value of the cash flow hedge, net of tax	(129)	(476)	(555)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	259	821	1,386
Translation differences from foreign operations	3,377	(14,450)	(45,249)
Total	(28,860)	(6,112)	93,696
Other comprehensive income (loss) for the period, net of tax	(28,860)	(6,112)	93,873
Total comprehensive income for the period	181,960	191,263	1,037,675

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 period of three months ended March 31		For the year ended Dec. 31
	2014	2013	2013
	NIS thousands		NIS thousands
	(Unaudited)		
Net income for the period attributed to:			
Shareholders of the parent company	209,005	194,122	929,549
Non-controlling interests	1,815	3,253	14,253
	210,820	197,375	943,802
Total comprehensive income for the period attributed to:			
Shareholders of the parent company	180,007	188,687	1,025,515
Non-controlling interests	1,953	2,576	12,160
	181,960	191,263	1,037,675
	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributed to shareholders of the parent company	1.72	1.60	7.66
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 period of three months 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 the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(128)	-	(128)	(1)	(129)
Net change in the fair value of the cash flow hedge that was 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 period of three months ended March 31, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net profit for the period	-	-	-	-	-	-	-	194,122	194,122	3,253	197,375
Change in fair value of financial assets available for sale, net of tax	-	-	7,993	-	-	-	-	-	7,993	-	7,993
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(472)	-	(472)	(4)	(476)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	814	-	814	7	821
Translation differences from foreign operations	-	-	-	(13,770)	-	-	-	-	(13,770)	(680)	(14,450)
Total comprehensive income for the period	-	-	7,993	(13,770)	-	-	342	194,122	188,687	2,576	191,263
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Capital reserve for transactions with related parties	-	-	-	-	(96)	-	-	-	(96)	96	-
Total transactions with shareholders of the Company	-	-	-	-	(96)	-	-	(265,000)	(265,096)	96	(265,000)
Balance as of March 31, 2013	18,223	2,518,015	281,636	(29,407)	(31,008)	21,375	(2,673)	9,022,270	11,798,431	85,168	11,883,599

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, 2013

	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net income for the year	-	-	-	-	-	-	-	929,549	929,549	14,253	943,802
Change in the fair value of financial assets available for sale, net of tax	-	-	138,090	-	-	-	-	-	138,090	24	138,114
Actuarial profit due to defined benefit plan, net of tax	-	-	-	-	-	-	-	170	170	7	177
Translation differences from foreign operations	-	-	-	(43,118)	-	-	-	-	(43,118)	(2,131)	(45,249)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(550)	-	(550)	(5)	(555)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	1,374	-	1,374	12	1,386
Total comprehensive income for the year	-	-	138,090	(43,118)	-	-	824	929,719	1,025,515	12,160	1,037,675
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Issue of warrants for shares in a consolidated company	-	-	-	-	-	-	-	-	-	8	8
Capital reserve for transactions with related parties	-	-	-	-	(69)	-	-	-	(69)	69	-
Total transactions with shareholders of the Company	-	-	-	-	(69)	-	-	(265,000)	(265,069)	77	(264,992)
Balance as of Dec. 31, 2013	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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the period of three months ended March 31		For the year ended December 31
	2014	2013	2013
	NIS thousands		
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	210,820	197,375	943,802
Depreciation and amortization	34,959	34,276	139,348
Impairment of financial assets available for sale	253	-	-
Net loss (profit) from adjustment to fair value of investment property and investment property under construction	3,615	8,899	(424,657)
Financing and other expenses, net	16,600	72,891	359,858
Loss (profit) from liquidation of fixed assets, investment property and intangible assets, net	(2,412)	162	(2,227)
Share in losses of associated companies accounted by the equity method	1,727	1,688	6,179
Change in recording of benefit in respect of share-based payment	108	2,943	11,605
Tax expenses recognized in the income statement	88,522	51,353	465,254
Change in financial assets	(133)	163,483	460,181
Profit from realizing investments in financial assets available for sale	-	-	(1,878)
Income taxes paid, net	(20,352)	(19,110)	(136,930)
Burnout of balance of the Fuel Administration	-	2,851	7,745
Burnout (revaluation) of financial assets designated at fair value through profit and loss	(1,996)	(164)	124
Change in inventory	844	35,835	73,631
Change in trade accounts and other receivables	(105,800)	(78,564)	(34,168)
Change in receivables in respect of franchise arrangement	(92)	(63,769)	(286,253)
Change in trade and other payables	(66,355)	9,933	108,653
Change in provisions and employee benefits	(3,735)	1,987	(1,051)
Net cash - current operations	156,573	422,069	1,689,216

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows (Continued)

	For the period of three months ended March 31		For the year ended December 31
	2014	2013	2013
	NIS thousands		
	(Unaudited)		
Cash flows - Investment Activities			
Proceeds from liquidation of fixed and intangible assets	6,307	560	16,586
Proceeds from liquidation of investment property	2,174	1,980	44,683
Change in balance of the Fuel Administration	-	-	117,455
Down payments on account of investment property	(51,862)	(11,672)	(202,017)
Purchase of and investment in investment property and investment property under construction	(194,022)	(128,543)	(665,755)
Purchase of fixed and intangible assets	(49,831)	(48,952)	(245,491)
Investment in and granting of loans to associated companies	(2,876)	(1,143)	(8,997)
Change in short-term deposits	3,778	(5,926)	39,759
Change in restricted investments	(24,282)	(10)	(3,743)
Payment for settlement of derivative financial instruments, net	(3,005)	(17,806)	(58,843)
Investment in financial assets available for sale	-	-	(2,005)
Change in financial assets designated at fair value through profit and loss	35	617	1,157
Realization of marketable securities, net	4,823	-	-
Granting of long-term loans	(1,319)	(900)	(11,333)
Collection of long-term loans (including from associated companies)	9,724	5,694	13,848
Interest and dividend received	24,664	14,126	59,934
Proceeds from liquidation of financial assets available for sale	1,716	1,767	5,024
Institutions for purchase of property	-	16,546	5,638
Net cash - investment activities	(273,976)	(173,662)	(894,100)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows
(Continued)

