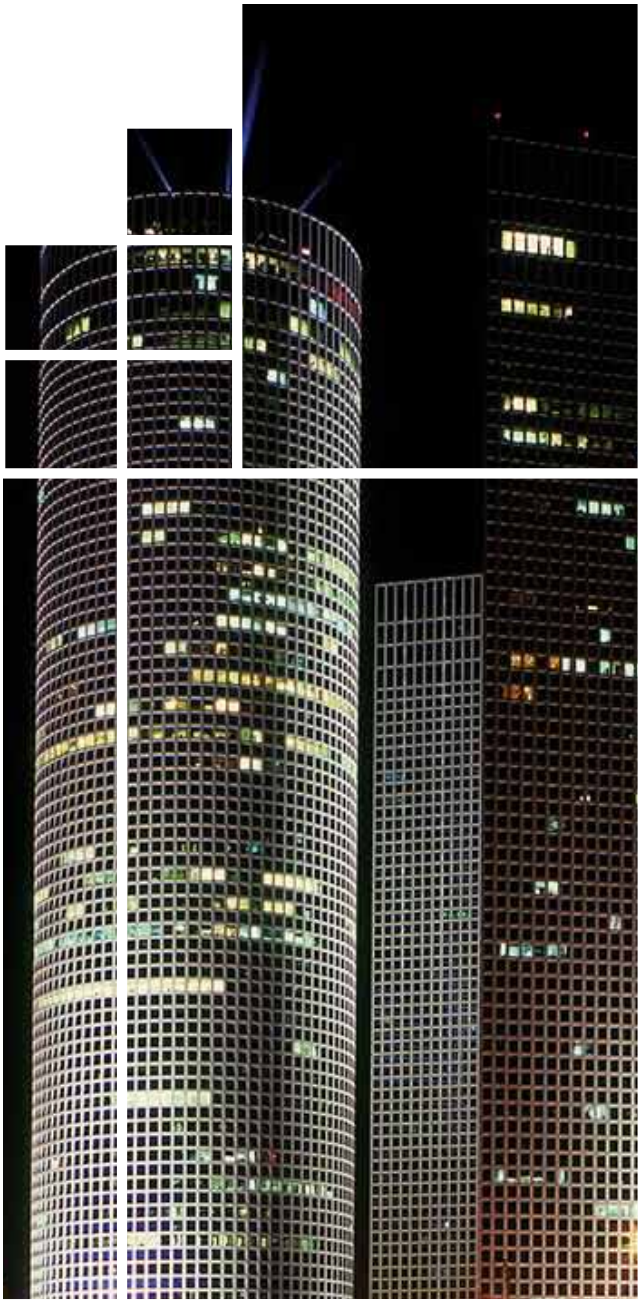
Azrieli Group Ltd.

Q2/2013 Report

Dated 30 June, 2013



AZRIELI GROUP

Part A

Board Report

Azrieli Group

Azrieli Group Ltd.

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

for the six and three months ended June 30, 2013

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

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

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

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

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

Report.

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

Extended standalone statement – the income-producing property segment

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

This Report is not audited or reviewed by the Company's auditors.

Main emphases for the Quarter ended June 30, 2013(*)

Net Profit
• Approx. NIS 278 million net profit in the Quarter compared with a net profit of approx. NIS 198 million in the same quarter last year; • Approx. NIS 274 million net profit attributed to the shareholders in the Quarter, compared with approx. NIS 191 million in the same quarter last year.
Improvement in NOI During the Quarter compared with the same quarter
• Approx. 3% additional growth in the NOI (see Section 1.1.3 of the Report). • Approx. 3% additional growth in same property NOI (see Section 1.1.4 of the Report).
FFO from the Income-Producing Property Segment
• Approx. 4% growth in the FFO attributed to the income-producing property segment (see Section 1.1.6 of the Report).
Cap Rate
• Approx. 7.6% weighted cap rate in the Company's reports from the income-producing property (for calculation, see Section 1.1.5).
Business Development and Initiation
• During the Report Period the Company invested a sum of approx. NIS 487 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 Sections 1.1.2 and 1.11 below.

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

1.1 General

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

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

Transactions related to Investment Property

Purchase of land from Yedioth Ahronoth

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

Further developments

Class Action

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).

Refinancing of loans in respect of Azrieli Center Tel Aviv

In the framework of the refinancing of loans in respect of Azrieli Center in Tel Aviv in the sum of approx. NIS 900 million, maturing in August 2013, the Company, on August 18, 2013, entered into financing agreements with various institutional bodies for receipt of new loans under significantly better conditions than the loans intended to be repaid as aforesaid.

Appeal against the decision of the Antitrust Commissioner

On August 8, 2013, after the Date of the Statement of Financial Position, the Antitrust Court ordered the dismissal of the appeal filed by the Company during the Report Period from the decision of the Commissioner to object to the purchase of Power Center One Plaza in

Beer Sheva, due to the fact that the merger agreement is no longer valid. The Company is preparing for the filing of an appeal from the court's decision with the Supreme Court.

Approval of a compensation policy and summoning of a special and annual general meeting

On August 6, 2013, the Company's competent organs approved a compensation policy and a general meeting of the Company was summoned for approval thereof for September 11, 2013.

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

During the Report Period, changes occurred in the office of officers of the Company, including Mr. Yuval Bronstein being appointed as the Company's CEO in lieu of Mr. Shlomo Sherf, Irit Sekler-Pilosof being appointed as CFO, directors being replaced and the outside directors being reappointed for another three years, and the approval of the Company's competent organs was received for the terms of office and employment of the officers and of the Company's controlling shareholders (the Chairman of the Board and the Active Vice Chairman of the Board and two directors).

Release of a shelf prospectus

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

Current Operations

As the Company has reported in the past, during the Report Period and until the date of release thereof, the Group has continued to explore business opportunities in Israel and overseas, in connection with the expansion of its business, mainly in the field of real estate, including tangential fields of real estate and the retirement home sector, through the purchase of land reserves, the purchase of additional properties and/or the improvement of the existing properties, some of which have been consummated as stated in the Company’s reports. In addition, the Company may explore, from time to time, additional options for expanding its fields of business while taking advantage of market situations and/or crisis situations in leading and cash flow generating target companies in other segments. In addition, the Company examines, on an ongoing basis, the holdings which are not in its core business in the field of income producing properties. On October 16, 2012, the Company released a presentation which was presented at an investors' conference in which it specified a strategic plan for 2013-2016 (see the Company's immediate report dated October 16, 2012 (ref. no. 2012-01-256701), as amended on November 1, 2012, ref. no.: 2012-01-270033).

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

1.1.2 **Developments in Initiation and Development**

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. The overall investments of the Company during the Report Period totaled approx. NIS 487 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 in the Company's books as of June 30, 2013[1] (NIS in millions)	Estimated cost of completion of construction and (NIS in millions)
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	121,500	May 2012	End of 2016	648	846-891
Azrieli Kiryat Ata (Phase B)	Kiryat Ata	Jan. 2009	Commerce and Offices	100%	2,700	4,000	May 2011	Q/4 2013	5	27-37
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	48,000	December 2011 (permit for construction of temporary parking and an excavation and shoring permit)	2016[2]	122	457-487
Azrieli Center Holon[3]	Holon	Jun. 2008	Commerce Offices	83%	34,000	5,000 115,000	Phase A[4] – 2010 Phase B[4] – not yet determined	Phase A(1)– Completed July 2013 Phase A(2)-2014 Phase B – by 2016	420	217-252
Azrieli Ayalon Mall – additional floor	Ramat Gan	Aug. 1982	Commerce	100%	----	9,500	2013	March 2015	6	120-150

Ramla Azrieli Mall	Ramla	May 2011	Commerce	100%	31,650	22,000	Aug. 2011	Beginning of 2015	174	180-200
Clalit Health Fund Land(5)	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Not yet determined	Not yet determined	121	830-930
Yedioth Ahronoth House(5)	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Not yet determined	Not yet determined	109	890-910
Total						**469,000**			**1,605**	**3,567-3,857**

(1) The figure reflects the value of the project in the books as presented in the financial statement as of June 30, 2013 and not the cost actually invested in the project.
(2) Contingent upon approval of the city zoning plan.
(3)The figures are for 100%.
(4) Phase A – construction of 62,500 sqm of above-ground areas and underground parking lots in an area of 81,000 sqm. Phase B – construction of the remaining of the areas (at least 80% of the building rights according to the city zoning plan).
(5) As of the Report Release Date, the Company has not received possession of this property.

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

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

1.1.3 The NOI (Net Operating Income) index

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

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

NIS in millions	For the three months ended		For the six months ended		For the year ended
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**Dec. 31, 2012**
Retail centers and malls in Israel	177	174	354	348	702
Growth rate	2%		2%		
Office and other space for lease in Israel	74	70	148	138	282
Growth rate	6%		7%		
Income-producing property in the USA	26	25	52	51	103
Growth Rate	4%		2%		
Total NOI	277	269	554	537	1,087
Growth rate	3%		3%		
	For explanations pertaining to the increase in NOI, see Sections 1.10.1, 1.10.2 and 1.10.3.				

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

1.1.4 Same property NOI Index[2]

NIS in Millions	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Retail centers and malls in Israel segment	177	174	354	348
Office and other space for lease in Israel segment	73	70	146	138
Income-producing property in the USA segment	26	25	52	51
Total	**276**	**269**	**552**	**537**
Growth rate	**3%**		**3%**	

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

	2013		2012		
	Q2	Q1	Q4	Q3	Q2
Same property NOI in all of the periods(*)	276	276	274(**)	275	269
NOI from acquired properties	1	1	1	-	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**277**	**277**	**275**	**275**	**269**

(*) In all of the Company's operating segments
(**) The decrease derives from the income-producing property in the USA segment – see Section 1.10.3

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 June 30, 2013**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex D) (*)	16,480
Net of value attributed to construction rights not utilized yet	(5)
Net of value attributed to investment property under construction	(1,375)

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

Net of value attributed to advance payments on account of land purchase	(230)
Net of the value attributed to land reserves	(23)
Total value of income-producing investment properties (including fair value of the vacant space)	**14,847**
Actual NOI for the quarter ended on June 30, 2013	277
Addition to future quarterly NOI (**)	6
Total standardized NOI	283
Pro-forma annual NOI based on standardized NOI	**1,130**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.6%**

(*) Based on valuations received as of June 30, 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 June 30, 2013 and which have not yet been fully populated, and an estimate of electricity profits which will be added when the Company starts purchasing electricity following an agreement for purchase of electricity from OPC.

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

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

1.1.6 <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		For the six months ended	
NIS in Millions	**June 30, 2013**	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Net profit for the period attributed to shareholders	**274**	**191**	**468**	**375**
Discounting the net profit from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	**(26)**	**(8)**	**(57)**	**(22)**
Adjustments to profit (1):				
Increase in investment property value	(123)	(99)	(115)	(91)
Depreciation and amortizations	1	1	2	2
Net non-cash flow financing and other expenses (revenues)	(1)	39	(9)	37
Current taxes revenues (expenses) for non-cash flow financing expenses	0	(10)	2	(9)
Deferred tax expenses	45	36	51	47
Adjustments for associated companies	(1)	1	-	1
Interest and dividend from financial assets held for trade, net of tax (2)	(1)	(6)	(5)	(20)
Impairment of financial assets held for trade, net	1	20	-	12
Plus benefit recorded for employee option plan	4	1	7	1
Net of dividend received from financial assets available for sale	-	-	(6)	(8)
Total adjustments to profit	**(75)**	**(17)**	**(73)**	**(28)**

Plus interest paid for real investments - (3)	**14**	**14**	**31**	**30**
Total FFO attributed to the income-producing property segment (4)	**187**	**180**	**369**	**355**

Remarks and assumptions:

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

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

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

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

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

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

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

EPRA NAV (NIS in millions)	**As of**	
	June 30, 2013	**June 30, 2012**
Equity attributed to the Company's shareholders in the financial statements	12,029	11,100
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,425	2,240

EPRA NAV	**14,454**	**13,340**
EPRA NAV per share (NIS)	**119**	**110**
EPRA NNNAV (NIS in millions)	**As of**	
	June 30, 2013	**December 31, 2012**
EPRA NAV	14,454	14,250
Adjustment of assets' value to fair value (net of the minority)	69	106
Adjustment of the value of financial liabilities to fair value (net of the minority)	(381)	(433)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,425)	(2,375)
EPRA NNNAV	**11,717**	**11,548**
EPRA NNNAV per share (NIS)	**97**	**95**

1.1.8 Summary of the Company's Results (Consolidated)

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

	For the three-month period ended		**For the six-month period ended**		**For the year ended**
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**Dec. 31, 2012**
Net profit for the period attributed to the shareholders	**274**	**191**	**468**	**375**	**939**
Net profit attributed to the shareholders and non-controlling interests	**278**	**198**	**475**	**397**	**986**
Basic profit per share (in NIS)	**2.26**	**1.57**	**3.86**	**3.09**	**7.74**
Comprehensive income for shareholders and non-controlling interests	**235**	**103**	**426**	**334**	**1,111**

The net profit attributed to the shareholders for the six months ended on June 30, 2013 totaled to an amount of approx. NIS 468 million (NIS 274 million in the quarter) versus net profit attributed to the shareholders in the amount of approx. NIS 375 million in the same period last year (in the same quarter last year NIS 191 million). The main increase in profit derived from an increase in the results of the Granite segment, from an increase in the NOI from the income-producing property segments, from an increase in the profit from adjustment of investment property fair value and a decrease in the financing expenses net of an increase in the tax

expenditure 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 six months ended June 30, 2013 amounted to the sum of approx. NIS 426 million compared with a net profit (including non-controlling interests) in the sum of approx. NIS 475 million in the same period. The aforesaid difference results mainly from a negative change in the fair value of financial assets available for sale (mainly a change in the fair value of the investment in Bank Leumi le-Israel) net of tax in the amount of approx. NIS 30 million and from a loss due to translation differences from foreign operations in the sum of approx. NIS 20 million.

The comprehensive income for the three months ended June 30, 2013 amounted to approx. NIS 235 million compared with a net profit (which includes non-controlling interests) in the sum of approx. NIS 278 million in the same period. The said difference mainly derives from a negative change in the fair value of assets available for sale (mainly a change in the fair value of the investment in Bank Leumi le Israel), net of tax in the amount of approx. NIS 38 million and from a loss due to translation differences from foreign operations in the sum of approx. NIS 5 million.

1.1.9 Main market trends regarding income-producing property segment

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

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

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

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

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

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

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

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

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

1.2.1 Summary of the Group's operating segments

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

- **Office and Other Space for Lease in Israel Segment** – The Company has 9 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 293 thousand sqm (consolidated) and 291 thousand sqm (the Company's share) leased to approx. 480 tenants;

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

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

1.2.2 The income-producing property segments

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

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

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

expected to add to the Group approx. 469 thousand sqm income-producing properties in Israel, is at approx. NIS 3.6-3.9 billion. For specification regarding the projects under construction see Section 1.1.2 above.

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is close to 100% in the retail centers and malls segment and in the office and other space for lease segment. The average occupancy rate in the income-producing property in the USA is approx. 89%.

In Q2/2013 there was an improvement in the Group's main business activity in the income-producing property sectors and growth in the NOI figures of the Group compared with the same quarter last year, mostly due to an increase in revenues and a decrease in expenses from same property.

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

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

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

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

1.2.3 Granite Hacarmel segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Granit Hacarmel. Granit Hacarmel continued, during the Report Period, to present improvement in the results as specified in Section 1.11.6 of this Report below.

1.2.4 Additional Businesses

The Group has additional businesses, which include, *inter alia*, passive financial investments in corporations in the banking and financing segment, investments in start-up companies and investment funds as

specified in the Periodic Report for 2012.