	For the period of three months ended March 31		For the year ended December 31
	2014	2013	2013
	NIS thousands		
	(Unaudited)		
Cash flows - Financing Activity			
Distribution of a dividend to shareholders	-	-	(265,000)
Repayment of bonds	(67,631)	(66,131)	(187,086)
Receipt of long-term loans from banks and others	106,891	49,980	1,683,482
Repayment of long-term loans from banks	(141,147)	(128,210)	(1,500,070)
Short-term credit from banks and others, net	62,884	(2,637)	131,121
Repayment of deposits from customers	(346)	(901)	(2,915)
Deposits from customers that were received	831	411	1,350
Payment for settlement of derivatives used for cash flow hedging	(33)	(179)	(709)
Dividend to holders of non-controlling interests	(1,077)	(1,470)	(1,470)
Interest paid	(72,240)	(87,355)	(345,530)
Cash, net - Financing Activity	(111,868)	(236,492)	(486,827)
Increase (decrease) in cash and cash equivalents	(229,271)	11,915	308,289
Cash and cash equivalents at beginning of the period	460,984	182,818	182,818
Change in net cash classified into disposal group held for sale	783	-	(27,895)
Effect of exchange rate changes on cash balances held in foreign currency	46	(1,093)	(2,228)
Cash and cash equivalents at end of the period	232,542	193,640	460,984

(*) Non-cash activities include other payables for dividend in the sum of NIS 280,000 thousands (March 31, 2013 – NIS 265,000 thousands), other payables for acquisitions with credit of non-current assets in the sum of NIS 57,954 thousands (March 31, 2013 – NIS 15,965 thousands, December 31, 2013 – NIS 71,115 thousands) and other liabilities for work in the sum of NIS 52,000 thousands (December 31, 2013 – NIS 55,000 thousands).

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

Note 1 – General

Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled, which was incorporated in Israel and whose registered address is Azrieli Center 1, Tel Aviv. The Company is traded on the TASE and is included in the "Tel Aviv 25" index. The Group's consolidated financial statements as of March 31, 2014 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associates and in entities under common control.

During the Report Period, Azrieli Holdings Inc., the Company's controlling shareholder ("Azrieli Holdings") contributed 7,362,000 ordinary shares of par value NIS 0.1 each, consisting of approx. 6.07% of the Company's issued capital. For further details, see Notes 4B and 4C.

As of the Report Release Date, Azrieli Holdings holds directly and/or indirectly through its holdings in the entire share capital of Nadav Investments Inc. (the "Parent Company") approx. 55.62% of the Company's share capital and approx. 61.31% of the Company's voting rights (until the issuance of the Company, the Company was held at the rate of 100%). Both companies are private companies incorporated under the Canadian law, which are (directly and/or indirectly) wholly owned and controlled by Mr. David Azrieli, the Chairman of the Board of the Company. David Azrieli holds, directly and indirectly, approx. 47% of the issued share capital of Azrieli Holdings, and his four children hold, directly and indirectly, the remaining share capital.

These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2013, and for the year then ended, and the notes accompanied thereto.

Note 2 – Significant Accounting Principles

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

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

In the preparation of these Interim Financial Statements the Group has implemented the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of the financial statements as of December 31, 2013 and for the year then ended, except for changes in the accounting policy deriving from the implementation 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.

Note 2 – Significant Accounting Principles (Contd.)

b. Use of estimates and discretion:

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

The evaluations and discretion that the management used in order to implement the accounting policy and the preparation of consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2013.

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

- **Amendment IAS 32 "Financial Instruments: Presentation" (regarding setting off financial assets and financial liabilities)**

  The amendment determined that in order to comply with the terms of a financial asset and a financial liability setoff, the setoff right cannot be contingent upon a future event and must be enforceable within the ordinary course of business, in case of bankruptcy, insolvency or credit failure. Furthermore, the net settlement condition may be fulfilled also when the settlement is actually carried out in gross, but in a manner which does not leave significant credit or liquidity risks, when the receivable amounts and the payable amounts are part of a single settlement process. The amendment was retroactively implemented to annual reporting periods commencing on January 1, 2014 or thereafter.

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

- **Amendment to IAS 36 "Impairment of Assets" (regarding disclosures as to a recoverable amount)**

  The amendment clarifies the applicability and extent of the required disclosure requirements for assets (including goodwill) or cash-producing units, due to which impairment was recognized (or reversed), and also determines that the required disclosures for such assets or cash-producing units, the recoverable amount of which was determined based on their fair value, shall be similar in nature to the disclosures required for fair value measurements according to IFRS 13 "Fair Value Measurement".

  In the financial statements as of December 31, 2013, the Amendment to IAS 36 was early implemented.

Note 2 – Significant Accounting Principles (Contd.)

- **IFRIC 21 "Levies"**

  The interpretation determines the date of recognition of a liability due to a levy imposed by legislation (with the exception of taxes on income or fines). A levy payment liability shall only be recognized at the time of occurrence of the "Obligating Event", in accordance with the provisions of the relevant legislation. The "Obligating Event" is the activity that causes the payment of the levy. When the Obligating Event takes place over a certain period of time, the liability shall be recognized gradually over the same period. The interpretation is retroactively implemented with respect to reporting periods commencing January 1, 2014.

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

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 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
	(1 euro = NIS)	**(1 USD = NIS)**	**Basis 1993**	**Basis 1993**
Date of the financial statements:				
As of March 31, 2014	4.8124	3.487	222.70	222.05
As of March 31, 2013	4.661	3.648	219.86	219.42
As of December 31, 2013	4.782	3.471	223.80	223.58
Rates of change for the period of three-month ended:	**%**	**%**	**%**	**%**
March 31, 2014	0.64	0.46	(0.49)	(0.68)
March 31, 2013	(5.28)	(2.28)	0.03	0.01
For the year ended				
December 31, 2013	(2.82)	(7.02)	1.82	1.91

Note 3 – Contingent liabilities

Following are details regarding new claims received, claims which have ended and significant changes in claims, if any. In the remainder of the claims there was no significant change since the audited financial statements as of December 31, 2013 (see Note 34 to the annual financial statements).

a. Claims against Sonol by IDF disabled veterans who operate gasoline stations as part of an arrangement between the disabled veterans and the Ministry of Defense, the Israel Lands Administration and the fuel companies:

The parties	Amount of claim	Nature of claim	Prospects of claim
5 claims against Sonol	The claims are for declaratory relief and a monetary remedy amounting to approx. NIS 80 million.	5 claims by IDF disabled veterans (one of which by the heirs of an IDF disabled veteran) who received operating rights for gasoline stations as part of an arrangement between the disabled veterans and the Rehabilitation Department of the Ministry of Defense, the Israel Lands Administration/ a local authority and the fuel companies (the "Plaintiffs"), for termination of the agreements between the Plaintiffs and Sonol, alleging that they involve a restrictive arrangement, which is prohibited under the Restrictive Trade Practices Law. In addition, in some of the said claims, it is alleged that the series of agreements between the parties includes discriminatory conditions in a standard form contract, bad faith and discrimination against the Plaintiffs relative to other gasoline stations. Monetary compensation is also claimed in respect of alleged overcharging as a result of restrictive arrangements and/or overpricing and price discrimination and discrimination in commercial conditions.	In the Company's estimation, based on the estimation of Granite's management, based on Sonol's legal counsel, the chances of the claims are higher than 50%. With respect to one claim, during the Report Period a judgment was awarded whereby Sonol was required to pay an insignificant amount, and with respect to the remaining claims, the Company estimates, based on the estimation of Granite's management, based on Sonol's legal counsel, that the court will not award the Plaintiffs the full monetary remedy requested. In the Company's estimation, based on the estimation of Granite's management, the financial statements include sufficient provision.

Note 3 – Contingent liabilities (Contd.)

b. Class actions

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company	In case it is not certified as class action – NIS 4,561. Should it be certified as class action only in relation to the class of offerees whose shares were force purchased – approx. NIS 18 million. Should it be certified as class action in relation to the class of all the offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Division in the Tel Aviv District Court by a petitioner 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 to summarily dismiss the motion as well as its response to the motion and the hearing was scheduled for March 2014. At the hearing, in light of the Court's comment, the Petitioner withdrew his request for the remedy of revocation of the tender offer and re-listing of the shares. As per the Court’s request, the parties are required to file additional summations regarding the motion for summary dismissal. In the Company’s management estimation, based on its legal counsel, at this preliminary stage, the chances of the claim cannot be estimated.

Note 3 – Contingent liabilities (Contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and other fuel companies	Claim in a total sum of approx. NIS 30 million (without indicating the defendant's share).	In April 2014 a claim and a motion for class certification were filed against Sonol and other fuel companies alleging that the companies do not indicate the prices of the ice cream products on their packages in the convenience stores and thus violated their duty pursuant to the Consumer Protection Law requiring price labelling on goods.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Sonol's legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.
3. Claim against Supergas	Claim in a total sum of approx. NIS 40 million.	In March 2014, a claim and a motion for class certification were filed against Supergas. The amount of claim is NIS 40 million. The claim concerns an alleged unlawful and/or contrary to agreement collection of monies by Supergas, whereby Supergas increases gas the rates per cubic meter and the fixed usage fees, without detailing the manner of calculation and/or informing the customers of such price rise. In addition, it was alleged in the claim that Supergas increases prices to which it committed in the context of discount agreements with the petitioners, contrary to the agreements and without informing the petitioners of the price rise in advance and/or retroactively.	In the Company's estimation, based on the estimation of Granite's management, in reliance on Supergas' legal counsel, at this stage of the proceeding, the chances of the claim cannot be estimated.

Note 3 – Contingent liabilities (Contd.)

c. 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 6 million.	In April 2012, a monetary claim was filed against Sonol, alleging that Sonol breached the lease agreement entered into between Sonol and the plaintiff and in order to reduce the damages the plaintiff was forced to engage with another company on terms that are less favorable.	In the framework of a mediation agreement that was sanctioned as a judgment, Sonol was ordered to pay the plaintiff an insignificant amount.
2. Proceeding against a subsidiary of Sonol	A claim for liquidation of a subsidiary of Sonol.	Petition for liquidation and a petition for appointment of a provisional liquidator against a subsidiary of Sonol due to a monetary charge that was determined in a judgement from which Sonol's subsidiary filed an appeal with the Supreme Court.	In view of the preliminary stage of the proceeding, the chances cannot be estimated at this stage.
3. Indictments against Supergas and third parties	Criminal.	In October 2013, the Ministry of National Infrastructures, Energy and Water Resources filed three indictments against Supergas and other parties alleging violation of laws and deficiencies.	In the framework of an arrangement between Supergas and the State, one of the indictments was omitted; in the second indictment a fine in an insignificant amount was determined without a conviction of Supergas; and in third indictment Supergas will be convicted and pay an insignificant fine.