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

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

	Investment value in the financial statements as of Dec. 31, 2012	Investments during the six months ended June 30, 2013	Total investment as of June 30, 2013 before adjustment for changes in the fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of June 30, 2013	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	**895**	**-**	**895**	**853**	**(42)**	**-**
Investment in Leumi Card Ltd. (**)	**514**	**-**	**514**	**514**	**-**	**6**
Total	**1,409**	**-**	**1,409**	**1,367**	**(42)**	**6**

* The fair value of the investment in Bank Leumi le-Israel was determined according to the value of the share at the TASE as of June 30, 2013;

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

1.3 The Business Results and the Total Assets

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

	Segment profit for the three months ended:		Segment profit for the six months ended:		Rate of the segment's profit from the total consolidated net profit in the three months ended:		Rate of the segment's profit from the total consolidated net profit in the six months ended:	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Retail centers and malls in Israel	**177**	**174**	**354**	**348**	**64%**	**88%**	**75%**	**88%**
Office and other space for lease in Israel	**74**	**70**	**148**	**138**	**27%**	**35%**	**31%**	**35%**
Income-producing	**26**	**25**	**52**	**51**	**9%**	**13%**	**11%**	**13%**

property in the USA								
Granite Hacarmel	**78**	**51**	**158**	**123**	**28%**	**26%**	**33%**	**331%**
Total attributed profit	**355**	**320**	**712**	**660**	**128%**	**162%**	**150%**	**167%**
Changes in fair value	**124**	**105**	**115**	**97**	**45%**	**53%**	**24%**	**24%**
Net financing expenses	**(96)**	**(143)**	**(177)**	**(214)**	**(35%)**	**(72%)**	**(37%)**	**(54%)**
Tax expenses	**(80)**	**(56)**	**(131)**	**(111)**	**(29%)**	**(28%)**	**(28%)**	**(28%)**
G&A expenses, net	**(25)**	**(28)**	**(44)**	**(35)**	**(9%)**	**(15%)**	**(9%)**	**(9%)**
Net profit per period	**278**	**198**	**475**	**397**	**100%**	**100%**	**100%**	**100%**

The Group's revenues from the business segments for the Report Period amounted to approx. NIS 4,392 million, compared with approx. NIS 4,509 million in the same period last year, a decrease of approx. NIS 117 million, deriving mainly from a decrease in the Granite Hacarmel segment of approx. NIS 133 million, which derives mainly from a decrease in Sonol's revenues (which decrease was mainly offset by the increase in the activity of Tambour) as well as an approx. NIS 5 million increase in the income-producing property for retail centers and malls in Israel segment (due to an increase in revenues from existing properties), and an increase of approx. NIS 11 million in the income-producing property for office and other space for lease in Israel segment (due to an increase in revenues from existing properties and the purchase of additional 50% of the rights in the office building in Petah Tikva in October 2012).[

The Group's revenues from the business segments for the three months ended June 30, 2013 totaled approx. NIS 2,160 million, compared with approx. NIS 2,299 million in the same period last year, a decrease of approx. NIS 139 million, deriving mainly from a decrease in the Granite Hacarmel segment of approx. NIS 144 million, which derives from a decrease in Sonol's revenues (which decrease was mainly offset by the increase in the activity of Tambour), from a decrease in the income-producing property in the USA segment in the sum of approx. NIS 2 million (mainly due to the decrease in the U.S. dollar rate) which was offset by a growth of approx. NIS 2 million in the income-producing property for retail centers and malls in Israel segment (due to an increase in revenues from existing properties), an increase of approx. NIS 5 million in the income-producing property for office and other space for lease in Israel segment (due to the increase in revenues from existing properties and the purchase of additional 50% of the rights in the office building in Petah Tikva in October 2012).

As of June 30, 2013, the total assets on the balance sheet were approx. NIS 24.3 billion, compared with approx. NIS 24 billion as of December 31, 2012.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	June 30, 2013	**Dec. 31, 2012**	**June 30, 2013**	**Dec. 31, 2012**
Retail centers and malls in Israel	9,798	9,601	41%	40%
Office and other space for lease in Israel	5,153	4,751	21%	20%
Income-producing property in the USA	1,528	1,570	6%	6%
Granite Hacarmel	6,150	5,979	25%	25%
Others	1,683	2,129	7%	9%
Total	**24,312**	**24,030**	**100%**	**100%**

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

	As of June 30, 2013	As of June 30, 2012	As of Dec. 31, 2012
Current assets	2,821	3,674	3,242
Non-current assets	21,491	19,847	20,789
Current liabilities	5,069	4,074	4,868
Non-current liabilities	7,125	7,947	7,205
Capital attributed to the Company's shareholders	**12,029**	**11,100**	**11,875**
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**49%**	**47%**	**49%**

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

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of June 30, 2013, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to approx. NIS 269

million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 10.8 billion in addition to approx. NIS 269 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[6]:

Assets	Value of assets as of June 30, 2013 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**5,624**
Properties in the office and other space for lease in Israel segment	**2,505**
Income-Producing Properties in the USA and in England	**78**
Company's holdings in Leumi Card	**514**
Company's holdings in Granite Hacarmel	**1,231**
Company's holdings in Bank Leumi	**853**
Total	**10,805**

In addition, the Company holds pledged income-producing properties, the loan rate for which is considerably lower than their fair value. (Such as the Azrieli Center project, which was appraised by an independent appraiser as of June 30, 2013 (without the square tower which was included in the non-pledged assets) at approx. NIS 3.8 billion, whereas the loans therefor, as of June 30, 2013, amounted to only approx. NIS 889 million).

(b) Dividends:

The Company:

On March 19, 2013, the Company's board of directors approved, , a cash distribution in a total sum of NIS 265 million (approx. NIS 2.185 per share) which constitutes approx. 36% of the net profit to the shareholders in 2012 net of real estate revaluation profits and linkage differentials on unpaid loans and net of the tax effect thereon and approx. 37% of the FFO for the properties business (for the manner of calculation, see Section 1.1.6 above) for 2012. On May 1, 2013, the Company paid the dividend to its shareholders.

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

According to the Company's financial statements as of June 30, 2013, the Company has surplus of approx. NIS 9.5 billion (including revaluation fund of financial assets available for sale).

Granite Hacarmel: A dividend distribution policy was set forth for Granite Hacarmel, according to which Granite Hacarmel shall distribute every year cash dividend in such sum that shall constitute 40% to 50% of the net annual profit after tax of Granite Hacarmel, except for one-time profits not resulting from current operations, subject to the provisions of any law. In the Report Period, the Company received no dividend from Granite Hacarmel.

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

In the Report Period, the Company received a dividend in the sum of NIS 6 million from Leumi Card.

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

Cash flows

Net cash flows generated for the Group from current operations in the six months ended June 30, 2013, amounted to the sum of approx. NIS 1,018 million, compared with the sum of approx. NIS 894 million which derived from current operations in the same period last year (an increase of approx. NIS 124 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing property (approx. NIS 277 million), with the addition of cash flows generated from current operations from the sale of financial assets held for trade in the sum of approx. NIS 456 million.

The main increase in cash flows from current operations in the six months ended June 30, 2013 compared with the same period last year resulted from an increase in cash flows from the Granite Hacarmel segment, of approx. NIS 292 million, deriving mainly from an increase in Sonol's current operations. On the other hand, there was a decrease in cash flow from the sale of financial assets held for trade of approx. NIS 160 million in the Report Period compared with the same period last year. In addition, an increase was recorded in the amount of approx. NIS 8 million attributed to the increase in NOI from the

income-producing property segment which was setoff due to a decrease in the amount of approx. NIS 24 million in the cash flow from dividend and interest which were obtained from financial assets available for sale and held for trade.

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

Net cash flows derived by the Group from current operations in the three months ended June 30, 2013 amounted to approx. NIS 596 million compared with the sum of approx. NIS 406 million which derived from current operations in the same period last year (an increase of approx. NIS 190 million).

The increase in the cash flow from current operations in the three months ended June 30, 2013 compared with the same period last year derived mainly from an increase in cash flow from the Granite Hacarmel segment of approx. NIS 149 million as aforesaid.

Net cash flows used by the Group for investment activity in the six months ended June 30, 2013, amounted to approx. NIS 534 million, compared with approx. NIS 676 million in the same period last year.

The decrease in the sum of NIS 142 million in the Report Period resulted mainly from the purchase of, and investment in investment properties and investment properties under construction and advance payments on account of investment property in the sum of approx. NIS 447 million in the Report Period, compared with approx. NIS 570 million in the same period last year.

Net cash flows used by the Group for investment activity in the three months ended June 30, 2013 amounted to approx. NIS 360 million compared with approx. NIS 137 million used for investment activity in the same period last year.

The increase of approx. NIS 223 million in the quarter mainly derived from the purchase of and investment in investment property and investment property under construction and advance payments on account of investment property in the sum of approx. NIS 323 million in the Quarter, compared with approx. NIS 84 million in the same quarter last year.

Net cash flows used by the Group for financing activity in the six months ended June 30, 2013, amounted to approx. NIS 469 million, compared with net cash flows used for financing activity in the sum of approx. NIS 284 million in the same period last year. The increase in the sum of approx. NIS 185 million results from a decrease in bonds/short- and long-term loans received (net of loans repaid + the interest which was paid) consolidated in the sum of approx. NIS 215

million compared with the same period last year.

Net cash flows used by the Group for financing activity in the three months ended June 30, 2013 amounted to approx. NIS 232 million compared with approx. NIS 265 million in the same period last year. The decrease of approx. NIS 33 million mainly derived from the purchase of the non-controlling interests in Tambour in the same period last year in the sum of approx. NIS 62 million, net of the increase in the amount of NIS 25 million, in the distribution of the dividend compared with the same period last year.

Following is the composition of the Group's financing sources

	June 30, 2013		December 31, 2012	
	NIS in millions	% of total balance sheet	NIS in millions	% of total balance sheet
Short-term credit from banks and other credit providers	3,555	14.6%	3,451	14.4%
Long-term credit from banks and other credit providers	3,094	12.7%	3,134	13.0%
Bonds	1,469	6.1%	1,553	6.5%
Total	**8,118**	**33.4%**	**8,138**	**33.9%**

The decrease in the sum of approx. NIS 20 million in the Report Period results from the repayment of long-term loans and bonds in the sum of approx. NIS 212 million (without Granite), net of an increase in short-term loans in the sum of approx. NIS 195 million.

As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 2.2 billion, resulting mainly from long-term loans whose maturity is shorter than a year (due to the Azrieli Center) and from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits. The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so, at market conditions and even under better conditions, in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the said deficit in the working capital may not affect its ability to repay its liabilities on time.

After the Report Period, the Company acted for the refinancing of the loans in respect of the Azrieli Center in Tel Aviv in the sum of approx. NIS 900 million, maturing in August 2013, and presented, in the Report Period, under the current liabilities, although after provision of the loans in the framework of the refinancing, the majority thereof will be presented as long-term loans. In this context, the Company entered into agreements with institutional bodies and with a banking institution for the provision of loans in the total sum of NIS 1,110 million, under significantly better conditions than the conditions of the loans that

were repaid as aforesaid, all as specified in Section 1.1.1 above and in Chapter B of this Report.

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	December 3, 2012
Commercial paper	Midroog	P-1	June 25, 2013
Private loan	Midroog	Aa2	August 19, 2013

For further details, see Note 20 to the financial statements as of December 31, 2012. To review Midroog's annual monitoring report, see the Company's immediate reports of June 25, 2013, (ref. 2013-01-073392 and 2013-01-073404). To review Maalot's annual follow-up report, see the Company's immediate reports of December 3, 2012 (ref. 2012-01-299292 and 2012-01-170271). To review Midroog's private loan report see the Company's immediate report dated August 19, 2013 (reference: 2013-01-120366).

Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of June 30, 2013, in millions of NIS:

	Fixed Interest			**Variable Interest**		**Total**		**Total**
	Index linked	**USA Dollar Linked**	**Not Linked**	**Sterling Linked**	**Not Linked**	**Fixed Interest**	**Variable Interest**	
Short Term Loans	-	-	-	23	689	-	712	712
Long Term Loans	3,152	888	22	-	-	4,062	-	4,062
Total	**3,152**	**888**	**22**	**23**	**689**	**4,062**	**712**	**4,774**

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

Year	Principal	Interest	Total
1	1,950	176	2,126
2	603	134	737
3	160	106	266
4	1,301	86	1,387
5 forth	760	133	893
Total	4,774	635	5,409

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 June 30, 2013, 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 562 million in the six months ended June 30, 2013, compared with the sum of approx. NIS 278 million in the same

period last year. The main increase (in the sum of approx. NIS 292 million) is attributed to Granite Hacarmel – see explanation regarding the cash flows above;

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

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

1.6 Quality of Profit

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

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) amounted to approx. NIS 50 million in the Report Period (approx. NIS 27 million in the quarter), compared with approx. NIS 41 million in the same period last year (approx. NIS 23 million in the same quarter last year). The increase in the sum of approx. NIS 9 million derives mainly from an increase in the expenses due to share based payment of approx. NIS 7 million, and an increase in contributions in the sum of NIS 3 million.

In view of the change in the consideration for the management services to be paid to Canadian companies wholly owned and fully controlled by Mr. David Azrieli as stated in Section 5D of the consolidated financial statements as of June 30, 2013, a decrease is expected in the management fee expenses item under general and administrative expenses in the next periods.

1.8 Net Financing Expenses

The Group’s net financing expenses in the Report Period amounted to the sum of approx. NIS 177 million, compared with approx. NIS 214 million in the same period last year (a decrease of approx. NIS 37 million). The decrease in the net financing expenses results mainly from a decrease in interest expenses for loans and bonds during the Report Period, compared with the same period last year, which resulted from both a decrease in the amount of credit and from capitalization of interest on projects under construction as well as a decrease in expenses which derived from a rise of approx. 0.7% in the rate of the rise in the index known in the Report Period compared with a rise of approx. 1.3% in the same period last year. Conversely, the profits from marketable securities (plus interest and dividends in respect thereof) amounted, in the Report Period, to approx. NIS 7 million compared with a profit of approx. NIS 17 million in the same period last year.

The group's net financing expenses in the quarter amounted to approx. NIS 96

million compared with approx. NIS 144 million in the same period last year (a decrease of approx. NIS 48 million). The decrease in the net financing expenses mainly derives from a decrease in the interest expenses on loans and bonds in the quarter compared with the same quarter last year, which derived from a decrease in the scope of credit, capitalization of interest on projects under construction and a change in the rate of the rise in the known index (a rise of approx. 0.7% in the quarter compared with a rise of approx. 1.3% in the same quarter last year), as well as from profits in the sum of approx. NIS 1 million in the quarter from marketable securities (plus interest and dividends in respect thereof) compared with a loss of approx. NIS 12 million in the same quarter last year.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 131 million, compared with tax expenses in the sum of approx. NIS 111 million in the same period last year. The increase in the tax expenses is attributed mainly to an increase in NOI in the income-producing property segments, decrease in financing expenses and increase in profit from the adjustment of fair value of investment property.

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

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

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**Dec. 31, 2012**
	NIS in millions				
Revenues	**218**	**216**	**436**	**431**	**874**
% change	**1%**		**1%**		
NOI	**177**	**174**	**354**	**348**	**702**
% change	**2%**		**2%**		

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

The increase in the NOI results mainly from an improvement in the revenues of the existing retail centers and malls.

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

	For the three-month period ended		For the six-month period ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
For the segment's assets owned by the Company as of the beginning of the period[7]	**177**	**174**	**354**	**348**
For assets that were purchased or whose construction was completed in 2012	-	-	-	-
For assets that were purchased or whose construction was completed in 2013	-	-	-	-
Total	**177**	**174**	**354**	**348**

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

- Most lease contracts are linked to the CPI, most of which rose in the Report Period, as compared to the same period last year, by approx. 1.5% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).
- Operational streamlining in the management companies.

The balance of the assets of retail centers and malls in Israel segment – amounted as of June 30, 2013, to the sum of approx. NIS 9.8 billion, compared with approx. NIS 9.6 billion on December 31, 2012. The change mainly derives from appreciation of the assets following an update of appraisals for the properties in Israel carried out as of June 30, 2013 and from investments in the segment's properties.

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in

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

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

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three months ended		For the six months ended		For the year ended
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**	**Dec. 31, 2012**
	NIS in millions				
Revenues	**89**	**84**	**177**	**166**	**340**
% change	**6%**	**-**	**7%**	**-**	**-**
NOI	**74**	**70**	**148**	**138**	**282**
% change	**6%**	**-**	**7%**	**-**	**-**

The increase in revenues and in the NOI derives mainly from revenues from office and other space for lease which was added to the Group pursuant to the purchase thereof in October 2012 (50% of an office building in Petah Tikva), an improvement in revenues from existing office space for lease, and the lease of vacant space.

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

	For the three-month period ended		For the six-month period ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Due to the segment's assets owned by the Company at the beginning of the period[8]	**73**	**70**	**146**	**138**
Due to assets whose purchase was completed in 2012	**1**	**-**	**2**	**-**
Due to assets which were purchased or whose construction was completed in 2013	**-**	**-**	**-**	**-**
Total	**74**	**70**	**148**	**138**

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.

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

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

- Most lease contracts are linked to the CPI, most of which rose in the Report Period, as compared to the same period last year, by 1.5% (known index).
- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).
- Continuation of population of Tower E in the Herzliya Business Park.
- Operational streamlining of the management companies.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on June 30, 2013 to the sum of approx. NIS 5.2 billion compared with approx. NIS 4.8 billion on December 31, 2012. The change mainly derives from appreciation of the assets following an update of appraisals for the properties in Israel carried out as of June 30, 2013 and from investments in properties.