Note 3 – Contingent liabilities (Contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
4. 2 consolidated companies of the Company	Claim for bodily injury totalling NIS 10 million	An argument of alleged liability of the companies in relation to acts of suicide.	After the Date of the Statement of Financial Position, on April 8, 2014, the Supreme Court dismissed the appeal from the judgement of the District Court which had also dismissed the claim against the companies.

d. Additional claims (mostly legal and in insignificant 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 Granite's Group, based on estimations of Granite's management), the provisions that were recorded to settle the outcome of the abovementioned claims are fair.

Note 4 – Significant events during the Report Period

a. On March 18, 2014, the Company's board of directors decided upon the distribution of a dividend in the sum of NIS 280 million (reflecting NIS 2.31 per share), which was paid on May 7, 2014.

b. On March 13, 2014, a donation agreement (the **"**Donation Agreement**"**) was executed between Azrieli Holdings Inc., the Company's controlling shareholder (**"**Azrieli Holdings**"**) and the Azrieli Foundation (Israel) R.A., a non-profit association registered in Israel, which operates *inter alia* for the advancement of education and culture through cultural, welfare and science projects (the **"**Azrieli Foundation Israel**"**).

Pursuant to the terms and conditions of the Contribution Agreement, Azrieli Holdings gave a donation to the Azrieli Foundation Israel, without consideration, which includes 6,902,000 ordinary shares of NIS 0.1 par value each of the Company (the **"**Donation Shares**"**), constituting about 5.69% of the Company's issued capital.

In accordance with the provisions of the Donation Agreement, the Donation Shares' donation to the Azrieli Foundation Israel was made subject to the following 3 conditions:

1. The Azrieli Foundation Israel must hold the Donation Shares, not transfer them and not effect any other disposition with them for a period of at least 10 years from the date of the Donation Agreement's execution (the **"**Restriction Period**"**); At the end of such Restriction Period, any transfer of the Donation Shares by the Azrieli Foundation Israel shall require a resolution passed by a special majority of at least 75% of the members of the Committee (or any other organ, as required), who are entitled to participate in the vote on this resolution (**"**Special Approval**"**).

2. At the end of the Restriction Period and subject to receipt of such Special Approval, any future transfer of the Donation Shares shall be subject to a right of first refusal in favor of Azrieli Holdings.

3. All the voting rights by virtue of the Donation Shares shall remain held by Azrieli Holdings and the Azrieli Foundation Israel to such end signed the necessary powers of attorney. In the event of a future sale of the Donation Shares by the Azrieli Foundation Israel, the voting rights in the Donation Shares shall be transferred to the purchaser.

In consequence of the Donation Shares' receipt, the Azrieli Foundation Israel had become an interested party, as such term is defined in the Securities Law, 5728-1968 (the **"**Securities Law**"**), in the Company.

Note 4 – Significant events during the Report Period (Contd.)

c. On March 24, 2014, Azrieli Holdings transferred to The Azrieli Foundation, a foundation registered for charitable purposes, whose residence is in Canada and whose assets are designated to donations and funding philanthropic activity in Israel and Canada (the "Azrieli Foundation Canada"), 460,000 shares of the Company, as a donation and without consideration, constituting about 0.38% of the Company's issued capital. After the shares' transfer, the Azrieli Foundation Canada holds 13.68% of the Company's share capital.

d. On February 17, 2014 the Company entered into an agreement with unrelated third parties (the **"**Agreement**"** or the **"**Transaction**"**) for the purchase of 100% of the shares of a private company (the **"**Acquired Company**"**), which has the right (subject to payment of lease fees) to a capitalized lease of about 12 dunams situated in the town of Modi'in, on which, pursuant to the valid zoning plan, a senior housing facility may be constructed.

In consideration for the Acquired Company's shares, the Company shall pay (including by way of providing a shareholders' loan to the Company) overall consideration in a sum of about NIS 51.5 million (plus VAT, insofar as applicable). Part of the consideration is designated for use by the Acquired Company to make various payments required by the Acquired Company in the scope of the land's lease by the Acquired Company from the Israel Land Authority.

The Transaction's completion is subject to conditions precedent. After the Date of the Statement of Financial Position, on May 1, 2014, the Transaction was completed after all the conditions precedent stipulated in the Agreement were fulfilled.

Note 5 – Disposal group classified as held for sale

On December 25, 2013, a consolidated company engaged in an MOU with an unrelated third party, whereby it will sell all of its rights in Via Maris Desalination (Holdings) Ltd. ("Via Maris") which holds a desalination plant in Palmachim (the "Desalination Plant"), in consideration for approx. NIS 440 million, subject to adjustments. The closing of the transaction shall be subject to the signing of a binding agreement between the parties and the fulfillment of conditions precedent, *inter alia*: the performance of due diligence by the buyer and receipt of the required approvals from third parties to the transaction, including regulatory approvals.

To clarify, the signing is of an MOU and there is no certainty that a binding agreement will be signed or that the above-described transaction will be closed, and it is possible that the agreement which will be signed (if signed) will include provisions that are different from the aforesaid. However, the Company estimates that it is highly likely that its holding in Via Maris will be sold in the course of the coming year.

Consequently, the assets and liabilities of Via Maris are presented in the financial statements as a disposal group held for sale.

Note 5 – Disposal group classified as held for sale (Contd.)

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

	As of March 31 2014	As of December 31 2 0 1 3
	NIS in thousands	NIS in thousands
Assets:		
Cash and cash equivalents	27,112	27,895
Marketable securities	16,559	16,524
Short-term deposits and investments	413	418
Trade accounts receivable	57,711	39,236
Other receivables	9,965	13,266
Current tax assets	129	4,654
Long-term investments and loans	3,869	3,926
Restricted investments	77,726	53,332
Receivables in respect of a franchise arrangement	897,779	911,467
Fixed assets, net	14,508	14,583
Intangible assets, net	49,431	49,482
Deferred tax assets	918	899
	1,156,120	1,135,682
Liabilities:		
Trade payables	9,163	14,282
Other payables	25,611	15,324
Liabilities to banks	759,584	727,619
Other long-term liabilities	1,775	1,723
Deferred tax liabilities	36,085	35,323
	832,218	794,615
Assets of disposal groups classified as held for sale, net	323,902	341,067

Note 5 – Disposal group classified as held for sale (Contd.)

b. Fair value:

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

	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 a 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, 2013		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of a franchise arrangement	911,467	1,033,671	Cap rate of 3.61%
Liabilities to banks	727,619	761,761	Cap rate of 3.51%

Note 6 - 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, 2014		As of March 31, 2013		As of December 31, 2013	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:						
Loans to customers and others (*)	95,437	92,388	115,817	111,419	108,312	101,348
Receivables in respect of a franchise arrangement (including current maturities)	286,950	312,874	962,153	1,109,722	273,170	304,142
	382,387	405,262	1,077,970	1,221,141	381,482	405,490
Non-current liabilities:						
Loans from banks and other credit providers (*)	3,986,668	4,196,281	4,517,518	4,794,326	4,066,744	4,250,525
Bonds (*)	1,510,952	1,704,808	1,675,786	1,862,790	1,583,756	1,779,061
	5,497,620	5,901,089	6,193,304	6,657,116	5,650,500	6,029,586
Surplus of liabilities over assets	(5,115,233)	(5,495,827)	(5,115,334)	(5,435,975)	(5,269,018)	(5,624,096)

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

Note 6 - 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 December 31
	2014	2013	2013
	%	%	%
Non-current assets:			
Loans to customers and others	4.1-6	3.7-6	4.3-6
Receivables in respect of a franchise arrangement	4.7-5	3.4-5.3	4.6-5
Non-current liabilities:			
Loans from banks and other credit providers	0.4-9	0.32-5.9	0.4-5.7
Bonds	(0.05)-1.6	0.8-2.7	0.4-2.7

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 have been defined as follows:

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

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

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

Note 6 - Fair value (Contd.)

c. 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 trade:				
Securities	1,263	-	-	1,263
Derivatives used for hedging:				
Interest rate Swap	-	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
Forward contracts on foreign exchange	-	3,860	-	3,860
Total financial liabilities	-	4,776	-	4,776

Note 6 - Fair value (Contd.)

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

	As of March 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trade:				
Securities	318,255	-	-	318,255
Restricted investments	48,839	-	-	48,839
Derivatives not used for hedging:				
Forward contracts	-	251	-	251
Derivatives used for hedging:				
Interest rate Swap	-	945	-	945
Financial assets available for sale:				
Marketable shares	907,167	-	-	907,167
Non-marketable shares	-	-	612,923	612,923
Financial assets designated at fair value through profit and loss				
Marketable shares	1,130	-	-	1,130
Non-marketable investments	-	18,541	-	18,541
Total financial assets	1,275,391	19,737	612,923	1,908,051
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	8,543	-	8,543
Derivatives used for hedging:				
Interest rate Swap	-	538	-	538
Embedded derivatives	-	-	497	497
Total financial liabilities	-	9,081	497	9,578

Note 6 - Fair value (Contd.)

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

	As of December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**	**NIS in Thousands**
Financial assets held for trade:				
Securities	5,988	-	-	5,988
Derivatives not used for hedging:				
Forward contracts	-	196	-	196
Derivatives used for hedging:				
Interest rate Swap	-	778	-	778
Financial assets available for sale:				
Marketable shares	1,001,688	-	-	1,001,688
Non-marketable shares	-	-	692,389	692,389
Financial assets designated at fair value through profit and loss				
Marketable shares	33	-	-	33
Non-marketable investments	-	18,774	-	18,774
Total financial assets	1, 007,709	19,748	692,389	1,719,846
Financial liabilities:				
Forward contracts on CPI not used for hedging	-	297	-	297
Forward contracts on foreign exchange not used for hedging	-	7,622	-	7,622
Total financial liabilities	-	7,919	-	7,919

Note 6 - Fair value (Contd.)

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

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

	For the three months period ended		For the year ended
	March 31,		December 31,
	2014	2013	2013
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(unaudited)		
Financial assets available for sale:			
Balance as of beginning of the year	692,389	612,923	612,923
Total profits (losses) recognized:			
in other comprehensive income	-	-	77,927
in the income statement	(253)	-	1,878
Sales	-	-	(2,111)
Investments	-	-	1,772
Carried to level 3	-	-	-
	692,136	612,923	692,389

Note 7 – Segment reporting

a. General:

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

The Company's business activity focuses primarily on the income-producing property segment, where most the Group's business activity is in the retail centers and malls segment, primarily in Israel, and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (office space for lease). In addition, the Company is engaged, through its (indirect) holding in Sonol Israel Ltd., also in an another operating segment, which includes oil distillates via direct marketing and fuelling and retail complexes as well as through its (indirect) holding in Tambour Ltd., in an operating segment that includes the paint, finishing and construction. In addition, the Company has other businesses such as water and other wastewater (thorough its holding in Granite Hacarmel Investments Ltd.).

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.
Segment E – Tambour.

Note 7 – Segment reporting (Contd.)

b. Operating segments:

	For the period of three months 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	Tambour	Other	Consolidated
	NIS in thousands						
Revenues:							
Total external income	218,397	93,186	43,662	1,196,235	241,021	250,525	2,043,026
Total segment expenses	40,596	15,203	20,026	1,179,521	222,988	215,156	1,693,490
Segment profit (NOI)	177,801	77,983	23,636	16,714	18,033	35,369	349,536
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	398	(2,817)	191	-	-	(1,387)	(3,615)
Unallocated costs							(22,552)
Financing expenses, net							(35,939)
Other revenues, net							13,639
The Company's share in results of associates, net of tax							(1,727)
Income before income taxes							299,342
Additional information:							
Segment assets	10,193,618	5,721,213	1,528,182	2,395,546	1,062,698	2,847,639	23,748,896
Unallocated assets (*)							1,892,430
Total consolidated assets							25,641,326

(*) Mainly financial assets available for sale in the sum of approx. NIS 1,551 million.