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

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 24 million, compared with a profit of approx. NIS 54 million in the same period last year. The assets are presented according to the valuations carried out by an independent appraiser as of June 30, 2013. The increase in the valuation mainly derived from an increase in the lease revenues.

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three- month period ended		For the six- month period ended		For the year ended on
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	December 31, 2012
			NIS millions		
Revenues	**44**	**46**	**89**	**89**	**181**
Percentage of change	**(4%)**	**-**	**-**	**-**	**-**
NOI	**26**	**25**	**52**	**51**	**103**
Percentage of change	**4%**	**-**	**2%**	**-**	**-**

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

	For the three-month period ended on		For the six-month period ended on	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Due to the segment's assets owned by the Company at the beginning of the period[9]	**26**	**25**	**52**	**51**
Due to assets whose purchase was completed in 2012	**-**	**-**	**-**	**-**
Due to assets that were purchased or whose construction was completed in 2013	**-**	**-**	**-**	**-**
Total	**26**	**25**	**52**	**51**

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.
- Decrease in expenses

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. 5.2% 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 June 30, 2013 to the sum of approx. NIS 1.5 billion compared with approx. NIS 1.6 billion on December 31, 2012. The decrease derived from a decrease in the Dollar exchange rate.

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

Loss from the adjustment of fair value of investment properties of the segment totaled during the Report Period to the sum of approx. NIS 7 million, mainly resulting from changes to the exchange rate, compared with a loss of approx. NIS 1 million, in the same period last year.

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

1.10.4 Granite Hacarmel segment

As of the Report Date, the Company holds, through Canit Hashalom Investments Ltd., the full share capital and voting rights of Granite Hacarmel, which has become a private company and whose shares have been delisted from TASE following the completion of a full tender offer on September 24, 2012 (until such date the Company held (indirectly) approx. 60.61% of the Granite Hacarmel share capital). for details regarding a class action that was filed after the Date of the Statement of Financial Position, see Section 1.1.1 above. The Company's share (without non-controlling interests) in the Granite Hacarmel segment results amounted, in the Report Period, to a profit of approx. NIS 63 million, compared with a profit of approx. NIS 22 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 six-month period ended		Increase/ Decrease	For the year ended
	June 30, 2013	June 30, 2012		June 30, 2013	June 30, 2012		Dec. 31, 2012
	NIS in millions		%	NIS in millions		%	NIS in millions
Revenues	1,809	1,953	(7%)	3,690	3,823	(3%)	7,659
Operating Profit	82	56	46%	163	132	23%	320
Net Profit (Loss)	33	15	120%	68	44	55%	124

Summary of Granite Hacarmel's business results:

The decline in Granite Hacarmel's revenues during the Report Period and the quarter compared with the same period last year mainly derived from a decrease in Sonol's revenues which was partly offset against an increase in the revenues of Tambour and Supergas, due to an increase in operations.

Gross profit

Granite Hacarmel's gross profit amounted in the Report Period to approx. NIS 624 million, compared with approx. NIS 570 million in the same period last year. The rise, at a rate of approx. 9%, mainly stems from a rise in the fuel margins and quantities sold at Sonol and from an increase in the activity of Tambour.

The gross profit in Q2/2013 amounted to approx. NIS 314 million compared with approx. NIS 270 million in the same period last year. The rise mainly derives from a rise in the fuel margins and quantities

sold at Sonol and from an increase in the activity of Tambour.

The operating profit

The operating profit in the Report Period amounted to approx. NIS 163 million, compared with the sum of approx. NIS 132 million in the same period last year, an increase of approx. 23%. The increase in the operating profit mainly stems from an increase in the gross profit as aforesaid.

The operating profit in Q2/2013 amounted to approx. NIS 82 million compared with approx. NIS 56 million in the same period last year. The rise mainly derives from an increase in the gross profit as aforesaid.

1.11 Note with Regard to Forward-Looking Information

The Company's intentions mentioned in the introduction of the Board of Directors' Report, the main emphases to the Report and in Sections 1.1 through 1.10 of the Board of Director's Report, inter alia, in connection with taking advantage of business opportunities and expansion of the activity, liquidity, sources of financing, rate of progress of the projects under construction, effects of the economic condition on the Company's operating segments, scope of funds received from OPC (if any) in connection with the purchase of electricity and pertaining to the possibility of conversion of the short-term debt into long-term debt 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 June 30, 2013, no material changes occurred in the risk factors, in the Company's policy on the management of market risks, in the means of supervision or in the implementation of policy, compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2012 and in the notes to the financial statements for such year.

2.2 Positions in derivatives

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

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

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

Linkage bases table

See Annex C to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

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

Financial Statement Approval Procedure

The Committee convened on August 19, 2013 to review the financial statements for June 30, 2013 and to formulate its recommendations to the Board of Directors regarding approval of the statements. An advanced draft of the quarterly report, including all parts thereof, including the Company's financial statements and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

All of the Committee's members participated in the Committee's meeting of August 19, 2013. In addition, Mr. Yuval Bronstein, the Company's CEO, Ms. Irit Sekler-Pilosof, the CFO, the vice chairman of the Board, Ms. Danna Azrieli, 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 June 30, 2013. The Committee's recommendations were forwarded to the Board members on August 19, 2013 in accordance with the period of time determined to be "reasonable" by the Board of Directors (approx. 2 business days), in view of the scope and complexity of the recommendations, in preparation for the Board meeting which was held on August 21, 2013.

On August 21, 2013, the Company's Board of Directors, which is the organ responsible for overall control of the Company, approved the Company's financial statements for June 30, 2013. For details regarding the members of the Board of Directors, see Section 26 of Chapter D. of the Company's Periodic Report for 2012. Advanced drafts of the financial statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

The persons invited to the Committee's meeting as specified above were also present at the Board meeting of August 31, 2013. The Board members who were present at the said meeting (including via any media) are: Mr. David Azrieli, Chairman of the Board, Ms. Danna Azrieli, Active Vice Chairman of the Board, Mr. Menachem Einan, Active Deputy Chairman of the Board, Dr. Sharon Azrieli, Director, Dr. Naomi Azrieli, Director, Mr. Joseph Ciechanover, Independent Director, Ms. Tzippa Carmon, Independent Director, Prof. Niv Ahituv (Outside Director) and Mr. Efraim Halevy (Outside Director).

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the financial statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. At the end of the discussion at the Board of Directors, a vote was held during which the Company's financial statements for June 30, 2013 were approved.

3.2 **Corporate Governance**

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

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

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

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

4.2 Report on the Group's liabilities

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

4.3 Lawsuits

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

4.4 Critical accounting estimates

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

4.5 Disclosure pertaining to Very Material Valuations

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

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely – including the Azrieli Mall) only. This valuation as of June 30, 2013 is attached hereto as **Annex E**.

As of June 30, 2013, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2013) was in the sum of approx. NIS 4.6 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall,), out of a fair value of investment properties in the sum of approx. NIS 16.5 billion (approx. 28% of the Company's total investment properties).

4.6 Subsequent events

See Note 9 to the financial statements.

4.7 Financial figures attributed to the Company as a parent company

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

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

Without qualifying their opinion, the auditors drew attention to the provisions of Note 4 pertaining to legal actions in material amounts, cumulatively, against the Company and consolidated companies, regarding which a motion was filed to recognize the same as class actions as well as pertaining to various arguments and claims in material financial scopes, cumulatively, against a consolidated Company regarding which it was argued that the agreements thereof with its clients constitute a restrictive arrangement.

The Company's board of directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, on their blessed contribution to the Group's achievements in the quarter ended June 30, 2013.

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

Date: August 21, 2013

Annex A

The Group's Positions in Derivatives
June 30, 2013

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

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

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

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

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
275,000	NIS	July 2013 – May 2014	881

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

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

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

Amount in thousands	Currency	Date of expiry/payment/exercise	Fair Value (NIS in thousands)
31,300	NIS	2014-2016	401

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 June 30, 2013:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
176,567	Dollar	NIS	July – November 2013	(9,638)

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$176,567 thousand, and of the total purchase positions for purposes of protection of the Euro-NIS exchange rate was €3,000 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

Sensitivity Tests

June 30, 2013

Annex B – Sensitivity Tests

Sensitivity to changes in cap rate interest of investment property as of June 30, 2013

	Loss from changes in the market factor			Fair value of asset	Profit from changes in the market factor			Manner of determination of value
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Rate of change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Weighted cap rate								
6.25% - 7%	(165,805)	(63,560)	(33,293)	675,728	36,798	77,684	315,831	Discounted cash flows
7.01% - 7.5%	(1,497,217)	(622,153)	(325,814)	6,750,239	360,100	760,002	2,660,129	Discounted cash flows
7.51% - 8%	(900,242)	(390,860)	(205,843)	4,309,622	225,456	476,836	1,541,137	Discounted cash flows
8.01%-8.5%	(447,852)	(207,469)	(108,672)	2,264,637	120,015	253,349	735,210	Discounted cash flows
8.51% - 9%	(140,078)	(66,673)	(34,880)	734,986	38,673	81,534	226,546	Discounted cash flows
9.01% - 9.5%	(80,583)	(40,422)	(21,174)	211,433	23,402	49,405	126,453	Discounted cash flows
Investment property and investment property under construction	(3,231,777)	(1,391,137)	(729,676)	14,946,645	804,444	1,698,810	5,605,306	

Annex C

Reporting according to Linkage Bases

June 30, 2013

(IFRS 7)

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

	As of June 30, 2013					
	Israeli Currency		Foreign Currency		Others	Total
	Non linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	97,806	-	43,191	55,108	-	196,105
Financial assets held for trade	14,987	533	-	2	-	15,522
Short term deposits and investments	57,436	407	-	-	-	57,843
Trade receivables	1,732,964	4,462	60,637	5,203	-	1,803,266
Accounts receivables	32,019	42,815	23,007	6,033	114,428	218,302
Receivables for work in Progress	12,655	2,413	29,986	665	-	45,719
Inventory	-	-	-	-	464,645	464,645
Current tax assets	-	-	-	-	19,557	19,557
Total current assets	1,947,867	50,630	156,821	67,011	598,630	2,820,959
Non-current assets						
Investments in equity investees	-	-	-	-	7,746	7,746
Loans to equity investees	17,674	16,127	-	-	-	33,801
Investments, loans and receivables	51,309	61,937	39,090	-	26,418	178,754
Limited investments	52,670	21,756	-	-	-	74,426
Financial Assets available for sale	1,461,868	-	1,729	2,813	-	1,466,410
Financial assets designated at fair value through profit and loss	208	-	20,266	-	-	20,474
Long term Receivables in respect of a Franchise Arrangement	157,415	641,406	53,169	127,371	21,245	1,000,606
The Fuel Administration	-	-	125,273	-	-	125,273
Investment Real Estate and Investment Real Estate under Construction	-	-	-	-	16,510,941	16,510,941
Fixed Assets	-	-	-	-	1,412,250	1,412,250
Intangible assets	-	-	-	-	530,309	530,309
Prepaid Lease Fees	-	-	-	-	75,231	75,231
Deferred Tax Assets	-	-	-	-	55,211	55,211
Total Non-Current Assets	1,741,144	741,226	239,527	130,184	18,639,351	21,491,432
Total assets	3,689,011	791,856	396,348	197,195	19,237,981	24,312,391

(1) Mainly CAD and Euro

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

(Contd.)

	As of June 30, 2013					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	2,043,088	1,339,545	144,753	27,338	-	3,554,724
Trade payables	316,533	13,663	501,017	40,877	-	872,090
Account payables	107,253	24,560	40,083	4,786	276,944	453,626
Deposits from customers	-	108,237	-	-	-	108,237
Provisions	-	-	-	-	38,955	38,955
Liabilities due to current taxes	-	-	-	-	41,820	41,820
Total current liabilities	2,466,874	1,486,005	685,853	73,001	357,719	5,069,452
Non-current liabilities						
Loans from banks and other credit providers	706,678	1,367,575	920,765	98,852	-	3,093,870
Bonds	-	1,468,942	-	-	-	1,468,942
Employee benefits	-	-	-	-	56,145	56,145
Other liabilities	9,471	44,671	6,191	-	188	60,521
Deferred tax liabilities	-	-	-	-	2,445,056	2,445,056
Total non-current liabilities	716,149	2,881,188	926,956	98,852	2,501,389	7,124,534
Total liabilities	3,183,023	4,367,193	1,612,809	171,853	2,859,108	12,193,986
Total exposure in the statement on the financial position	505,988	(3,575,337)	(1,216,461)	25,342	16,378,873	12,118,405

(1) Mainly Euro and Pounds Sterling.

Annex D

Extended Standalone Financial Statements
June 30, 2013

Annex D

Extended Standalone Financial Statements

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

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

Balance sheet:

	As of June 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	124,473	68,035	111,040
Financial assets held for trade	2,404	713,502	421,847
Trade accounts receivable	32,625	27,095	36,304
Other receivables	79,619	62,014	69,600
Current tax assets	6,276	8,615	11,381
Total Current Assets	245,397	879,261	650,172
Non-Current Assets			
Investment in investee companies	1,252,798	793,117	1,195,712
Loans and receivables	58,049	53,262	58,405
Financial assets available for sale	1,372,165	1,148,972	1,413,701
Financial assets designated at fair value through profit and loss	20,474	20,964	20,088
Investment property and investment property under construction	16,421,884	15,443,903	15,864,794
Fixed assets	42,808	43,924	42,706
Deferred tax assets	1,946	1,729	2,015
Total Non-Current Assets	19,170,124	17,505,871	18,597,421
Total Assets	19,415,521	18,385,132	19,247,593

Annex D

Extended Standalone Financial Statements

Balance Sheet: Contd.

	As of June 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	1,951,877	768,794	1,820,873
Trade payables	63,026	61,501	58,510
Payables and other current liabilities	81,530	67,194	75,998
Current tax liabilities	24,878	16,723	34,141
Total Current Liabilities	2,121,311	914,212	1,989,522
Non-Current Liabilities			
Loans from banks and other credit providers	1,890,331	3,089,073	1,983,477
Bonds	931,353	1,018,902	995,172
Other liabilities	38,584	39,233	39,953
Employee benefits	24,523	23,293	25,014
Deferred tax liabilities	2,306,683	2,136,997	2,268,759
Total Non-Current Liabilities	5,191,474	6,307,498	5,312,375
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	196,885	34,208	245,454
Retained earnings	9,296,073	8,529,906	9,093,148
Equity attributed to shareholders of the Parent Company	12,029,196	11,100,352	11,874,840
Not-controlling interests	73,540	63,070	70,856
Total Capital	12,102,736	11,163,422	11,945,696
Total Liabilities and Capital	19,415,521	18,385,132	19,247,593

Annex D

Extended Standalone Financial Statements

Income Statement:

	For the three months period ended June 30		For the three months period ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in Thousands	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues					
From rent, management and maintenance fees	703,570	687,760	351,943	346,907	1,399,333
Net profit from adjustment to fair value of investment property and investment property under construction	116,273	91,107	124,061	99,051	314,936
Financing income	9,835	17,940	1,735	1,278	56,699
Share in results of associated companies, net of tax	61,701	40,928	29,691	14,751	119,462
Other	6,000	7,797	-	-	7,797
Total Revenues	897,379	845,532	507,430	461,987	1,898,227
Costs and Expenses					
Cost of revenues from rent, management and maintenance fees	149,198	148,958	74,579	77,275	309,394
Sales and Marketing	3,370	5,469	2,256	2,752	11,336
General and Administrative	46,583	35,578	24,747	20,057	75,840
Financing Expenses	111,143	161,615	57,351	110,773	275,788
Other expenses	-	-	-	207	-
Total Costs and Expenses	310,294	351,620	158,933	211,064	672,358
Income before income taxes	587,085	493,912	348,497	250,923	1,225,869
Expenses for taxes on income	(111,631)	(96,991)	(70,418)	(52,476)	(239,612)
Net Profit for the period, including the minority	475,454	396,921	278,079	198,447	986,257

Annex E

Azrieli Center Valuation

[On letterhead of Greenberg Olpiner & Co., Real Estate Appraisals]

August 20, 2013
Our reference: 3415-09

Canit Hashalom Investments Ltd.
1 Azrieli Center, Tel Aviv

Comprehensive Land Valuation Update - "Azrieli Center"

1 Azrieli Center, Tel Aviv

As per your request by Irit Sekler-Pilosof, CFO, which was received at our offices on July 21, 2013, submitted hereby is a professional opinion in respect of an estimate of the value of the Company's rights in the Property.

Our last full opinion in respect of the Property was prepared as of December 31, 2012, its number is 3415-08 (the "**Original Valuation**"). This update constitutes a continuation to the Original Valuation.

We agree to this update being published in the framework of the financial statements of the Company.

Over the years, we have performed valuations for the Azrieli Group Ltd. Revenues from such work are not material to our firm.

We have received a letter of indemnity from Azrieli Group Ltd., which letter was signed by Menachem Einan and Yuval Bronstein on March 23, 2010. According to the letter of indemnity, the Company undertakes to indemnify the appraisers if they are charged with a financial liability in connection with a valuation, as a result of incorrect documents or information provided by the Company or other companies on its behalf and/or as a result of a failure to provide documents or other information that are required for the purpose of the valuation (with the exception of documents held by the authorities and/or the public). The indemnification duty will not apply if the appraisers shall have acted negligently or maliciously in connection with the opinion.

There are no stipulations with regard to the fee for this opinion. Furthermore, there is no dependency between us and the client commissioning the valuation.

The effective date for the valuation – June 30, 2013

Documents and representations received from the Company:

- Company data report for the rent actually received in the first half of 2013.
- Forecast of leased areas, projection of proceeds from rent and management fees for 2013 and for the first half of 2014, and projection of proceeds from the parking lot operation, all on the basis of signed contracts.

And this is the update to the Original Valuation:

There is no change in the sections of the Original Valuation other than as specified below.

1. Details of the Property

Block:	7106	7102
Parcel:	59	49
Parcel area:	31,992 sqm	903 sqm
Total built-up area:	326,233 sqm (according to building permit application plans)	
Rights:	Long-term lease from the City of Tel Aviv – Jaffa	

2. Description of the Property

The undersigned made a visit to the Property on August 1, 2013.

There are no material changes in the Property. All of the areas are occupied.

3. Licensing

Subsequently to plans for an "As Made" permit for the Square Tower, which plans had been filed with the local committee by the Company, the Company received, after the effective date of the opinion, a payment demand due to a betterment levy in the amount of approx. NIS 2,175,000. The Company and its consultants are jointly examining the meaning of the payment demand. For reasons of conservativeness, we have reduced the full amount of the demand from the value of the Property specified below.

4. Legal Situation

There is no change in the legal rights.

5. Planning Situation

There is no change in the zoning plans applicable to the Property.

6. Comparative Data

6.1 Retail Areas

Most of the principal companies of income-producing properties in Israel are long-standing companies, which own properties on a large scale with high occupancy rates and high-quality management. Additional market players are the insurance companies, mainly: Clal, Migdal and Harel and investment funds such as Reit1, Sela, Capital and others.

Some of the acquisitions are made for the purpose of bettering and improving the performances of the retail center/mall and some are made based on a consideration of guaranteed yield.

Changes in the Cap Rates

There are several market trends, all of which lead the undersigned to the conclusion that the basic cap rate for the income-producing properties should be decreased.

The trends were reflected in the cap rates of transactions recently made in properties other than the prime properties – a cap rate of approx. 7.8% in the One Power Center in Modiin; a cap rate of 7.7% in the malls in Nahariya and Jerusalem; and a cap rate of 7.85% in the Ir Yamim mall in Netanya. Such cap rates are lower than the cap rates at which the properties were capitalized in the companies' statements and are lower than the cap rates in transactions for this type of properties in the past.

The reduction in the cap rates reflected in the transactions, derives, *inter alia*, from the stabilization of the interest rate in the market, very low yield rates for the government and corporate bonds, liquidity of the institutional bodies and search for investment objectives. The gap between the cap rates at which properties are capitalized in valuations and the yield rate on the government bonds are higher than generally accepted in the world and this has been the case throughout the years. However, the gap is larger than it was in the past. In recent years, no transactions have been made in the prime properties, and thus there are no comparative data from which to conclude the appropriate cap rate for these properties. Such properties are stable properties with average rent that is not high, and demonstrate, over the course of many years, a stability of rent, lessees, commercial activity and stores' revenues.

We have deemed fit to decrease the basic cap rate in respect of the property contemplated herein, and we assume that if the trend continues, and, on the other hand, no adverse change occurs in the stores' revenues due to a change in the general economic condition of the market, such trend shall also be reflected in properties other than the prime properties.

Comparison figures for the purpose of determining the cap rate for trade, based on transactions carried out and publicized by the public companies in the market in the last year:

- On July 2, 2013, the Chief Governmental Appraiser released a review of the yield rates for the second half of 2012. The average yield rate (the overall cap rate) for the second half of 2012 in commercial properties was 8.3% (with no change compared with the first half of 2012).

According to the findings of the review, there is a clear connection between the degree of the property's proximity to the center of Israel or the center of the city and the yield rate therefrom. Properties in a central location (the Central Business District of the Dan agglomeration), demonstrated a low yield rate, whereas a high yield rate was observed in peripheral properties. The connection apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness of lessees, the vacancy ratio, the risks to the owners in respect of a change of the environment etc.).

The disparities between a property in a very central location and a similar property in a intermediate/peripheral location, can amount to 1% or more.

- On May 13, 2013, the companies Mega Or and Reit 1 reported the acquisition of the One Modiin Power Center in the Einav Center industrial zone in Modiin (35% Mega Or and 65% Reit 1), with an area of approx. 11,000 sqm for marketing, in consideration for NIS 116 million. The property is fully occupied and leased to 18 different lessees in consideration for rent reflecting a yield of approx. 7.8%, considering the purchase price.

- On May 12, 2013, Sella Capital reported its purchase of half the rights in the "Seventh Boulevard" retail center in Be'er Sheva (ownership in common), which consists of an area of approx. 8,500 sqm (principal) and approx. 1,600 sqm (service) (the Company's share), in consideration for NIS 88.75 million. The property is leased at an occupancy rate of 90% and produces NIS 14.9 million (net) per year, which constitutes a yield rate of 8.4%. Insofar as there is an increase beyond the basic rent in the years 2016-2017, an increase shall be paid according to an 8.9% yield rate.

- According to a report on the Maya website on May 29, 2013 and in the press on May 30, 2013, Melisron sold all of its rights in the Hadar Mall in Jerusalem and the North Mall in Nahariya to the Clal Insurance Company in consideration for an overall amount of NIS 441 million. The sale of the malls was made according to an annual yield of 7.7% pursuant to the following specification:

- The Hadar Mall in Jerusalem – sale of 50% of the ownership of the mall (50% remain in the hands of the Blue Square). The mall presently consists of an area of 18,000 sqm and includes approx. 500 parking spaces. It is currently undergoing a process of renovation and expansion, adding a retail floor and 2 parking floors, which process is expected to be completed in December 2013. After completion of the renovation, the mall will consist of 26,000 sqm for marketing and 1,232 parking spaces, and it

was sold to Clal Insurance Company in consideration for NIS 266 million.

- The North Mall in Nahariya – 100% of the ownership of the mall. The mall consists of an area of 11,000 sqm and 700 parking spaces. The mall consists of 2 retail floors and a third floor for offices. The mall was sold to Clal Insurance Company in consideration for NIS 175 million and a 7.7% yield is guaranteed for 10 years, including a consideration adjustment at the end of the period. The transaction price possibly reflects the fact that, due to the demand of the Antitrust Commissioner, the company was compelled to sell the aforesaid properties within a pre-fixed period of time.

- On March 28, 2013, Harel reported the acquisition of the rights of Azorim in the Ir Yamim Mall in Netanya (excluding senior housing building rights) in consideration for NIS 390,000,000. According to the last valuation released for the property and an information supplementation conducted by us, it arises that the total rent is around NIS 60,000,000. After deduction of the remaining rights for retail and offices which were acquired and deduction of an existing management company deficit, the calculated cap rate amounts to approx. 7.85%.

- On February 13, 2013, Melisron reported the sale of the Renanim Mall in Ra'anana and the Savyonim Mall in Yahud to a group of investors from the insurance and pension sector, in consideration for NIS 1.02 billion. From an analysis of the transaction, it arises that the Renanim Mall was sold under an overall cap rate of 7.9% (after deduction of the value of the remaining building rights in the property) and the Savyonim Mall was sold under an overall cap rate of 8.4%. The transaction price possibly reflects the fact that, due to the demand of the Antitrust Commissioner, the company was compelled to sell the aforesaid properties within a pre-fixed period of time.

- On January 1, 2013, the Reit 1 Investment Fund reported the acquisition of all of the rights in the "Lev Talpiyot" retail center in Jerusalem, in consideration for NIS 130,000,000. The center consists of marketing areas of approx. 15,000 sqm and is leased at full occupancy. In view of information we have collected, an analysis of the transaction indicates a cap rate of approx. 8.5%.

- On November 15, 2012 Nitsba Holdings released an announcement, whereby the company would acquire the rights of its partner, Big Commercial Centers, in the Big Poleg Commercial Center in Netanya (one half), in consideration for NIS 246,065,000; the rights in the management company for payment of an amount of NIS 12,035,000; and the remaining offices building rights for an additional consideration of

approx. NIS 5,900,000. From an analysis of the transaction it emerges that the cap rate for the commercial areas in the transaction is approx. 7.7%.

- On August 19, 2012, Isralom released an announcement, whereby all of the rights in the Ikea area in Netanya were sold in consideration for NIS 289,000,000. The structure, which holds a gross area of 25,153 sqm, is leased in its entirety for a long period for the purpose of the operation of the Ikea store, and includes unused building rights. In light of information we have collected, and after deduction of the value of the remaining building rights, an analysis of the transaction indicates a cap rate of approx. 7.3%.

- On August 16, 2012, Amot purchased from a third party 50% of the rights in the commercial center "Kirya Center" in Ashdod (following the acquisition, Amot holds all of the rights), in consideration for a sum of NIS 68,500,000. The property is an open-air commercial center comprised of approx. 12,000 sqm of commercial and office areas, and underground and above-ground parking lot that includes approx. 300 parking spaces and there are also unused building rights; the projected NOI is NIS 5,800,000. In view of information we have collected, and after deduction of the value of the remaining building rights, an analysis of the transaction indicates a cap rate of approx. 9%.

- On August 5, 2012, it was reported in the press that the Phoenix purchased the "Mega Area" at the industrial zone of Ramat Hachayal, Tel Aviv, in consideration for an amount of NIS 125,000,000. The area spans 12.5 Dunams of land, on which a structure of 4,500 sqm is built, which structure is leased to Mega. The sellers intend to build an additional area of 1,000 sqm that will be leased to other entities. The overall rent after completion of the construction is expected to be NIS 9,000,000 per year. From an analysis we carried out while supplementing relevant information, it arises that the cap rate for the income producing property was calculated according to 7.25% for a period of approx. 10 years (the remaining lease period). The property has potential in the shape of additional unused building rights, and for preparation of a plan for additional building rights, as has been done in large land sites in the close vicinity.

6.2 Offices

Estimation of the cap rate for **office spaces leased on the free market**, is based on transactions made and published by the public companies in the market during the past year:

- On July 2, 2013, the Chief Governmental Appraiser released a review of the yield rates for the second half of 2012. The average yield rate (the overall cap rate) for the second half of 2012 for offices properties was 8.3% (with no material change relative to the previous median), in light of forecasts among active entities that in the intermediate-term a surplus of supply is expected in the offices segment, particularly in the area of demand.

  According to the findings of the review, there is a clear connection between the degree of the property's proximity to the center of Israel or the center of the city and the yield rate therefrom. Properties in a central location (Central Business District of the Dan agglomeration) demonstrated a low yield rate, whereas in peripheral properties a high yield rate was observed. The connection apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness of lessees, the vacancy ratio, the risks to the owners in respect of a change of the environment etc.).

  The disparities between a property in a very central location and a similar property in an intermediate/peripheral location, can amount to 1% or more.

- On April 21, 2013, Amot reported the purchase of three office buildings in the industrial zone in Yahud, which buildings are used as the HP Group's software development center, in consideration for approx. NIS 236,000,000. The structures hold 4-8 floors with an area for marketing of approx. 22,000 sqm. The structures are built on top of underground parking lots that include approx. 574 parking spaces. Concurrently with the purchase agreement, the company signed a lease agreement vis-à-vis the seller in respect of the three structures, for a 7-year period. The net revenues deriving from the structures shall amount to approx. NIS 18,500,000 per year. The transaction reflects a 7.83% yield.

- On March 10, 2013, Sella Capital reported a transaction for the purchase of 2 office floors (floors 17 and 18) in the Platinum Tower on HaArba'ah Street in Tel Aviv. The transaction includes the purchase of 1,650 sqm of office spaces, 35 parking spaces and storage areas, in consideration for NIS 31,500,000. The property is leased at full occupancy in consideration for annual rent of approx. NIS 2,440,000. The transaction reflects a value per 1 sqm of offices of approx. NIS 16,500 with a capitalization coefficient of 7.75%.

- According to reports in the press in January 2013 and supplementary information we have collected, the Phoenix acquired "Beit Yevulim" in the industrial zone in Ra'anana, which consists of an area of approx. 23,000 sqm, in

consideration for NIS 180,000,000. About half of the building is leased to Retalix and the rest is leased to various lessees. The property was sold according to a yield of 7.5%.

- On November 19, 2012, Ashdar reported the sale of its rights (45%) in the structure Ashdar 2000 in Tel Aviv, which consists of 18,768 sqm of offices and retail and 343 parking spaces, in consideration for NIS 84,150,000. Ashdar's share in the rent is approx. NIS 6,651 thousand. The transaction reflects a cap rate of 7.9%.

- On October 9, 2012, a private company acquired all of the rights in an office building called "Beit HaKeren" in Be'er Sheva, in consideration for approx. NIS 18,200,000. The building is leased in its entirety for commercial and office uses. The yield rate of the transaction, as calculated by us, is 8.9%.

- On September 13, 2012, Zarfati sold its rights in 3 office floors (approx. 1,500 sqm) and 51 parking spaces, which are leased to the State of Israel for a 15-year period commencing on September/2010, on 29 Rothschild Street, the corner of Bar Shaul, in Bat Yam (Block 7147, Parcel 164), in consideration for NIS 20,413,025 plus V.A.T. According to information from the company's financial statements as of December 31, 2011, the rent paid for the property amounts to NIS 1,361,000. According to an analysis we have performed it arises that the cap rate in the transaction was 7%. The value of 1 sqm of offices is approx. NIS 11,000 and the value of a parking space is approx. NIS 72,000.

- According to a periodic report for Q2/2012 of Ashtrom, on August 5, 2012, the company sold its rights in an industrial park at Migdal HaEmek in consideration for NIS 21,100,000. According to the company's financial statements in respect of the property, it held approx. 7,030 sqm, leased at an occupancy rate of 87%, in consideration for average rent of approx. NIS 18 per sqm per month. The cap rate in the transaction was approx. 8.1%.

- From information arising from the financial statements of Reit1 it emerges that, in April 2012, the company engaged, together with Psagot Investment House, in an agreement for the purchase of the 9 top floors of the Millennium Tower on HaArba’ah Street in Tel Aviv. The transaction included the purchase of 6,075 sqm of office spaces, 342 sqm of commercial areas, 180 parking spaces as well as 49% of areas situated in the basement floor through ownership in common, in consideration for NIS 137,000,000. The property is leased to 15 lessees and at full occupancy. The total projected annual income from rent is approx. NIS 11,400,000. The transaction

reflects a value of approx. NIS 17,000 per 1 sqm of offices with a capitalization coefficient of 8.3%.

7. Calculation

We have estimated the Property's value by the income capitalization approach.

The Rent:

The basis of the information is the rent as of the effective date, and no expected increase in the rent is taken into account. The calculation of the total rent was provided to us by the Company. We have made no modifications in these figures.

The Cap Rate:

The cap rate for the retail areas – in light of the aforesaid, we have reduced the cap rate by approx. 0.25% compared with the cap rate used in the Original Valuation, i.e. a cap rate of 7.0%..

The cap rate due to income from revenues and walk-in customers in the retail areas was taken at a rate that reflects the risk, an addition of 1% to the basic cap rate.

The cap rate for the office areas has been set to a weighted 7.5% - reflecting a 7% cap rate for the long-standing and significant contracts (in view of a lower risk factor) and a 7.75% cap rate for the other contracts. This cap rate is consistent with office and occupational areas in office buildings.

Estimation of the cap rate for the Bezeq areas and the hotel areas is lower by approx. 0.25% than the weighted cap rate for offices, in view of the lower risk.

The cap rate for the parking lot and storerooms - 7.75%.

Income from revenues and net income from electricity were capitalized at a cap rate which reflects risk and uncertainty.