Note 7 – Segment reporting (Contd.)

b. Operating segments: (Contd.)

	For the period of three months ended March 31, 2013 (unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Tambour	Other	Consolidated
	NIS in thousands						
Revenues:							
Total external income	217,621	88,593	44,529	1,343,592	230,640	307,325	2,232,300
Total segment expenses	41,047	15,102	18,454	1,320,017	212,720	267,788	1,875,128
Segment profit (NOI)	176,574	73,491	26,075	23,575	17,920	39,537	357,172
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	426	(4,169)	(4,045)	-	-	(1,111)	(8,899)
Unallocated costs							(22,947)
Financing expenses, net							(81,113)
Other revenues, net							6,203
The Company's share in results of associates, net of tax							(1,688)
Income before income taxes							248,728
Additional information:							
Segment assets	9,652,992	4,837,244	1,535,241	2,531,175	1,070,248	2,465,860	22,092,760
Unallocated assets (*)							1,984,003
Total consolidated assets							24,076,763

(*) Mainly financial assets held for trade in the sum of approx. NIS 281 million and financial assets available for sale in the sum of approx. NIS 1,424 million.

Note 7 – Segment reporting (Contd.)

b. Operating segments: (Contd.)

	For the year ended December 31, 2013 (audited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Tambour	Other	Consolidated
	NIS in thousands						
Revenues:							
Total external income	873,267	365,195	179,163	5,308,761	920,284	1,148,934	8,795,604
Total segment expenses	167,933	64,182	80,273	5,206,844	854,705	1,008,792	7,382,729
Segment profit (NOI)	705,334	301,013	98,890	101,917	65,579	140,142	1,412,875
Net income from adjustment of fair value of investment property and investment property under construction	183,874	175,014	69,011	(450)	-	(2,792)	424,657
Unallocated costs							(93,018)
Financing expenses, net							(347,217)
Other revenues, net							17,938
The Company's share in results of associated companies, net of tax							(6,179)
Income before income taxes							1,409,056
Additional information:							
Segment assets	10,122,616	5,608,440	1,518,364	2,333,107	1,058,648	2,765,932	23,407,107
Unallocated assets (*)							2,145,317
Total consolidated assets							25,552,424
Capital expenditures	351,232	634,182	23,439	57,570	41,228	102,665	1,210,316

(*) Mainly financial assets held for trade in the sum of approx. NIS 1,592 million.

Note 8 – Continuing engagement for a different consideration

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

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

a. Effect on the net income for the period:

	For the three month period ended March 31	For the year ended December 31
	2013	2 0 1 3
	NIS in thousands	
	(unaudited)	
Net income for the year attributed to shareholders of the parent company	194,122	929,549
Management fee to companies controlled by Mr. David Azrieli according to a previous agreement until June 2, 2013 and from such date according to a new agreement	5,891	14,854
Management fee to companies controlled by Mr. David Azrieli according to a new agreement, for the entire period	2,000	8,744
	3,891	6,110
Tax effect	(973)	(1,528)
Total proforma effect	2,918	4,582
Proforma net income for the year attributed to the shareholders of the parent company	197,040	934,131

Note 8 – Continuing engagement for a different consideration (Contd.)

b. Effect on the comprehensive income for the period:

	For the three month period ended March 31	For the year ended December 31
	2013	2 0 1 3
	NIS in thousands	NIS in thousands
	(unaudited)	
Net income for the period attributed to shareholders of the parent company	188,687	1,025,515
Proforma effect	2,918	4,582
Proforma net income for the period attributed to the shareholders of the parent company	191,605	1,030,097

c. Effect on G&A:

	For the three month period ended March 31	For the year ended December 31
	2013	2013
	NIS in thousands (unaudited)	NIS in thousands
G&A as reported	52,909	239,836
Proforma effect	(3,891)	(6,110)
Proforma G&A	49,018	233,726

Note 8 – Continuing engagement for a different consideration (Contd.)

d. Effect on basic earnings per share:

	For the three month period ended March 31	For the year ended December 31
	2 0 1 3	2 0 1 3
	NIS	NIS
	(unaudited)	
Basic earnings per share as reported	1.60	7.66
Proforma effect	0.02	0.04
Proforma basic earnings per share	1.62	7.70

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

e. Effect on the retained earnings:

	As of March 31	As of December 31
	2013	2 0 1 2
	NIS in thousands	NIS in thousands
Retained earnings as reported	9,022,270	9,757,867
Proforma effect	2,918	4,582
Proforma retained earnings	9,025,188	9,762,449

Note 9 – Subsequent Events

a. On May 21, 2014, the Company entered into a loan agreement with several companies in the group of an institutional body, affiliated neither with the Company nor with its controlling shareholders, to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest at the rate of 0.74%. It was agreed that if Ramla Azrieli mall does not open to the public by the end of Q3/2015, the Company will have the option of either paying interest compensation in relation to the period from the end of the said quarter until the date of the opening of the mall only, or providing the lender with other collateral at a similar LTV, to the lender's satisfaction. The loan (principal and interest) will be repaid in 36 equal quarterly installments linked to the rate of increase in the Index from the end of three months from the date of granting of the loan. To secure repayment of the loan, a consolidated company will pledge in favor of the lender its rights in the land on which the Ramla Azrieli Mall is currently being built, including its rights to receive rent from tenants in the Mall, and the Company's rights by virtue of the insurance policy in connection with the Mall will also be pledged. In accordance with the conditions of the loan, the Company may make full or partial prepayments, on any interest payment date upon the terms and conditions of the loan agreement. The lender will be entitled to accelerate the loan on accepted grounds that are set forth in the loan agreement, including, *inter alia* - upon the occurrence of a change of control, the acceleration of a debt of the Company to other financial institutions, or the imposition of an attachment in such amounts and conditions as are defined in the loan agreement, and also if after the population of the mall and opening it to the wide public, the LTV will be higher than the ratio set forth in the loan agreement and no other or complementary collateral was provided. It was further determined that if the Company grants a floating charge to another entity in the future, it shall grant the Lender, on the same date, a floating charge of identical ranking and scope (*pari passu*).

b. In the matter of claims filed or litigated after the date of the financial statements – see Note 3 on contingent liabilities.