We deducted cost which is attributed to the transportation task.

We deducted the betterment levy payment demand.

Item	Area for Marketing in sqm	Annual Income	Cap Rate	Value
Mall-retail areas	32,860	NIS 115,110,000	7.00%	NIS 1,664,400,000
Mall- Additional income from revenues and walk-in customers		NIS 1,360,000	8.00%	NIS 17,000,000
Leased offices – excluding Bezeq	109,178	NIS 135,340,000	7.50%	NIS 1,804,500,000
Bezeq offices	22,300	NIS 20,760,000	7.25%	NIS 286,300,000

The hotel	18,000	NIS 14,120,000	7.25%	NIS 194,700,000
Storerooms		NIS 2,160,000	7.75%	NIS 27,800,000
Parking lot		NIS 37,140,000	7.75%	NIS 479,200,000
Total		**NIS 325,990,000**	**7.3%**	**NIS 4,453,900,000**
Profit from electricity		NIS 5,770,000	12%	NIS 48,000,000
Profit from management		NIS 13,120,000	9.3%	NIS 140,700,000
Future investments in the Property				- NIS 60,500,000
Deduction of transportation task and betterment levy				- NIS 4,175,000
Total, rounded off				**NIS 4,577,900,000**

The total value indicates an average value of approx. NIS 50,000 per sqm of retail areas, an average value of approx. NIS 16,000 per sqm of offices, and a value of approx. NIS 150,000 per parking space. These figures are consistent with the market figures.

Sensitivity analysis

The results of a sensitivity analysis for changes in the cap rate:

	7.00%	**7.50%**	**8.00%**
Value of the Property	NIS 4,909,800,000	NIS 4,577,900,000	NIS 4,288,400,000

8. The valuation

In light of the aforesaid, our estimate of the market value of the Company's rights in the Property (excluding the area for used by Azrieli Group itself), on the free market, under the criterion of a willing buyer from a willing seller, free and clear of any debt, charge, mortgage, including third-party rights, is about **NIS 4,577,900,000**.

9. General

- The value does not include V.A.T.
- We have not addressed taxation, if any, which may apply when selling the Property.
- The value of the Property in the Company's books NIS 4,480,000,000.
- We have valuated the Property in the past for purposes of inclusion in the Company's financial statements:

Effective Date	Value of the Company's Rights
December 31, 2009	NIS 3,725,100,000
December 31, 2010	NIS 4,014,000,000
June 30, 2011	NIS 4,133,100,000
December 31, 2011	NIS 4,306,400,000
June 30, 2012	NIS 4,373,300,000
December 31, 2012	NIS 4,473,300,000

10. Statements

- We state that, to the best of our knowledge, the facts upon which this opinion has been based are correct.
- The analysis and the conclusions are limited to the assumptions and the conditions specified above.
- We state that the legal information presented in this document is the legal information on which the Original Valuation is based.
- We state that we have no personal interest in the Property contemplated in the valuation, in the owners of the rights therein or in the client commissioning the valuation.
- The fee for this valuation is not contingent upon the results of the evaluation and has no material effect on our firm's revenues.
- The report was prepared according to the Real Estate Appraiser Regulations (Professional Ethics), 5726-1966 and according to the professional standards of the Appraisal Standards Committee.
- We state that we have the appropriate knowledge for making this evaluation.
- The valuation was performed by the undersigned, without assistance.

Part B

Update of the Description of the Corporation's Business

Azrieli Group

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2012 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a specification of material developments which have occurred in the Company's business during the six months ended June 30, 2013 and until the Report Release Date, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided. In this chapter: the "**Report Release Date**" – August 21, 2013; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – June 30, 2013.

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

Update to Footnote (1):

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

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

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

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

[1] As released on March 20, 2013 (reference number 2013-01-011398).

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

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

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

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

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

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

On May 16, 2013, Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the Company, transferred 7,793,662 shares of the Company held thereby, without consideration, to a registered charitable foundation, which is domiciled in Canada and whose assets are designated for donations and for the financing of philanthropic activity in Israel and in Canada (the "**Foundation**"). Following the said share transfer, the Foundation became an interested party of the Company by virtue of the holdings. It is clarified that as the Company has been informed, neither Mr. David Azrieli nor any of his relatives are controlling shareholders of the Foundation, and therefore the Foundation shall not be deemed as a controlling shareholder of the Company. As of the Report Date, Nadav Investments holds 64.99% of the Company's share capital. For further details, see the Company's

immediate reports of May 19, 2013 (ref. no.: 2013-01-063904 and 2013-01-063892), which are included herein by way of reference.

4. Dividends

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

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

5. Properties under Construction

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

Azrieli Holon Center

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

Azrieli Mall Ramla

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

Azrieli Mall Rishonim

In July 2013, the plan applicable to the project site received final approval, and the Company is in the course of the work of excavation, establishment and construction of the underground parking lots in the project according to the building permits which were obtained. In addition to administrative petitions that were filed in March and April, 2013, against the decision of the district committee to approve the plan which applies to the project site and against the denial of the appeal in connection with the excavation and shoring permit received in the project, a petition and a motion for an interim injunction were filed against the final approval of plan. Shortly before the Report Release Date, the Court denied the motion for a preliminary injunction as filed, but issued a preliminary injunction barring the issuance of building permits under the new plan pending a judgment in the petition (without preventing of course the continuation of the construction of the parking lots in accordance with the permits that were received), which validity is conditioned upon the petitioners' depositing a cash guarantee in the amount of NIS 657,000, and an undertaking

by all of the petitioners by September 1, 2013 (which will expire automatically if not deposited as aforesaid).

Building in Kiryat Ata

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

Additional floor in Ayalon Mall

As of the Report Release Date the Company has begun work for the purpose of construction of the second floor and for the completion of the conditions required to receive a building permit for the construction thereof.

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

6. Developments regarding Azrieli Center Tel Aviv

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

Azrieli Towers Tel Aviv

(Data according to 100%) (*)	For the quarter ended June 30, 2013	For the quarter ended March 31, 2013	For the year ended December 31, 2012
Property Value (NIS in thousands)	2,608,435	2,581,656	2,579,848
NOI in the period (NIS in thousands)	48,539	47,860	186,020
Revaluation profit in the period (NIS in thousands)	23,835	341	84,110
Average occupancy rate in the period (%)	100%	100%	99%
Rate of return (%)	7.4%	7.4%	7.2%
Average rent per sqm per month (NIS) (**)	96	95	93
Average rent per sqm per month in contracts signed in the period (NIS)	114	115	103

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

The valuation for this property as of June 30, 2013 is attached hereto as Annex "E" to Chapter A of this report – the Board of Directors report.

Details of the valuation

		June 30, 2013	Year 2012
Determined valuation (NIS thousands)		2,608,435	2,579,848
Valuator's identity		Greenberg, Olpiner & Co.	Greenberg, Olpiner & Co.
Is the valuator independent?		Yes	Yes
Is there an indemnification agreement?		Yes	Yes
The effective date of the valuation (the date to which the valuation refers)		June 30, 2013	December 31, 2012
Valuation's model		Discounted cash flow	**discounted cash flow**
	Main parameters used for the purpose of the valuation		
The valuation according to Income Approach model	**Gross Leasable Area (sqm)** [2] used for the calculation	149,478	149,421
	Representing occupancy rate out of the Gross Leasable Area, for the purpose of the valuation	100%	100%
	Representing average monthly rent per leased sqm for the purpose of the valuation	94.9	93.9
	Representing NOI for the purpose of the valuation (in NIS thousands)[3]	202,626	200,521
	Average periodic capital expenditure per year	**See other main parameters below**	
	Rate of weighted capitalization used for the purpose of the valuation	**7.58%**	**7.59%**
	Other main parameters	Expected investments in the property were deducted, as was betterment levy and investments due to a contractual liability to the City of Tel Aviv. Total decrease in the property's value due to the aforesaid amounted to approx. NIS 65 million.	Expected investments in the property were deducted, as were investments due to a contractual liability to the City of Tel Aviv. The total decrease in the property's value as a result of the aforesaid amounted to approx. NIS 60 million.
Value sensitivity analysis		**Change to value (NIS thousands)**	
Capitalization rates	0.25% increase	(85,615)	**(84,153)**
	0.25% decrease	90,907	**89,882**
Average rent per sqm	5% increase	**114,979**	**113,729**
	5% **de**crease	(**114,979**)	**(113,729)**

[2] Excluding an area of approx. 1,520 sqm on the top office floor of the round tower, which is used by the Company itself.
[3] Including 50% of representing NOI of a parking lot which is included in the property's value (the remaining 50% were included in the valuation of the mall).

7. Developments in the Granite Hacarmel operating segment

Supergas Segment

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

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

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

Supergas and the Antitrust Authority are conducting advanced contacts with the aim of reaching an agreement with regard to a consent order. According to the draft order, subject to the approval of the Antitrust Court and the authorized organs of Supergas, Supergas and the Company's current CEO will pay sums to the State Treasury, in lieu of the imposition of enforcement measures and without admitting to any breach of law. For further details see Note 4C to the financial statements.

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

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

The aforesaid financial scope of the Agreement is forward-looking information, as such term is defined in the Securities Law 5728-1968, and

there is no certainty that it will materialize, in whole or in part, and it may materialize in a manner which substantially differs from the aforesaid, due to various causes, including changes in the scope, pace and timing of Supergas' consumption of the natural gas, the price of gas as shall be determined according to the Agreement and so on.

Tambour Segment

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

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

GES Segment

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

On January 20, 2013 a conditional operating permit was received for the first stage of the additional expansion, in effect from January 4, 2013, and on March 19, 2013 the permanent commercial operating permit for the first stage of the additional expansion was received from the Water Authority.

After the Report Date the company completed the construction work on the second stage of the additional expansion. On July 30, 2013 completion tests for the last and final stage of the additional expansion began, following which Via Maris is awaiting the decision of the Water Authority with regard to the receipt of an operating permit for the second stage of the additional expansion, based on the results of these tests.

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

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

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

8. Reportable credit extended to the Company after the date of the Statement of Financial Position

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

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

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

In addition, on the same day, the Company entered into an agreement for the provision of an additional loan from an institutional body, in a total sum of NIS 250 million, without collateral, for a period of two years and on similar interest conditions.

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

b. The table in Section 17.3 of the Description of the Corporation's Business chapter, the title of which is "Reportable Credit Extended to the Company" shall be replaced by the following table[4]:

Date of provision of the loan	**Purpose of the loan**	**Type of loan**			**Balance (including current maturities) as of June 30, 2013 (NIS millions)**	**Type and rate of annual interest**	**Linkage**	**Guarantees/securities**	**Long term loans' payment due date**
		Banking Corporation	**Short Term**	**Long Term**					
March 2009	Acquisition of the Givatayim Mall	Banking Corporation A		X	268	4.7%	Consumer Price Index	1. Mortgage registration obligation. 2. First-ranking pledge on contractual rights deriving from the mall. 3. First-ranking fixed charge on all of the rights deriving from the mall. 4. First-ranking floating charge on all of the rights in the mall.	Until March 2017

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

								5. Undertaking to refrain from creating a floating charge on the assets in their entirety without receipt of the banking corporation's consent.	
March 2007	Current purposes	Banking Corporation B		X	336	4.75%	Consumer Price Index	Undertaking to refrain from creating a floating charge on the assets in their entirety without receipt of the banking corporation's consent.	Until March 2017

The Company has additional loans, which are non-material, from banking corporations, the balance of which loans in the books, as of June 30, 2013 amounts to approx. NIS 0.6 billion. These loans bear interest ranging between 3.2% and 5.8% and shall be repaid between the years 2013 and 2020. There are no financial covenants for these loans and for the material loans.

9. Commercial paper

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

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

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

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

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

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

During the Report Period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.5.2 of the Description of the Corporation's Business chapter and in Note 20 to the financial statements for December 31, 2012. As of June 30, 2013, the balance of the par value of the Series A Bonds of the Company is NIS 518 million. According to the terms thereof, the final maturity date of the Company's Series A Bonds is March 31, 2017. The remaining details in connection with the Company's Series A Bonds and the payment dates thereof are specified in Section 17.5.2 of the Description of the Corporation's Business chapter and in Note 20 to the financial statements for December 31, 2012.

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

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

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

In the Report Period, principal and interest payments were made in accordance with their payment schedules and as specified in Section 17.6.1 of the Description of the Corporation's Business chapter and in Note 20 to the financial statements for December 31, 2012. As of June 30, 2013, the balance of the par value of the Series A Bonds of Canit Hashalom is approx. NIS 334

million. According to the terms thereof, the final maturity date of the Series A Bonds of Canit Hashalom is June 30, 2015. The remaining details in connection with the Series A Bonds of Canit Hashalom and the payment dates thereof are specified in Section 17.6.1 of the Description of the Corporation's Business chapter and in Note 20 to the financial statements for December 31, 2012.

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

12. Legal Proceedings

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

13. Changes in the Office of Officers of the Company

Update to Sections 26 and 26A of Chapter D of the Periodic Report and the Corporate Governance Report

Approval of a compensation policy and summoning of a special and annual general meeting

On August 6, 2013, the Company's Board of Directors approved, after receipt of the Compensation Committee's recommendation, a compensation policy for the Company pursuant to Section 267A of the Companies Law. On the same day, the Company summoned a general meeting of the Company for approval of the compensation policy as well as an annual general meeting, which is scheduled for September 11, 2013. For details, see the Company's immediate report of August 6, 2013 (ref.: 2013-01-110556).

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

On June 20, 2013, the Company's general meeting approved the terms of office and employment of the Chairman of the Board, Mr. David Azrieli, and of the Active Vice Chairwoman of the Board, Ms. Danna Azrieli, after receipt of the approval and recommendation of the Company's Board of Directors and the Compensation Committee. For details, see the Company's immediate reports of May 14, 2013 (ref. no.: 2013-01-062020) and of June 21, 2013 (ref. no.: 2013-01-070386), which are included herein by way of reference, and Note 5 to the financial statements.

On May 13, 2013, the Company's board of directors and the Compensation Committee reapproved the terms of office of the directors Dr. Naomi Azrieli and Dr. Sharon Azrieli, without any change to the terms of their office. For details, see the Company's immediate report of May 14, 2013, (ref. no.: 2013-01-062026) which is incorporated herein by reference.

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

Appointment of a CFO

On May 8, 2013, the Company's board of directors approved the appointment of Ms. Irit Sekler-Pilosof as the Company's CFO, in lieu of Mr. Yuval Bronstein, as of May 1, 2013, and further approved an update to her terms of office.

Extension of the office of the Company’s outside directors

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

Replacement of directors

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

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

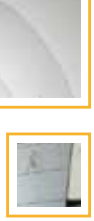
Replacement of the CEO

On April 2, 2013, the Company's board of directors approved the appointment of Mr. Yuval Bronstein as the Company's CEO, from May 1, 2013, and further approved an update to Mr. Bronstein's terms of office as the Company's CEO,

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

Part C

Condensed Consolidated Financial Statements Dated 30 June, 2013



Azrieli Group

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of June 30, 2013

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

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

Introduction

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

We did not review the condensed interim financial information of a consolidated company whose consolidated assets constitute approx. 24% of all the consolidated assets as of June 30, 2013, and whose consolidated revenues constitute approx. 81.7% and 79.3%, respectively, of all the consolidated revenues for the periods of six and three months then ended. The condensed financial information for the interim periods of such company was reviewed by other auditors whose review report was furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review report of the other auditors**.**

Scope of the review

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

Conclusion

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

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

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

Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, August 21, 2013

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of June 30		As of December 31
	2013	2012	2012
	NIS thousands		NIS thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	196,105	159,204	182,818
Financial assets held for trade	15,522	776,154	470,757
Short-term deposits and investments	57,843	95,981	90,331
Trade accounts receivable	1,803,266	1,960,568	1,757,697
Other receivables	218,302	153,763	173,020
Receivables for work in progress	45,719	22,687	41,164
Inventory	464,645	483,437	498,002
Current tax assets	19,557	21,958	27,826
Total Current Assets	2,820,959	3,673,752	3,241,615
Non-current Assets			
Investments in associated companies	7,746	23,543	7,626
Loans to associated companies	33,801	32,641	35,051
Investments, loans and receivables	178,754	190,298	186,895
Restricted investments	74,426	51,663	70,223
Financial assets available for sale	1,466,410	1,209,624	1,509,531
Financial assets designated at fair value through profit and loss	20,474	20,964	20,088
Long-term receivables in respect of franchise arrangement	1,000,606	639,523	858,710
The Fuel Administration	125,273	135,502	129,130
Investment property and investment property under construction	16,510,941	15,524,947	15,954,699
Fixed assets	1,412,250	1,391,963	1,390,194
Intangible assets	530,309	537,271	533,394
Pre-paid long-tern rent	75,231	33,670	40,921
Deferred tax assets	55,211	55,177	52,432
Total Non-current Assets	21,491,432	19,846,786	20,788,894
Total Assets	24,312,391	23,520,538	24,030,509

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As of June 30		As of Dec. 31
	2013	2012	2012
	NIS thousands		NIS thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current Liabilities			
Credit from banks and other credit providers	3,554,724	2,637,641	3,451,483
Trade payables	872,090	874,383	804,455
Trade and other payables	453,626	391,485	429,964
Deposits from customers	108,237	107,285	107,633
Provisions	38,955	33,512	30,295
Current tax liabilities	41,820	29,806	44,380
Total Current Liabilities	5,069,452	4,074,112	4,868,210
Non-current Liabilities			
Loans from banks and other credit providers	3,093,870	3,961,574	3,134,320
Bonds	1,468,942	1,611,387	1,552,518
Employee benefits	56,145	57,811	58,244
Other liabilities	60,521	62,149	62,274
Deferred tax liabilities	2,445,056	2,254,121	2,397,607
Total Non-current Liabilities	7,124,534	7,947,042	7,204,963
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	196,885	34,208	245,454
Retained earnings	9,296,073	8,529,906	9,093,148
Total Equity Attributed to the Shareholders of the Parent Company	12,029,196	11,100,352	11,874,840
Non-controlling interests	89,209	399,032	82,496
Total Capital	12,118,405	11,499,384	11,957,336
Total Liabilities and Capital	24,312,391	23,520,538	24,030,509

August 21, 2013			
Date of approval of the financial statements	**David Azrieli** **Chairman of the Board**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **CFO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the six month Period ended June 30		For the three month Period ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousand		NIS thousand		NIS thousand
	(unaudited)		(unaudited)		
Revenues					
From sales, labor and services	3,682,971	3,815,672	1,805,237	1,949,711	7,644,162
From rent and management and maintenance fees	709,467	693,483	354,901	349,782	1,411,192
Net profit from adjustment to fair value of investment property and investment property under construction	115,210	97,120	124,109	105,489	328,896
Financing income	48,160	63,511	23,335	12,688	122,000
Other	9,263	12,221	2,872	708	27,391
Total revenues	4,565,071	4,682,007	2,310,454	2,418,378	9,533,641
Costs and Expenses					
Costs of revenues from sales, labor and services	3,066,816	3,249,808	1,494,697	1,680,712	6,449,437
Costs of revenues from rent, management and maintenance fees	152,846	152,390	76,430	78,990	316,813
Sales and marketing	395,420	384,761	198,789	189,894	779,961
General and administrative	115,180	103,022	62,271	52,903	218,202
Share in results of associated companies, net of tax	2,761	6,674	1,073	3,919	12,033
Financing expenses	224,951	277,106	119,013	156,654	496,983
Other	755	466	567	447	1,795
Total Costs and Expenses	3,958,729	4,174,227	1,952,840	2,163,519	8,275,224
Income before income taxes	606,342	507,780	357,614	254,859	1,258,417
Expenses for taxes on income	(130,888)	(110,859)	(79,535)	(56,412)	(272,159)
Net profit for the period	475,454	396,921	278,079	198,447	986,258
Other comprehensive income:					
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(252)
Amounts that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	(30,345)	(77,471)	(38,338)	(126,377)	138,504
The effective share of the change in the fair value of the cash flow hedge, net of tax	(573)	(839)	(97)	1,012	(1,316)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	1,127	(25)	306	(157)	466
Translation differences from foreign operations	(19,594)	14,958	(5,144)	29,900	(12,333)
Total	(49,385)	(63,377)	(43,273)	(95,622)	125,321
Other comprehensive income (loss) for the period, net of tax	(49,385)	(63,377)	(43,273)	(95,622)	125,069
Total comprehensive income for the period	426,069	333,544	234,806	102,825	1,111,327

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income
(Continued)

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended Dec. 31
	2013	2012	2013	2012	2012
	NIS thousands		NIS thousands		NIS thousands
	(Unaudited)				
Net income for the period attributed to:					
Shareholders of the parent company	467,925	375,034	273,803	190,612	938,526
Non-controlling interests	7,529	21,887	4,276	7,835	47,732
	475,454	396,921	278,079	198,447	986,258
Total comprehensive income for the period attributed to:					
Shareholders of the parent company	419,471	307,293	230,784	89,192	1,060,234
Non-controlling interests	6,598	26,251	4,022	13,633	51,093
	426,069	333,544	234,806	102,825	1,111,327
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributed to shareholders of the parent company	3.86	3.09	2.26	1.57	7.74
Average weighted share capital used in calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity

	For the period of six months ended June 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net profit for the period	-	-	-	-	-	-	-	467,925	467,925	7,529	475,454
Change in fair value of financial assets available for sale, net of tax	-	-	(30,334)	-	-	-	-	-	(30,334)	(11)	(30,345)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(568)	-	(568)	(5)	(573)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	1,117	-	1,117	10	1,127
Translation differences from foreign operations	-	-	-	(18,669)	-	-	-	-	(18,669)	(925)	(19,594)
Total comprehensive income for the period	-	-	(30,334)	(18,669)	-	-	549	467,925	419,471	6,598	426,069
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Capital reserve for transactions with related parties	-	-	-	-	(115)	-	-	-	(115)	115	-
Total transactions with shareholders of the Company	-	-	-	-	(115)	-	-	(265,000)	(265,115)	115	(265,000)
Balance as of June 30, 2013	18,223	2,518,015	243,309	(34,306)	(31,027)	21,375	(2,466)	9,296,073	12,029,196	89,209	12,118,405

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of six months ended June 30, 2012									
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
	(Unaudited)									
Balance as of January 1, 2012	18,223	2,518,015	138,608	(3,220)	(30,921)	(1,789)	8,394,872	11,033,788	430,270	11,464,058
Net profit for the period	-	-	-	-	-	-	375,034	375,034	21,887	396,921
Change in fair value of financial assets available for sale, net of tax	-	-	(80,935)	-	-	-	-	(80,935)	3,464	(77,471)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	(501)	-	(501)	(338)	(839)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	(13)	-	(13)	(12)	(25)
Translation differences from foreign operations	-	-	-	13,708	-	-	-	13,708	1,250	14,958
Total comprehensive income for the period	-	-	(80,935)	13,708	-	(514)	375,034	307,293	26,251	333,544
Dividend to the shareholders of the Company	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Warrants exercised for shares in a consolidated company	-	-	-	-	-	(58)	-	(58)	287	229
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(159)	-	(159)	(61,551)	(61,710)
Sales of shares in a consolidated company	-	-	-	-	-	(508)	-	(508)	921	413
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	2,850	2,850
Capital reserve for transactions with related parties	-	-	-	-	(4)	-	-	(4)	4	-
Total transactions with shareholders of the Company	-	-	-	-	(4)	(725)	(240,000)	(240,729)	(57,489)	(298,218)
Balance as of June 30, 2012	18,223	2,518,015	57,673	10,488	(30,925)	(3,028)	8,529,906	11,100,352	399,032	11,499,384

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of three months ended June 30, 2013										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of April 1, 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
Net profit for the period	-	-	-	-	-	-	-	273,803	273,803	4,276	278,079
Change in fair value of financial assets available for sale, net of tax	-	-	(38,327)	-	-	-	-	-	(38,327)	(11)	(38,338)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(96)	-	(96)	(1)	(97)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	303	-	303	3	306
Translation differences from foreign operations	-	-	-	(4,899)	-	-	-	-	(4,899)	(245)	(5,144)
Total comprehensive income for the period	-	-	(38,327)	(4,899)	-	-	207	273,803	230,784	4,022	234,806
Capital reserve for transactions with related parties	-	-	-	-	(19)	-	-	-	(19)	19	-
Total transactions with shareholders of the Company	-	-	-	-	(19)	-	-	-	(19)	19	-
Balance as of June 30, 2013	18,223	2,518,015	243,309	(34,306)	(31,027)	21,375	(2,466)	9,296,073	12,029,196	89,209	12,118,405

(*) Immaterial adjustment – see Note 2E.

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the period of three months ended June 30, 2012									
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Other capital reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS in Thousands									
	(Unaudited)									
Balance as of April 1, 2012	18,223	2,518,015	187,514	(17,379)	(30,925)	(2,857)	8,339,294	11,011,885	442,892	11,454,777
Net profit for the period	-	-	-	-	-	-	190,612	190,612	7,835	198,447
Change in fair value of financial assets available for sale, net of tax	-	-	(129,841)	-	-	-	-	(129,841)	3,464	(126,377)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	634	-	634	378	1,012
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	(80)	-	(80)	(77)	(157)
Translation differences from foreign operations	-	-	-	27,867	-	-	-	27,867	2,033	29,900
Total comprehensive income for the period	-	-	(129,841)	27,867	-	554	190,612	89,192	13,633	102,825
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(159)	-	(159)	(61,551)	(61,710)
Warrants exercised for shares in a consolidated company	-	-	-	-	-	(58)	-	(58)	287	229
Sales of shares in a consolidated company	-	-	-	-	-	(508)	-	(508)	921	413
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	2,850	2,850
Total transactions with shareholders of the Company	-	-	-	-	-	(725)	-	(725)	(57,493)	(58,218)
Balance as of June 30, 2012	18,223	2,518,015	57,673	10,488	(30,925)	(3,028)	8,529,906	11,100,352	399,032	11,499,384

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Equity
(Continued)

	For the year ended December 31, 2012										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other Capital Reserves	Retained earnings	Total attributed to shareholders of the parent company	Non-controlling interests	Total
	NIS Thousands										
Balance as of January 1, 2012	18,223	2,518,015	138,608	(3,220)	(30,921)	-	(1,789)	8,394,872	11,033,788	430,270	11,464,058
Net income for the year	-	-	-	-	-	-	-	938,526	938,526	47,732	986,258
Change in the fair value of financial assets available for sale, net of tax	-	-	135,035	-	-	-	-	-	135,035	3,469	138,504
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(250)	(250)	(2)	(252)
Translation differences from foreign operations	-	-	-	(12,417)	-	-	-	-	(12,417)	84	(12,333)
The effective share of the change in the fair value of the cash flow hedge, net of tax	-	-	-	-	-	-	(1,161)	-	(1,161)	(155)	(1,316)
Net change in the fair value of the cash flow hedge that was carried to profit and loss, net of tax	-	-	-	-	-	-	501	-	501	(35)	466
Total comprehensive income for the year	-	-	135,035	(12,417)	-	-	(660)	938,276	1,060,234	51,093	1,111,327
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Warrants exercised for shares in a consolidated company	-	-	-	-	-	-	(58)	-	(58)	286	228
Acquisition of non-controlling interests in consolidated companies	-	-	-	-	-	21,375	-	-	21,375	(401,441)	(380,066)
Sales of shares in a consolidated company	-	-	-	-	-	-	(508)	-	(508)	917	409
Issue to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	2,850	2,850
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,470)	(1,470)
Capital reserve for transactions with related parties	-	-	-	-	9	-	-	-	9	(9)	-
Total transactions with shareholders of the Company	-	-	-	-	9	21,375	(566)	(240,000)	(219,182)	(398,867)	(618,049)
Balance as of Dec. 31, 2012	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash Flows - Current Operations					
Net profit for the period	475,454	396,921	278,079	198,447	986,258
Depreciation and amortization	68,811	62,359	34,535	29,738	126,486
Profit from adjustment to fair value of investment property and investment property under construction, net	(115,210)	(97,120)	(124,109)	(105,489)	(328,896)
Financing and other expenses, net	169,660	181,185	96,769	103,661	380,408
Impairment of financial assets available for sale	-	253	-	253	1,450
Dividend received from financial assets available for sale	6,000	8,379	-	253	8,461
Interest and dividend received from financial assets held for trade	5,932	27,215	951	8,255	36,911
Loss (profit) from realizing fixed assets, investment property and intangible assets, net	244	(2,848)	82	(445)	(2,194)
Share in losses of associated companies accounted by the equity method	2,761	6,674	1,073	3,919	12,033
Change in recording of benefit in respect of share-based payment	6,775	408	3,832	(259)	1,646
Profit from liquidation of investments in financial assets available for sale	(1,748)	-	(1,748)	-	-
Tax expenses recognized in the income statement	130,888	110,859	79,535	56,412	272,159
Change in financial assets held for trade	455,235	625,632	302,733	245,494	921,684
Profit from loss of material effect in an associated company	-	-	-	-	(14,822)
Income taxes paid, net	(68,480)	(76,099)	(49,370)	(22,393)	(130,065)
Burnout (revaluation) of balance of the Fuel Administration	3,857	(3,413)	1,006	(6,976)	2,959
Burnout (revaluation) of financial assets designated at fair value through profit and loss	(164)	(1,104)	-	(32)	254
Change in inventory	33,259	(43,480)	(2,576)	15,314	(58,097)
Change in trade accounts and other receivables	(73,766)	(293,550)	4,798	(22,426)	(85,944)
Change in receivables in respect of franchise arrangement	(153,607)	(97,282)	(89,838)	(61,605)	(330,806)
Change in trade and other payables	71,879	87,352	61,946	(35,295)	67,555
Change in provisions and employee benefits	291	1,719	(1,696)	(597)	(3,054)
Net cash - current operations	1,018,071	894,060	596,002	406,229	1,864,386

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows (Continued)

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash flows - investment activities					
Proceeds from realizing fixed and intangible assets	1,254	1,984	694	1,394	3,256
Proceeds from liquidation of investment *property*	1,980	-	-	-	220
Increase of balance of the Fuel Administration	-	631	-	-	631
Down payments on account of investment property	(162,753)	-	(151,081)	-	(48,502)
Purchase and investment in investment property and investment property under construction	(274,038)	(569,665)	(145,495)	(83,762)	(792,069)
Purchase of fixed and intangible assets	(127,920)	(106,175)	(78,968)	(53,222)	(181,902)
Investment in and granting of loans to associated companies	(1,027)	(13,854)	-	(1,770)	(22,809)
Change in short-term deposits	32,625	(11,680)	38,551	(8,817)	(5,801)
Change in restricted investments	(3,695)	(156)	(3,685)	(154)	(8,012)
Payment for settlement of derivative financial instruments, net	(28,318)	10,689	(10,512)	11,664	(19,948)
Investment in financial assets available for sale	(235)	-	(235)	-	(3,464)
Investment in financial assets designated at fair value through profit and loss	(218)	(3,124)	(835)	(2,770)	(3,605)
Granting long-term loans	(1,700)	(13,057)	(800)	(12,557)	(25,087)
Collection of long-term loans	7,797	7,735	2,219	2,756	12,867
Interest received	27,687	20,275	13,561	9,810	45,523
Proceeds from liquidation of financial assets available for sale	4,713	-	2,946	-	3,684
Institutions for purchase of property	(9,730)	-	(26,276)	-	(16,546)
Net cash - investment activities	(533,578)	(676,397)	(359,916)	(137,428)	(1,061,564)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows (Continued)

	For the period of six months ended June 30		For the period of three months Ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS thousands				
	(Unaudited)				
Cash flows - Financing Activity					
Distribution of a dividend to shareholders	(265,000)	(240,000)	(265,000)	(240,000)	(240,000)
Repayment of bonds	(120,693)	(117,981)	(54,562)	(53,388)	(182,102)
Receipt of long-term loans from banks	141,628	402,825	91,648	57,315	870,695
Repayment of long-term loans from banks	(274,529)	(247,720)	(146,319)	(116,875)	(498,051)
Short-term credit from banks and others, net	233,521	175,420	236,158	240,056	(12,606)
Proceeds from the exercise of stock options by employees in a consolidated company	-	228	-	228	228
Repayment of deposits from customers	(2,025)	(1,258)	(1,124)	(858)	(1,982)
Deposits from customers that were received	696	1,474	285	333	2,936
Payment for settlement of derivatives used for cash flow hedge	(357)	-	(178)	-	(689)
Acquisition of non-controlling interests (including loans)	-	(61,812)	-	(61,812)	(380,168)
Dividend to holders of non-controlling interests	(1,470)	-	-	-	-
Proceeds from issue of shares in a consolidated company to holders of non-controlling interests	-	2,850	-	2,850	2,850
Proceeds from sales of shares of a consolidated company	-	402	-	402	402
Interest paid	(180,644)	(198,301)	(93,289)	(93,685)	(405,441)
Cash, net - Financing Activity	(468,873)	(283,873)	(232,381)	(265,434)	(843,928)
Increase (decrease) in cash and cash equivalents	15,620	(66,210)	3,705	3,367	(41,106)
Cash and cash equivalents as of the beginning of the period	182,818	224,430	193,640	154,736	224,430
Effect of exchange rate changes on cash balances held in foreign currency	(2,333)	984	(1,240)	1,101	(506)
Cash and cash equivalents as of the end of the period	196,105	159,204	196,105	159,204	182,818

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

Note 1 – General

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

As of the Report Release Date, the Company is held at the rate of approx. 64.99% (until the issue of the Company, the Company was held at the rate of 100%) by Nadav Investments Inc. (the "Parent Company"), a private company incorporated under the Canadian law, which is wholly owned and controlled by Azrieli Holdings Inc., a private company incorporated under the Canadian law, which is wholly owned and controlled by Mr. David Azrieli, the Chairman of the Board of the Company, who holds therein, directly and indirectly, approx. 39% of the issued share capital, and his four children hold, directly and indirectly, the balance of the share capital.