Annex to Consolidated Financial Statement

Separate Interim Financial Information

as of March 31, 2014

(unaudited)

Azrieli Group Ltd.

Separate Interim Financial Information

as of March 31, 2014

(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 Information
as of March 31, 2014

(unaudited)

Contents

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

We have reviewed the interim separate financial information, which is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of March 31, 2014 and for the three months period then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for such interim period, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, the sum of the investments in which amounted to approx. NIS 1,051 million as of March 31, 2014 and the profit from such investee companies amounted to approx. NIS 34 million for the three months period then ended. The financial statements of those companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, May 21, 2014

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Azrieli Group Ltd.

Data on the Financial Position

	As of March 31		As of December 31
	2014	2013	2013
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	125,459	72,582	327,837
Financial assets held for trade	1,263	281,131	1,211
Trade accounts receivable	5,655	8,936	8,020
Other receivables	95,858	69,827	96,990
Total current assets	228,235	432,476	434,058
Non-current assets			
Investments in investee companies	5,829,342	5,206,560	5,689,203
Loans to investee companies	3,206,605	2,069,448	3,189,750
Down payments for the acquisition of a company	51,500	-	-
Receivables	7,007	6,981	7,156
Financial assets	1,571,797	1,442,381	1,610,809
Investment property and investment property under construction	6,844,544	6,328,980	6,779,273
Fixed assets	5,532	4,959	5,357
Total non-current assets	17,516,327	15,059,309	17,281,548
Total assets	17,744,562	15,491,785	17,715,606
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	932,489	742,117	933,312
Trade payables	40,330	8,855	49,654
Payables and other current liabilities	37,843	46,377	37,417
Dividend declared	280,000	265,000	-
Current tax liabilities	29,071	14,188	9,238
Total current liabilities	1,319,733	1,076,537	1,029,621
Non-current liabilities			
Loans from banks and other credit providers	2,206,745	1,023,304	2,313,618
Bonds	535,275	572,871	583,869
Employee benefits	13,155	23,372	13,068
Other liabilities	16,615	18,085	17,139
Deferred tax liabilities	1,117,749	979,185	1,123,005
Total non-current liabilities	3,889,539	2,616,817	4,050,699
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	352,531	280,274	381,532
Retained earnings	9,686,872	9,022,270	9,757,867
Total capital attributed to shareholders of the Company	12,535,290	11,798,431	12,635,286
Total liabilities and capital	17,744,562	15,491,785	17,715,606

May 21, 2014			
Date of approval of the Separate Financial Information	**David Azrieli** **Chairman of the Board of Directors**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **Chief Financial Officer**

Azrieli Group Ltd.

Information on the Profit and Loss and Other Comprehensive Income

	For the three months period ended March 31		For the year ended December 31
	2014	2013	2013
	NIS in thousands		NIS in thousands
	(Unaudited)		
Revenues:			
From rent and management and maintenance fees	110,184	111,993	445,824
Net profit from adjustment to fair value of investment property and investment property under construction	149	215	54,603
Financing	32,691	32,837	169,881
Other	10,000	6,000	6,000
Total revenues	153,024	151,045	676,308
Costs and expenses:			
Cost of revenues from rent and management and maintenance fees	4,019	2,543	10,332
Sales and marketing	2,647	385	7,039
General and administrative	15,978	16,380	57,920
Financing	8,785	24,493	115,638
Total costs and expenses	31,429	43,801	190,929
Profit before the Company's share in the profits of investee companies	121,595	107,244	485,379
Share in profits of investee companies, net of tax	122,138	110,631	612,204
Income before income taxes	243,733	217,875	1,097,583
Expenses for taxes on income	(34,728)	(23,753)	(168,034)
Net profit for the period	209,005	194,122	929,549
Other comprehensive income (loss):			
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	(32,374)	7,992	135,582
Translation differences from foreign operations	1,842	(9,226)	(28,674)
Share in the other comprehensive income (loss) of investee companies, net of tax	1,534	(4,201)	(10,744)
	(28,998)	(5,435)	96,164
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	-	-	(198)
Other comprehensive income (loss) for the period, net of tax	(28,998)	(5,435)	95,966
Total comprehensive income for the period attributed to the shareholders of the Company	180,007	188,687	1,025,515

Azrieli Group Ltd.