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

Note 2 – Significant Accounting Principles

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

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

In the preparation of these Interim Financial Statements the Group has implemented the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of the financial statements as of December 31, 2012 and for the year then ended, except for changes in the accounting policy deriving from implementation of new standards, amendments to the standards and interpretations that took effect during the reporting period, as specified in Note 2C.

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

Note 2 – Significant Accounting Principles (contd.)

b. Use of estimates and discretion:

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

The evaluations and discretion that the management used in order to implement the accounting policy and the preparation of consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2012.

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

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

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

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

c. With respect to the remaining assets, in the Company's estimation there was no significant change in the value of properties compared to the last date on which valuation has been made.**New standards, amendments to standards and interpretations, which are in force and are implemented in these financial statements:**

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

Note 2 – Significant Accounting Principles (contd.)

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

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

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

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

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

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

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

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

Note 2 – Significant Accounting Principles (contd.)

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

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

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

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

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

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

Note 2 – Significant Accounting Principles (contd.)

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

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

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

  At this stage, the Company's management is unable to estimate the effect of the implementation of the interpretation on its financial position and the results of its operations.

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

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

e. Immaterial adjustment of data in the financial statements as of March 31, 2013:

The Company’s policy is to include such payments as part of the down payment on account of real estate.

In these financial statements, payments in the sum of approx. NIS 8.7 million (after tax effect), which had been carried to the profit and loss in the financial statements as of March 31, 2013, were retroactively adjusted in order to conform the same to the Company’s policy.

Note 2 – Significant Accounting Principles (contd.)

f. Rates of exchange and linkage basis:

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

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

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

	Representative exchange rate of the			Israeli Index	
	Euro (1 euro = NIS)	Canadian dollar (1 CAD = NIS)	US dollar (1 USD = NIS)	"For" Basis 1993	"Known" Basis 1993
Date of the financial statements:					
June 30, 2013	4.720	3.452	3.618	222.70	220.95
June 30, 2012	4.932	3.825	3.923	218.35	218.97
December 31, 2012	4.921	3.750	3.733	219.80	219.39
Rates of change:	%	%	%	%	%
For the period of six months ended:					
June 30, 2013	(4.08)	(7.95)	(3.08)	1.32	0.71
June 30, 2012	(0.13)	2.30	2.67	0.96	1.25
For the period of three months ended:					
June 30, 2013	1.27	(3.82)	(0.82)	1.29	0.70
June 30, 2012	(0.43)	2.70	5.60	0.57	1.25
For the year ended:					
December 31, 2012	(0.34)	0.27	(2.30)	1.63	1.44

Note 3 – Additional Information to the Statement of Cash flows

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

	For the three and six month periods ended June 30		For the year ended December 31,
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
	Unaudited		
Transactions not in cash:			
Payables for the purchase on credit of non-current assets	44,218	27,763	24,601
Receivables for the sale on credit of fixed assets and investment property	400	400	2,380
Payables for a dividend to holders of non-controlling interests	-	-	1,470

Note 4 – Contingent liabilities

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

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

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

Note 4 – Contingent liabilities (contd.)

b. Class actions

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

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

Note 4 – Contingent liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and other fuel companies	The relief claimed is a declaratory relief to order the fuel companies to stop charging for fuel not supplied, and a monetary remedy amounting to approx. NIS 124 million, with the proportional share of Sonol being approx. NIS 24 million.	A claim and a motion for class certification of October 2009, concerning the plaintiff's claim whereby the fuel companies charge the customers when refuelling at automatic fuel dispensers, with the meter starting to operate and charge the customers even before the fuel leaves the dispenser. The plaintiff alleges that through this conduct, the fuel companies breached their obligations to their customers and the provisions of the Promotion of Competition Law, and committed several torts.	The parties filed a motion with the court for approval of a settlement that has not been approved by the court at this stage. The court will hold an additional hearing in respect of the settlement. In the Company's estimation, based on Sonol's management, based on its legal counsel, if the settlement is not approved, the chances that the motion for class certification will be granted are higher than 50%. In the Company's estimation, based on Sonol's management, an adequate provision is included in its financial statements.
3. Claim against Sonol and a consolidated company of Sonol	A claim and a motion for class certification thereof in the sum of NIS 50 million.	A claim and a motion for class certification of August 2012 claiming that Sonol breached its duties to maintain sanitary conditions in the stations.	In the Company's estimation, based on Granite's management, based on Sonol's legal counsel, at this stage the chances of the claim and motion are lower than 50%.
4. Claim against Supergas and other gas companies	A claim in the estimated sum of approx. NIS 821 million (Supergas' share, approx. NIS 193 million). In July 2009, the amount of the claim was reduced to approx. NIS 709 million.	Claim and motion for class certification of March 2009, claiming failure to credit gas consumers (who are not central-gas consumers) for gas left over in the cylinder. In July 2009, the petitioners raised new claims whereby the gas cylinders are, from the outset, were not completely filled.	In March 2013 the Court issued a judgment approving the amended settlement according to which Supergas was charged with immaterial amount.

Note 4 – Contingent liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. Claim against Supergas and other gas companies	Claim in an amount that has not yet been quantified.	A claim and a motion for class certification of February 2011. The action concerns a claim that the gas companies market LPG to their customers at a higher atmospheric pressure and temperature than the conditions at which, so it is alleged, the gas companies purchase the LPG and/or than the conditions at which LPG should be sold in accordance with international trade standards, and therefore, according to the plaintiffs, the gas companies are selling a product inferior to the product that they purchase, contrary to the Consumer Protection Law, thus gaining unjust enrichment, according to the plaintiffs.	In April 2013 the court sanctioned as a judgment the agreed notice of withdrawal from the motion for class certification, with no order for costs.

Note 4 – Contingent liabilities (contd.)

c. Other claims

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

The parties	Amount of claim	Nature of claim	Prospects of claim
1. The State of Israel against Sonol and former officers	Criminal	In December 2010 the Ministry of Environmental Protection filed an indictment against Sonol and against former officers in Sonol due to several breaches of the following water regulations: non-performance of sealing tests; non-provision of sealing test results; non-reporting of gasoline leakage, including under aggravated circumstances; non-treatment of an unsealed facility, including under aggravated circumstances; and non-installation of a piezometer. These offences were allegedly committed in 2000-2004.	Following a mediation proceeding between the parties that was signed and approved by the court, an agreement was reached for an omission of the officers from the indictment, Sonol's admission of the charges and determination of a framework for arguments on the fine in immaterial amounts to Sonol. The court is due to notify the verdict and the amount of the fine. In the Company's estimation, based on Granite's management, the financial statements include a fair provision.

Note 4 – Contingent liabilities (contd.)

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

Note 4 – Contingent liabilities (contd.)

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

Note 4 – Contingent liabilities (contd.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. A hearing in the Antitrust Authority against Supergas and officers thereof	Criminal.	In March 2012, the Antitrust Authority notified Supergas and officers thereof that it intended to charge them with an offence pertaining to an alleged non-responding to requirements of data which were delivered to Supergas by representatives of the Authority under the Restrictive Trade Practices Law, subject to a hearing. In July and August 2012, a hearing before the filing of an indictment was held, in which Supergas denied the claims raised against it. In December 2012, the Antitrust Authority notified that it intends to file an indictment against the company and two officers thereof.	Supergas and the Authority are currently holding advanced contacts with the aim of reaching an agreement regarding a consent decree. According to the draft decree, subject to the approval of the Antitrust Court and the authorized bodies in Supergas, Supergas and the company's CEO shall pay amounts to the State's treasury in lieu of the taking of enforcement measures and with Supergas and the Company's CEO not admitting any breach of law. In the Company's estimation, in reliance on the estimation of Granite's management, based on Supergas' legal counsel, subject to the approval of the language of the draft consent decree and the language of the draft motion to the court by the authorized bodies in Supergas, the chances of the contacts with the Authority maturing into a binding consent, and the draft decree being approved by the Antitrust Court, are higher than 50%. A fair provision was recorded in the financial statements, in accordance with the above outline.
6. 2 consolidated companies of the Company	Claim for bodily injury totalling NIS 10 million	In 2008, a claim was filed for alleged liability of the companies in relation to the acts of suicide of two youths of whose heirs are the plaintiffs in the complaint. The claim has been recognized as an insurance event and is being conducted through attorneys on behalf of the defendants' insurance company.	The district court had dismissed, with a reasoned judgment, the claim against the companies. The father of one of the youths who committed suicide filed an appeal to the Supreme Court that has not yet been heard. During the Report Period, the Office of the Tel Aviv District Attorney informed the Company that it was ceasing examining the legal implications in respect of the Company and/or its managers of several such acts of suicide. The amount of the claim is included within the framework of the insurance cover per insurance event.

Note 4 – Contingent liabilities (contd.)

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

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

Note 5 – Material events during the Report Period

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

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

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

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

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

Mr. Bronstein holds phantom units which were granted to him during his service as the Company's CFO, in accordance with the approval by the Company's board of directors and general meeting of May 2010. Upon the approval of the terms of engagement as the Company's CEO, the terms of the phantom units remained unchanged. Mr. Bronstein was granted with 82,454 phantom units in a value set on the date of the grant of the options at the amount of approx. NIS 2.5 million pursuant to a base value determined according to a share price of May 2010, which amounted to a sum of NIS 83.25 (as of the date of the financial statements, 54,969 phantom units remained). From the date of the grant to the date of approval of his office as the Company's CEO by the general meeting, the Company recorded an aggregate amount of approx. NIS 2.4 million in its books for the phantom units.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 6 - Fair Value

a. Fair value vs. Book value

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

	As of June 30, 2013		As of December 31, 2012	
	Book value	Fair value	Book value	Fair value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:				
Loans to customers and others(*)	114,597	111,147	125,614	115,601
Receivables in respect of a franchise arrangement	1,051,991	1,125,390	898,384	1,015,850
	1,166,588	1,236,537	1,023,998	1,131,451
Non-current liabilities:				
Loans from banks and other credit providers(*)	4,479,416	4,705,778	4,634,351	4,887,099
Bonds (*)	1,637,236	1,797,150	1,739,522	1,927,271
	6,116,652	6,502,928	6,373,873	6,814,370

(*) 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 June 30, 2013	As of December 31, 2013
	%	%
Non-current assets:		
Loans to customers and others	3.7-6	3.4-6.4
Receivables in respect of a franchise arrangement	3.4-5.4	3.3-4.01
Non-current liabilities:		
Loans from banks and other credit providers	0.32-5.2	0.64-5.7
Bonds	0.58-3.6	1.14-2.7

c. The hierarchy of fair value

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

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

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

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

Note 6 - Fair Value (contd.)

	As of June 30, 2013			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands			
Financial assets held for trade:				
Securities	15,522	-	-	15,522
Restricted investments	52,670	-	-	52,670
Derivatives not used for hedging:				
Forward contracts	-	2,072	-	2,072
Derivatives used for hedging:				
Interest rate Swap	-	760	-	760
Financial assets available for sale:				
Marketable shares	855,071	-	-	855,071
Non-marketable shares	-	-	611,338	611,338
Financial assets designated at fair value through profit and loss				
Marketable shares	238	-	-	238
Non-marketable investments	-	20,236	-	20,236
	923,501	23,068	611,338	1,557,907
Financial liabilities:				
Derivatives not used for hedging:				
Forward contracts	-	10,789	-	10,789
Derivatives used for hedging:				
Interest rate Swap	-	358	-	358
Embedded derivatives	-	-	269	269
	-	11,147	269	11,416

Note 6 - Fair Value (contd.)

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

Note 6 - Fair Value (contd.)

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

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

	For the six month period ended June 30 2013 NIS in Thousands	For the year ended December 31 2012 NIS in Thousands
Financial assets available for sale:		
Balance as of beginning of the year	612,923	534,491
Total profits (losses) recognized:		
in other comprehensive income	(1,220)	44,133
in the income statement	1,435	(1,450)
Sales	(1,800)	(69)
Investments	-	1,873
Carried to level 3	-	33,945
	611,338	612,923

Note 7 – Segment Reporting

a. General:

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

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

Note 7 – Segment Reporting (contd.)

The following are the Company's operating segments:

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

b. Operating segments:

	For the period of six months ended June 30, 2013 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	435,834	177,261	88,712	3,690,147	484	4,392,438
Total segment expenses	82,729	29,292	37,140	3,531,111	37	3,680,309
Segment profit (NOI)	353,105	147,969	51,572	159,036	447	712,129
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	98,705	24,283	(6,715)	(1,063)	-	115,210
Unallocated costs						(49,953)
Financing expenses, net						(176,791)
Other revenues, net						8,508
The Company's share in results of associated companies, net of tax						(2,761)
Income before income taxes						606,342
Additional information:						
Segment assets	9,797,559	5,153,377	1,528,472	6,149,668	-	22,629,076
Unallocated assets (*)						1,683,315
Total consolidated assets						24,312,391

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.5 million.

Note 7 – Segment Reporting (contd.)

	For the period of six months ended June 30, 2012 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	430,735	166,182	89,073	3,822,660	505	4,509,155
Total segment expenses	82,878	27,880	38,165	3,699,976	38	3,848,937
Segment profit (NOI)	347,857	138,302	50,908	122,684	467	660,228
Net income (loss) from adjustment of fair value of investment property and investment property under construction	38,165	54,319	(1,377)	6,013	-	97,120
Unallocated costs						(41,044)
Financing expenses, net						(213,595)
Other revenues, net						11,755
The Company's share in results of associated companies, net of tax						(6,674)
Income before income taxes						507,780
Additional information:						
Segment assets	9,508,421	4,444,503	1,543,740	5,928,524	-	21,425,188
Unallocated assets (*)						2,095,350
Total consolidated assets						23,520,538

(*) Mainly financial assets held for trade in the sum of approx. NIS 714 million and financial assets available for sale in the sum of approx. NIS 1,149 million.

Note 7 – Segment Reporting (contd.)

b. Operating segments: (contd.)

	For the three months ended June 30, 2013 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	218,213	88,668	44,183	1,808,835	239	2,160,138
Total segment expenses	41,682	14,190	18,686	1,730,605	18	1,805,181
Segment profit (NOI)	176,531	74,478	25,497	78,230	221	354,957
Net income (loss) from adjustment of fair value of investment property and investment property under construction	98,279	28,452	(2,670)	48	-	124,109
Unallocated costs						(27,006)
Financing expenses, net						(95,678)
Other revenues, net						2,305
The Company's share in results of associated companies, net of tax						(1,073)
Income before income taxes						357,614

Note 7 – Segment Reporting (contd.)

	For the three months ended June 30, 2012 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands					
Revenues:						
Total external income	215,859	84,438	45,715	1,953,222	259	2,299,493
Total segment expenses	41,801	14,823	20,629	1,902,415	19	1,979,687
Segment profit (NOI)	174,058	69,615	25,086	50,807	240	319,806
Net income (loss) from adjustment of fair value of investment property and investment property under construction	44,982	54,336	(267)	6,438	-	105,489
Other costs						(22,812)
Unallocated costs						
Financing expenses, net						(143,966)
Other revenues, net						261
The Company's share in results of associated companies, net of tax						(3,919)
Income before income taxes						254,859

Note 7 – Segment Reporting (contd.)

	For the year ended December 31, 2012					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Granite Hacarmel	Adjustments	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:						
Total external income	874,483	340,079	181,199	7,658,564	1,029	9,055,354
Total segment expenses	172,599	58,367	78,351	7,367,843	77	7,677,237
Segment profit (NOI)	701,884	281,712	102,848	290,721	952	1,378,117
Net income from adjustment of fair value of investment property and investment property under construction	84,478	142,359	88,099	13,960	-	328,896
Unallocated costs						(87,176)
Financing expenses, net						(374,983)
Other revenues, net						25,596
The Company's share in results of associated companies, net of tax						(12,033)
Income before income taxes						1,258,417
Additional information:						
Segment assets	9,601,137	4,751,465	1,570,099	5,978,628	-	21,901,329
Unallocated assets (*)						2,129,180
Total consolidated assets						24,030,509
Capital expenditures	85,124	340,531	411,596	123,312	-	960,563

(*) Mainly financial assets held for trade in the sum of approx. NIS 422 million and financial assets available for sale in the sum of approx. NIS 1,414 million.

Note 8 - Continuing Engagement for a Different Consideration

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

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

1. Effect on the net profit for the period

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)		(unaudited)		
Net profit for the period attributed to shareholders of the parent company	467,925	375,034	273,803	190,612	938,526
Management fees to companies controlled by Mr. David Azrieli according to a previous agreement until June 2, 2013 and from such date according to a new agreement	10,571	11,214	4,680	5,493	23,072
Management fees to companies controlled by Mr. David Azrieli according to a new agreement, for the entire period	4,196	3,631	2,371	1,813	7,505
	6,375	7,583	2,309	3,680	15,567
Tax effect	(1,594)	(1,896)	(577)	(920)	(3,892)
Total proforma effect	4,781	5,687	1,732	2,760	11,675
Proforma net profit for the period attributed to the shareholders of the parent company	472,706	380,721	275,535	193,372	950,201

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

2. Effect on the comprehensive income for the period

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
Net profit for the period attributed to shareholders of the parent company	419,471	307,293	230,784	89,192	1,060,234
Proforma effect	4,781	5,687	1,732	2,760	11,675
Proforma net profit for the period attributed to the shareholders of the parent company	424,252	312,980	232,516	91,952	1,071,909

3. Effect on G&A

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
G&A as reported	115,180	103,022	62,271	52,903	218,202
Proforma effect	(6,375)	(7,583)	(2,309)	(3,680)	(15,567)
Proforma G&A	108,805	95,439	59,962	49,223	202,635

4. Effect on Basic Earnings per Share

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
Basic earnings per share as reported	3.86	3.09	2.26	1.57	7.74
Proforma effect	0.04	0.05	0.01	0.02	0.10
Proforma basic earnings per share	3.90	3.14	2.27	1.59	7.84

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

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

5. Effect on the retained earnings

	For the period of six months ended June 30		For the period of three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands				
	(unaudited)				
Retained earnings as reported	9,296,073	8,529,906	9,296,073	8,529,906	9,093,148
Proforma effect	4,781	5,687	1,732	2,760	11,675
Proforma retained earnings	9,300,854	8,535,593	9,297,805	8,532,666	9,104,823

Note 9 – Subsequent Events

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

In the framework of refinancing of loans for the Azrieli Center in Tel Aviv in the sum of approx. NIS900 million maturing in August 2013, the Company entered, on August 2013, into an agreement with an institutional body for the provision of a loan linked to the CPI in the amount of NIS 710 million, for a period of 8 years, which shall bear interest at an annual rate of 1.16%. To secure the repayment of the loan, a consolidated company shall pledge to the lender its rights in part of the lobby floor, in the roof floor and in floors 11-49 of the round tower which is a part of the Azrieli Center in Tel Aviv.

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

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

The additional institutional body shall have the right to accelerate the loan upon the occurrence of certain accepted conditions, as specified in the agreement, including in case of acceleration of a Company debt to other financial institutions, in such amounts and on such terms as specified in the agreement, and in case of a change of control in the Company.

Note 9 – Subsequent Events (contd.)

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

b. On August 8, 2013, following the Date of the Statements of Financial Position, the Antitrust Court ordered the dismissal without prejudice of the appeal that was filed by the Company in January 2013 from the decision of the Antitrust Commissioner to oppose to the acquisition of One Plaza power center in Beer Sheva by the Company, despite his preliminary approval, which was grated prior to the execution of the agreement, due to the fact that merger agreement is no longer valid. The company is preparing to appeal the decision of the Antitrust Court before the Supreme Court.

c. On July 10, 2013, after the date of the financial statements, "Supergas Natural Ltd.", a consolidated company of Supergas, signed an agreement with the partners in the Tamar lease for the supply of natural gas for a period of 5 years, whereby Supergas Natural Ltd. shall purchase natural gas from the Sellers for the marketing thereof to its customers and toe companies in the Granite Group. The total financial scope of the said agreement is estimated at about NIS 530 million, and the supply period begun in August 2013.

d. On July 30, 2013, the Knesset passed the "Economic Arrangements Law" (the "Law") in the third reading.

Following are some of the provisions of the Tax Chapter of the Law:

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

2. Amendment of the Encouragement of Capital Investments Law –

   - The tax rate to apply to a company in Development Zone A from January 1, 2014 is 9% (rather than 7.5% and 6% in 2014 and 2015 forth, respectively), whereas the tax rate to apply to companies in the rest of Israel will be increased to 16% (rather than 12.5% and 12% in 2014 and 2015 forth, respectively).

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

Note 9 – Subsequent Events (contd.)

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

The deferred tax balances as of June 30, 2013 do not take the provisions of the said Law into account, since until the end of the report period, the actual legislation thereof has not yet been completed.

Had the enactment of the said Law been completed by the end of the report period, then the Company's deferred tax liabilities as of June 30, 2013 would have increased by approx. NIS 141 million, the Company's tax expenses for the six and three month periods ended June 30, 2013 would have increased by approx. NIS 138 million, and the Company's other comprehensive income, for the six and three month periods ended June 30, 2013, would have decreased by approx. NIS 141 million.

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

Annex to Consolidated Financial Statements

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

Azrieli Group Ltd.

Separate Interim Financial Information

as of June 30, 2013

(unaudited)

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

Azrieli Group Ltd.

Contents

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

Dear Sir/Madam,

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

Introduction

We have reviewed the interim separate financial information, which is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of June 30, 2013 and for the three and six month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for such interim period, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, the total investments in which amounted to approx. NIS 951 million as of June 30, 2013, and the profit from which investee companies amounted to approx. NIS 64 million and approx. NIS 30 million for the three and six month periods then ended, respectively. The financial statements of such companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, insofar as it relates to the financial statements in respect of such companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

Conclusion

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

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, August 21, 2013

Azrieli Group Ltd.

Information on the Financial Position

	As of June 30		As of December 31
	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	72,509	19,699	57,413
Financial assets held for trade	2,404	713,502	421,847
Trade accounts receivable	6,973	5,020	8,090
Other receivables	101,709	60,704	78,345
Current tax assets	-	-	1,077
Total current assets	183,595	798,925	566,772
Non-current assets			
Financial assets available for sale	1,370,436	1,148,972	1,412,114
Financial assets designated at fair value through profit and loss	20,474	20,964	20,088
Investment property and investment property under construction	6,565,232	6,217,218	6,284,162
Investments in investee companies	5,372,299	4,676,815	5,106,678
Loans to investee companies	2,160,216	1,673,448	2,035,492
Fixed assets	5,368	5,027	4,816
Receivables	6,778	7,609	7,196
Total non-current assets	15,500,803	13,750,053	14,870,546
Total assets	15,684,398	14,548,978	15,437,318
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	967,322	585,278	793,101
Trade payables	8,332	13,037	8,335
Payables and other current liabilities	50,396	35,489	41,380
Current tax liabilities	16,499	1,446	-
Total current liabilities	1,042,549	635,250	842,816
Non-current liabilities			
Loans from banks	1,015,678	1,239,159	1,074,410
Bonds	576,917	615,582	616,843
Other liabilities	17,394	18,365	18,147
Deferred tax liabilities	982,195	921,612	990,386
Employee benefits	20,469	18,658	19,876
Total non-current liabilities	2,612,653	2,813,376	2,719,662
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	237,236	74,559	285,805
Retained earnings	9,296,073	8,529,906	9,093,148
Total capital attributed to shareholders of the Company	12,029,196	11,100,352	11,874,840
Total liabilities and capital	15,684,398	14,548,978	15,437,318

August 21, 2013			
Date of approval of the separate financial information	**David Azrieli** **Chairman of the Board of Directors**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **Chief Financial Officer**

Azrieli Group Ltd.

Information on Profit or Loss and Other Comprehensive Income

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Revenues					
From rent and management and maintenance fees	223,719	218,686	111,726	109,922	442,878
Net profit from adjustment to fair value of investment property and investment property under construction	40,234	35,521	40,019	35,629	26,600
Financing income	77,970	72,145	45,133	23,387	159,414
Other, net	6,000	7,793	-	(207)	7,793
Total revenues	347,923	334,145	196,878	168,731	636,685
Costs and expenses					
Cost of revenues from rent and management and maintenance fees	5,082	4,796	2,539	2,492	9,318
Sales and marketing	1,392	3,516	1,007	1,930	5,141
General and administrative	35,873	26,810	19,493	14,613	54,179
Financing expenses	51,774	79,174	27,281	49,154	132,068
Total costs and expenses	94,121	114,296	50,320	68,189	200,706
Profit before Company's share in the profits of investee companies	253,802	219,849	146,558	100,542	435,979
Share in profits of investee companies, net of tax	267,802	193,929	157,171	103,546	599,733
Income before income taxes	521,604	413,778	303,729	204,088	1,035,712
Expenses for taxes on income	53,679	38,744	29,926	13,476	97,186
Net profit for the period	467,925	375,034	273,803	190,612	938,526
Other comprehensive income (loss), net of tax					
Amounts that will not be classified in the future to profit or loss, net of tax					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(11)
	-	-	-	-	(11)
Amounts that will be classified in the future to profit or loss, net of tax:					
Share in the other comprehensive profit (loss) of investee companies, net of tax.	(6,975)	13,063	(2,774)	21,473	(90)
Change in fair value of financial assets available for sale, net of tax	(29,082)	(86,163)	(37,074)	(135,069)	129,280
Translation differences from foreign operations	(12,397)	5,359	(3,171)	12,176	(7,471)
Other comprehensive Income (loss) for the period, net of tax	(48,454)	(67,741)	(43,019)	(101,420)	121,708
Total comprehensive income for the period attributed to the shareholders of the Company	419,471	307,293	230,784	89,192	1,060,234

Azrieli Group Ltd.

Information on the Cash Flows

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Cash flows from current operation					
Net profit for the period	467,925	375,034	273,803	190,612	938,526
Depreciation and amortization	390	389	204	196	775
Net profit from adjustment to fair value of investment property	(40,234)	(35,521)	(40,019)	(35,629)	(26,600)
Financing and other expenses (revenues), net	(32,424)	(7,867)	(20,514)	8,184	(11,079)
Dividend received from financial assets available for sale	6,000	8,000	-	-	8,000
Interest and dividend received from financial assets held for trade	5,932	27,215	951	8,255	36,911
Share in profits of investee companies, net of tax	(267,802)	(193,929)	(157,171)	(103,546)	(599,733)
Taxes recognized in the income statement	53,679	38,744	29,926	13,476	97,186
Income tax paid, net	(18,143)	(24,400)	(11,988)	(16,178)	(58,354)
Change in financial assets held for trade	419,443	608,581	278,727	227,906	900,236
Change in trade and other receivables	(7,635)	(26,674)	(6,203)	(19,020)	(40,118)
Change in trade and other payables	(9,061)	(5,587)	(15,033)	(14,333)	3,013
Recording benefit in respect of share-based payment	7,364	935	3,843	661	1,938
Change in financial assets designated as at fair value through profit and loss	(167)	(1,104)	(3)	(32)	254
Change in employee provisions and benefits	(6,771)	(97)	(6,746)	(1,168)	376
Net cash – current operation	578,496	763,719	329,777	259,384	1,251,331
Cash flows - investment activities					
Investment in investment property and investment property under construction	(44,636)	(24,914)	(15,049)	(9,388)	(54,265)
Down payments on account of investment property	(162,753)	-	(151,081)	-	(48,502)
Purchase of fixed assets	(942)	(140)	(613)	(75)	(315)
Investment in company consolidated for the first time	-	(46,035)	-	-	(46,035)
Interest received	5,388	-	5,113	-	1,816
Return of investment in an investee company	-	-	-	-	4,666
Institutions pertaining to purchase of real estate	(18,031)	-	(26,276)	-	(8,245)
Investment in investee companies	(2)	(374)	301	(374)	(374)
Consideration from liquidation of investments in financial assets available for sale	2,913	-	1,146	-	3,616
Investment in financial assets designated at fair value through profit and loss	(1,633)	(3,124)	(2,214)	(2,770)	(3,605)
Consideration from financial assets designated at fair value through profit and loss	1,415	-	1,415	-	-
Repayment (granting) of long-term loans to investee companies, net	(88,469)	(105,421)	(60,111)	26,000	(465,501)
Net cash - investment activities	(306,750)	(180,008)	(247,369)	13,393	(616,744)

Azrieli Group Ltd.

Information on the Cash Flows

	For the six month period ended June 30		For the three month period ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)				
Cash flows from financing activities					
Dividend distribution to the shareholders	(265,000)	(240,000)	(265,000)	(240,000)	(240,000)
Repayment of bonds	(44,108)	(43,475)	-	-	(43,475)
Repayment of long-term loans from banks	(86,647)	(84,813)	(25,043)	(24,427)	(141,301)
Short-term credit from banks, net	193,031	(248,867)	233,730	(2,649)	(152,042)
Deposits from customers, net	(858)	164	(804)	(58)	(105)
Interest paid	(50,871)	(56,778)	(23,922)	(25,921)	(110,230)
Net cash generated by financing activities	(254,453)	(673,769)	(81,039)	(293,055)	(687,153)
Increase (decrease) in cash and cash equivalents	17,293	(90,058)	1,369	(20,278)	(52,566)
Cash and cash equivalents at the beginning of the period	57,413	109,398	72,582	39,822	109,398
Effect of exchange rates changes on cash balances held in foreign currency	(2,197)	359	(1,442)	155	581
Cash and cash equivalents at the end of the period	72,509	19,699	72,509	19,699	57,413
Non-Cash Activities					
Payables for the purchase on credit of non-current assets	19,112	-	19,112	-	-

Azrieli Group Ltd.

Additional information for the Separate Financial Statements

A. General

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

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

B. Definitions

The Company - Azrieli Group Ltd.

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

C. Accounting Policy

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

D. Events during the report period

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

E. Subsequent Event

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

F. Immaterial adjustment of information in the financial statements as of March 31, 2013:

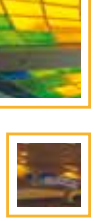
See Note 2E to the condensed consolidated financial statements released concurrently with this separate financial statement.

G. Contingent liability:

The parties	The amount of the claim	The nature of the claim	The chances of the claim
A claim against the Company and a consolidated company	If class certification is not granted – NIS 4,561. If class certification is granted only for the group of offerees for whose shares a compelled purchase was made – approx. NIS 18 million. If class certification is granted for the entire group of offerees – approx. NIS 157 million.	In August 2013, after the Report Period and shortly before the release of these financial statements, a claim and a motion for class certification were filed with the Economic Division of the Tel Aviv District Court, by a petitioner claiming to have been an offeree in a full tender offer completed by the Company in late September 2012, for the publicly-held shares of Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period determined by law for the filing of an appraisal remedy claim). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company, in the tender offer, for a price lower than the value of the shares, and that the conditions for the making of a forced purchase under the tender offer were not fulfilled, and that therefore Granite Hacarmel Investments Ltd. could not have been delisted.	At this preliminary stage, it is not possible to assess the chances of the claim.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure



Azrieli Group

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

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

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

For this purpose, the members of management are:

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

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

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

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

In the quarterly report on the effectiveness of internal control over financial reporting and disclosure which was attached to the quarterly report for the period ended on March 31, 2013 (hereinafter – the Last Quarterly Report on Internal Control) the internal control was found to be effective.

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

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

Statement of Managers:

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

I, Yuval Bronstein, represent that:

(1) I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for the Q2/2013 (the "Reports").

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

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

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

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

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

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

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

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

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

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

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

August 21, 2013

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Yuval Bronstein, CEO

Statement of Managers:

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

I, Irit Sekler-Pilosof, represent that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the reports for the interim period of Azrieli Group Ltd. (the "Corporation") for Q2/2013 (the "Reports" or the "Interim Period Reports");

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

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

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

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

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

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

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

other financial information included in the Reports, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

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

c. No event or matter had been brought to my attention which occurred during the period between the date of the Last Quarterly Report and the date of this report, referring to the interim financial statements and any other financial information included in the Interim Period Reports, which may, in my estimation, change the conclusion of the board of directors and the management pertaining to the effectiveness of the internal control over the financial reporting and disclosure of the Corporation.

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

August 21, 2013

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Irit Sekler-Pilosof , CFO