Information on Cash Flows

	For the three months period ended March 31		For the year ended December 31
	2014	2013	2013
	NIS in thousands		NIS in thousands
	(Unaudited)		
Cash flows - current operations			
Net profit for the period	209,005	194,122	929,549
Depreciation and amortization	244	186	871
Net profit from adjustment to fair value of investment property and investment property under construction	(149)	(215)	(54,603)
Financing and other revenues, net	(31,327)	(11,910)	(59,855)
Share in profits of investee companies, net of tax	(122,138)	(110,631)	(612,204)
Taxes recognized in the income statement	34,728	23,753	168,034
Income tax paid, net	(5,291)	(6,155)	(52,658)
Change in financial assets	(52)	151,697	432,572
Change in trade and other receivables	2,902	(1,432)	(19,537)
Change in trade and other payables	672	5,972	5,797
Recording benefit in respect of share-based payment	134	3,521	8,411
Change Erosion (revaluation) ofin financial assets designated at fair value through profit and loss	(1,996)	(164)	124
Change in employee provisions and benefits	(47)	(25)	(17,521)
Net cash – current operations	86,685	248,719	728,980
Cash flows - investment activities			
Investment in investment property and investment property under construction	(66,464)	(29,587)	(176,157)
Down payments on account of investment property	(362)	(11,672)	(202,017)
Purchase of fixed assets	(419)	(329)	(1,412)
Investments in investee companies	(349)	(303)	(363)
Proceeds from disposition of financial assets available for sale	-	1,767	2,913
Change in financial assets designated at fair value through profit and loss	35	581	1,157
Granting of long-term loans to investee companies	(9,249)	(28,358)	(1,046,034)
Interest and dividend received	10,163	275	9,798
Return of investment in an investee company	-	-	17,276
Institutions pertaining to purchase of real estate	-	8,245	(2,663)
Down payments for the acquisition of a company	(51,500)	-	-(118,145)
Net cash - investment activities	(118,145)	(59,381)	(1,397,502)

Azrieli Group Ltd.

Information on Cash Flows

	For the three months period ended March 31		For the year ended December 31
	2014	2013	2013
	NIS in thousands		NIS in thousands
	(Unaudited)		
Cash flows - financing activities			
Dividend distribution to shareholders	-	-	(265,000)
Repayment of bonds	(44,636)	(44,108)	(44,108)
Receipt of long-term loans from banks	-	-	1,410,000
Repayment of long-term loans from banks	(96,327)	(61,604)	(256,781)
Short-term credit from banks, net	238	(40,699)	200,494
Deposits from customers, net	(413)	(54)	(1,306)
Interest paid	(29,711)	(26,949)	(101,801)
Net cash - financing activities	(170,849)	(173,414)	941,498
Increase (decrease) in cash and cash equivalents	(202,309)	15,924	272,976
Cash and cash equivalents at the beginning of the period	327,837	57,413	57,413
Effect of exchange rate changes on cash balances held in foreign currency	(69)	(755)	(2,552)
Cash and cash equivalents at the end of the period	125,459	72,582	327,837

(*) Non Cash Transactions include payables for dividend in the amount of NIS 280,000 thousand (NIS 265,000 as of March 31, 2013) and payables for the purchase on credit of non- current assets in the amount of NIS 28,086 thousand (NIS 32,146 as of December 31, 2013).

Azrieli Group Ltd.

Data in Addition to the Separate Interim Financial Information

A. General:

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

This separate financial information must be inspected in the context of the Company's separate financial information as of December 31, 2013, and for the year ended on such date, and the additional figures that were attached thereto.

B. Definitions:

The Company - Azrieli Group Ltd.

Investee company - Consolidated company, consolidated company under proportionate consolidation and an investee company.

C. Accounting Policy:

The separate financial information is prepared in accordance with the accounting policy specified in Note B of the Company's separate financial information as of December 31, 2013 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 information.

D. Events during the Reporting Period:

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

E. Events after the End of the Reporting Period:

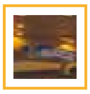
See Note 9 to the Condensed Consolidated Financial Statements which are published with this separate financial information.

F. 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 it is not certified as a class action – NIS 4,561. If it is certified as a class action only in respect of the class of offerees in respect of whose shares a compulsory purchase was made – approx. NIS 18 million. If it is certified as a class action in respect of the entire class of offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Department of the Tel Aviv District Court by a petitioner claiming to be an offeree in the framework of a full tender offer which the Company closed at the end of September 2012, for shares held by the public in Granite Hacarmel Investments Ltd. (even though the six(6)-month period determined in the law for the filing of a claim for an appraisal remedy had lapsed). The claim asserted, inter alia, that the petitioner had been forced to sell his shares to the Company in the framework of the tender offer, at a price lower than the value of the shares, and that the conditions for performance of a compulsory purchase according to the tender offer had not been fulfilled, and 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 Replication to the motion, and the hearing was scheduled for March 2014. At the hearing, in light of the Court's comment, the Petitioner withdrew his request for the remedy of revocation of the tender offer and re-listing of the shares. As per the Court's request, the parties are to file additional summations regarding the motion for summary dismissal. At this preliminary stage, the chances of the claim cannot be estimated.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure



Azrieli Group

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

Attached hereto is a quarterly report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to regulation 38C(a):

The management, under the supervision of the board of directors of Azrieli Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the financial reporting and disclosure within the Corporation.

For this purpose, the members of management are:

1. Yuval Bronstein, CEO;
2. Michal Kamir, General Counsel and the Company Secretary;
3. Irit Sekler-Pilosof, CFO;
4. Yair Horesh, Chief Comptroller for Accounting and Financial Statements.

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

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

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

In the annual report on the effectiveness of internal control over the financial reporting and disclosure which was attached to the periodic report for the period ended on December 31, 2013 (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, 2013 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 determined in the Last Annual Report on Internal Control.

As of the date of the report, based on the effectiveness evaluation of 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 Q1/2014 (the "Reports").

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

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

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

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

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

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

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

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

c. No event or matter had been brought to my attention which occurred during the period between the date of the periodic report for 2013 and the date of this report, which may change the conclusion of the board of directors and management pertaining to the effectiveness of the internal control over the financial reporting and disclosure of the Corporation.

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

May 21, 2014

____

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 Q1/2014 (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 of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

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

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

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over the 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 a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

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

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

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

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

c. No event or matter had been brought to my attention which occurred during the period between the date of the periodic report for 2013 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 pertaining to the effectiveness of the internal control over the financial reporting and disclosure of the Corporation.

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

Mary 21, 2014

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Irit Sekler-Pilosof , CFO